

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-K

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1997

OR

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

COMMISSION FILE NUMBER 1-13105

ARCH COAL, INC.  
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE

43-0921172

(STATE OR OTHER JURISDICTION OF  
INCORPORATION OR ORGANIZATION)

(I.R.S. EMPLOYER  
IDENTIFICATION NO.)

CITYPLACE ONE, SUITE 300, ST. LOUIS, MISSOURI

63141

(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

(ZIP CODE)

CITYPLACE ONE, SUITE 300, ST. LOUIS, MISSOURI

63141

(MAILING ADDRESS)

(ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (314) 994-2700

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

TITLE OF EACH CLASS

NAME OF EACH EXCHANGE ON  
WHICH REGISTERED

COMMON STOCK, PAR VALUE \$.01 PER SHARE

NEW YORK STOCK EXCHANGE

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

INDICATE BY CHECK MARK WHETHER THE REGISTRANT (1) HAS FILED ALL REPORTS  
REQUIRED TO BE FILED BY SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
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 ANY AMENDMENT TO THIS FORM 10-K.

AT MARCH 9, 1998, BASED ON THE NEW YORK STOCK EXCHANGE CLOSING PRICE, THE  
AGGREGATE MARKET VALUE OF THE VOTING STOCK HELD BY NON-AFFILIATES OF THE  
REGISTRANT WAS APPROXIMATELY \$337,246,286. IN DETERMINING THIS FIGURE, ARCH  
COAL, INC. HAS ASSUMED THAT ALL OF ITS EXECUTIVE OFFICERS AND DIRECTORS, AND  
PERSONS KNOWN TO IT TO BE THE BENEFICIAL OWNERS OF MORE THAN FIVE PERCENT OF  
ITS COMMON STOCK ARE AFFILIATES. SUCH ASSUMPTION SHALL NOT BE DEEMED CONCLUSIVE  
FOR ANY OTHER PURPOSE.

AT MARCH 12, 1998, THERE WERE 39,657,898 SHARES OF REGISTRANT'S COMMON  
STOCK OUTSTANDING.

DOCUMENTS INCORPORATED BY REFERENCE

PORTIONS OF ARCH COAL, INC.'S DEFINITIVE PROXY STATEMENT, TO BE FILED WITH  
THE SECURITIES AND EXCHANGE COMMISSION NO LATER THAN APRIL 30, 1998, ARE  
INCORPORATED BY REFERENCE INTO PART III OF THIS FORM 10-K.

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## ITEM 1. BUSINESS

Arch Coal, Inc. ("Arch Coal" or the "Company") is the 6th largest U.S. coal producer (when measured by tons produced). The Company markets its coal primarily to domestic electric utilities and abroad, principally Europe. The Company estimates that as of December 31, 1997, approximately two billion recoverable tons of demonstrated (proven) and indicated (probable) coal reserves were held by the Company's subsidiaries in the Central Appalachian, Illinois and Western coal fields. Arch Coal was incorporated in Delaware in 1969.

## RECENT DEVELOPMENTS

Closure of Mine No. 37. On January 31, 1998, the Company discontinued operation of two continuous miner units in Mine No. 37 and the Cave Branch preparation plant in Kentucky. Longwall mining equipment had operated at Mine No. 37 until the third quarter of 1997 when the reserves mineable with such equipment were depleted. Mine No. 37 produced 3.9 million tons during 1997, and the continuous miners were expected to produce approximately 1.9 million tons of coal through scheduled depletion of their dedicated reserves in 1999. The first quarter of 1998 will be adversely affected by certain costs associated with discontinuing this operation. The Company does not anticipate a significant write-down of assets as most of the carrying amount of the assets is expected to be recovered.

New Wage Agreement with United Mine Workers. The Company's Hobet Mining, Inc. ("Hobet") and Apogee Coal Company ("Apogee") subsidiaries and the United Mine Workers of America ("UMWA") executed the National Bituminous Coal Wage Agreement of 1998 (the "Wage Agreement") effective January 1, 1998. The Company believes that the terms of the Wage Agreement do not adversely affect the Company, and that the Wage Agreement provides important certainty for the Company with respect to its labor relations until expiration of the Wage Agreement on December 31, 2002. A summary of the terms of the Wage Agreement is included in the discussion of Employees beginning at page 6 below.

## MERGER WITH ASHLAND COAL

On July 1, 1997, Ashland Coal, Inc. ("Ashland Coal") merged with a subsidiary of the Company. The merger was accounted for as a purchase and resulted in Ashland Coal becoming a wholly-owned subsidiary of the Company. A total of 18,660,054 shares of Company common stock was issued in the merger.

At the time of the merger, Ashland Coal was engaged in the mining, processing and marketing of low-sulfur bituminous coal primarily in the eastern United States and Ashland Inc. ("Ashland") owned stock representing approximately 57% of the voting power of Ashland Coal and 50% of the voting stock of the Company. Ashland currently owns approximately 54% of the Company's outstanding common stock.

Period to period comparisons in this report, including comparisons in the 1997 Sales and Production section below, the Company's Selected Financial Data in Item 6, Management's Discussion and Analysis in Item 7, Financial Statements in Item 8, and Financial Statement Schedules in Item 14, have been materially affected by the merger with Ashland Coal.

## 1997 SALES AND PRODUCTION

In 1997, the Company and its independent operating subsidiaries sold approximately 40.5 million tons of coal, as compared to sales of approximately 29.4 and 26.7 million tons in 1996 and 1995, respectively. Approximately 72% of the total tonnage sold during 1997 was sold under long-term contracts as compared to approximately 72% for 1996 and 76% for 1995. The balance was sold on the spot market (contracts of a term of one year or less). Sales of metallurgical coal in 1997 totaled 1.5 million tons, or approximately 4% of the Company's total 1997 coal sales. In 1997, the Company sold approximately 1.9 million tons of coal in the export market, compared to approximately 0.1 million tons in 1996 and 0.2 million tons in 1995. Sales of metallurgical coal accounted for approximately 35% of these export sales in 1997, while the balance of export sales consisted of sales of steam coal. Approximately 74%, 72% and 80% of total revenues for 1997, 1996 and 1995, respectively, were derived from long-term contracts (i.e., contracts of a term greater than one year). In 1997, the Company's independent operating subsidiaries produced approximately 36.7 million tons of coal as compared to approximately 26.9 and 25.6 million tons for 1996 and 1995, respectively. In

addition, the Company purchased for resale approximately 2.9 million tons of coal during 1997, approximately 2.0 million tons during 1996 and approximately 1.2 million tons during 1995.

#### MARKETING AND SALES CONTRACTS

As is characteristic of the coal industry, from time to time the expiration of long-term sales contracts to which the Company is a party makes large amounts of previously committed tonnage available for commitment under new sales contracts. Virtually all of the Company's production that had been committed under sales contracts which expired during 1997, including most of the tonnage under a 1.9 million ton-per-year contract which expired in December 1997, has been recommitted under new long-term agreements or will be committed under sales contracts currently pending execution. As is the trend in the coal industry, the term of the Company's new long-term coal sales contracts is becoming shorter, and most of the Company's new long-term sales contracts expire in three years or less.

The Company believes that many of its new commitments were made at favorable prices relative to the current market price for similar quality coal, as a combination of factors, including a relatively mild winter in the markets served by many of the Company's utility customers, have caused coal prices to decline somewhat since such commitments were made. Contracts covering approximately 15% of the Company's total production are scheduled to expire at the end of 1998. These contracts are largely priced at or near the current market price, and the Company does not expect any difficulty in obtaining new commitments for this tonnage, nor does it anticipate a meaningful difference between the current contract price under these expiring contracts and the price at which the tonnage can be recommitted.

Since the July 1 merger with Ashland Coal, a variety of steps have been taken, including amendment of sales contracts, to increase the number of Company mines available to supply a given contract, and thereby to increase the margin realizable by the Company on the sale of its coal and decrease the customer's cost of fuel. The Company intends to continue to pursue sales contract amendments and new arrangements which will allow it to fully and efficiently utilize the variety of production sources and transportation options made available by the merger. For example, as a result of production options created by the merger, the Company has shifted some production commitments of Mingo Logan operations to other transportation advantaged sources, thereby lowering the customer's costs and improving the Company's realizations by selling some of this high-quality Mingo Logan product in the premium-priced metallurgical coal market.

As previously reported, the Company's Wyoming operations have experienced substantial difficulties, including a 1997 fire that delayed deployment of equipment, and, more recently, transportation delays as a consequence of poor rail service from the Union Pacific Railroad after its merger with Southern Pacific Railroad. Most recently, the Wyoming operations have experienced an unexpected and substantial deterioration of customer demand for the Company's Wyoming low-sulfur, low-Btu product. While the Company's Wyoming coal has always been at a relative quality disadvantage vis-a-vis regional coals with higher Btu and similar sulfur content, the price premium traditionally afforded the higher-Btu product has permitted the Company to successfully market its lower-priced product to certain customers with less stringent Btu requirements. Recently, this premium has narrowed as a result of an oversupply of competing higher-Btu coal in the market. Consequently, the Company has elected to substantially reduce its Wyoming coal mining operations in 1998 in anticipation of better market conditions in 1999 when the current oversupply of higher-Btu product is expected to diminish. For more information concerning the Company's Wyoming mines, see Western Operations at page 6 below.

During 1997, utility deregulation and consequent efforts by utilities to minimize costs led to changes in power purchase arrangements among utilities and third party producers of electricity from whom utilities purchase power. In this regard, in January, 1998, the Company was advised that the coal purchases by one of its customers for a power plant were being substantially reduced as a consequence of amendment to a power purchase agreement between the customer and the utility purchasing its power that is likely to lower the electrical output (and coal burn) of the plant. For further information about this matter, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 beginning at page 14 of this report. Absent changes in output dictated by changes in governmental regulation or by reason of a "force majeure" event, the Company generally has minimal exposure under its sales contracts to changes in its customers' electrical output because most contracts specifically define the base tonnage required to be purchased by the customer. However, optional tonnage rights in otherwise fixed-tonnage contracts are frequently measured by reference to the customer's requirements, and the Company

expects to see greater volatility in individual customer demand as a result of shorter contract terms and changes in electrical output by customers' plants as a consequence of deregulation.

## OPERATIONS

### Central Appalachian Operations

Mingo Logan Operations. The Mingo Logan Complex is located in Mingo and Logan Counties, West Virginia, on approximately 20,500 acres containing approximately 42.1 million recoverable tons of coal. The Mingo Logan Complex currently consists of one surface mining operation conducted by an independent contract miner, four underground mines operated by independent contract miners, and a longwall mine ("Mountaineer Mine") operated by Mingo Logan Coal Company ("MLCC"). Three MLCC and one independent contract continuous miner sections also operate in the Mountaineer Mine. The Black Bear preparation plant is connected to the Mountaineer Mine by a conveyor and to the loadout on the Norfolk Southern Railway Company ("Norfolk Southern") railroad by a second conveyor. The loadout facility is capable of loading a 13,000-ton unit train in less than four hours. The total cost of property, plant, and equipment at the Mingo Logan Complex at December 31, 1997, was \$89.2 million, and the net book value was \$78.7 million. The Mingo Logan Complex produced approximately 8.4 million tons of coal during 1997.

Another Mingo Logan operation, the Holden 25 Mine, is a contract surface mine operating on leased reserves. The Holden 25 Mine produced approximately 1.1 million tons of coal in 1997. The Holden 25 Mine is expected to produce approximately 1.0 million tons prior to depletion of its assigned reserves in 1999.

The coal from the Holden 25 Mine, as well as some coal from the Mingo Logan Complex, is loaded onto the Norfolk Southern railroad at the Holden 25/Ragland loadout. The Holden 25/Ragland loadout has an operating capacity of 3,200 tons per hour. The Holden 25 Mine also has an idle 650 ton-per-hour preparation plant which may resume operation with the development of the Phoenix reserves, described below. The total cost of the Holden 25 Mine's property, plant and equipment at December 31, 1997, was \$5.8 million, and the net book value was \$3.4 million.

Additionally, MLCC has entered into a contract mining agreement with its affiliate, Coal-Mac, Inc. ("Coal-Mac"), whereby Coal-Mac will mine a large surface coal reserve (known as the Phoenix reserve) on approximately 2,600 acres in Logan and Mingo Counties, West Virginia. Production is scheduled to begin in April, 1998. Annual production from this new mine is expected to reach approximately 1.5 million tons by 1999 and to remain constant at that level until the assigned reserve base of approximately 29 million recoverable tons is exhausted.

Dal-Tex Complex. The Dal-Tex mining complex ("Dal-Tex Complex") is located primarily in Logan County, West Virginia, on approximately 25,000 acres containing approximately 91 million tons of recoverable coal. The Dal-Tex Complex currently consists of one large-scale surface mine using modern surface mining equipment, including an 83-cubic-yard walking dragline, two 51-cubic-yard shovels, and one 24-cubic-yard loader. The surface mine is complemented by two deep mines utilizing continuous miner sections. One deep mine is operated by an independent contract miner. The Dal-Tex Complex includes the Monclo preparation plant, which is located on the CSX Transportation rail system ("CSX"), and is capable of loading a 14,000-ton unit train in less than four hours. The total cost of property, plant, and equipment at the Dal-Tex Complex at December 31, 1997, was \$55.4 million, and the net book value was \$51.6 million. Approximately 5.9 million tons of coal were produced at the Dal-Tex Complex during 1997.

Hobet 21 Complex. The Hobet 21 mining complex ("Hobet 21 Complex") in Boone and Lincoln Counties, West Virginia, currently has dedicated reserves of approximately 98 million recoverable tons of coal. The Hobet 21 Complex consists of a large-scale surface mine, two contract deep mines and the 1,400-ton-per-hour Beth Station preparation plant. The surface mine uses modern surface mining equipment, including an 83-cubic-yard walking dragline and a 51-cubic-yard shovel. A conveyor belt system transports the coal from the surface mine to the Beth Station preparation plant where the coal is cleaned and loaded into railcars at the adjacent 150-car rail siding for shipment on the CSX rail system. The Beth Station preparation plant is capable of loading a 15,000-ton unit train in less than four hours. The total cost of property, plant, and equipment at the Hobet 21 Complex at December 31, 1997, was \$70.2 million, and the net book value was \$65.6 million. Approximately 4.4 million tons of coal were produced at the Hobet 21 Complex during 1997. In November 1997, the Company acquired approximately 23 million tons of low-sulfur coal reserves adjacent to the Hobet 21 Complex for \$6 million.

Hobet 07 Operations. Hobet 07's primary mining complex (the "Hobet 07 Complex"), located in Mingo and Logan Counties, West Virginia, is expected to produce approximately 1.4 million tons of coal during 1998, and thereafter to discontinue operations. The Hobet 07 Complex currently has three deep mines, one of which is operated by Hobet and two of which are operated by independent contractors. The Hobet 07 Complex includes the 950-ton-per-hour Pine Creek preparation plant which is served by CSX. The total cost of property, plant, and equipment at the Hobet 07 Complex at December 31, 1997, was \$3.8 million, and the net book value was \$2.8 million. The Hobet 07 Complex produced about 1.7 million tons of coal during 1997.

Other Hobet 07 operations consist of a contract deep mine in Logan County, West Virginia (the "Holden 22 Mine"), that produced .5 million tons of coal in 1997. Holden 22 Mine reserves are expected to deplete in 1998. Coal produced from this deep mine is loaded on the CSX at the Holden 22 loadout or trucked to Arch Coal Terminal Inc.'s Lockwood Dock terminal facility on the Big Sandy River ("Lockwood Dock") and shipped by barge. The total cost of property, plant, and equipment at the Holden 22 Mine at December 31, 1997, was \$1.1 million, and the net book value was \$.4 million.

Ruffner Mine. The Ruffner Mine, located in Logan County, West Virginia, is a surface mining operation utilizing a 49-cubic-yard dragline, a 43-cubic-yard shovel, a 22-cubic-yard shovel and a 28-cubic-yard loader. The Ruffner Mine has 25.4 million tons of dedicated recoverable coal reserves. Most of the coal produced by the Ruffner Mine is shipped run-of-mine and does not require processing, but any required processing occurs at the 650 ton-per-hour Ruffner preparation plant. Ruffner production is shipped on the CSX from the 4,000 ton-per-hour Fanco loadout in Logan County, West Virginia. As of December 31, 1997, the total cost of the Ruffner Mine property, plant and equipment was \$81.8 million, and the net book value was \$31.4 million. Approximately 3.4 million tons of coal was produced by the Ruffner Mine during 1997.

Wylo Mine. The Wylo Mine, located in Logan County, West Virginia, is a truck-shovel surface operation utilizing a 53-cubic-yard shovel and a 28-cubic-yard loader. Approximately 1.6 million tons of coal were produced by the Wylo Mine in 1997. The Wylo mine is expected to remain in production and produce approximately 2.7 million tons through 1999. Coal produced at the Wylo Mine is processed and shipped through the Ruffner preparation plant and the Fanco loadout (described above), or trucked to the Lockwood Dock for shipment by barge. At December 31, 1997, the total cost of the Wylo Mine property, plant and equipment was \$41.1 million, and the net book value was \$12.7 million.

Samples Mine. The Samples Mine consists of a large-scale surface mine producing approximately 4.6 million tons annually and utilizing a 110-cubic-yard dragline, a 53-cubic-yard shovel, a 22-cubic-yard hydraulic excavator and two 28-cubic-yard loaders. The mine is located in Boone, Raleigh and Kanawha Counties, West Virginia, on lands containing approximately 37.5 million tons of recoverable coal. Annual production is projected to increase from 1997 levels of 4.4 million tons to approximately 4.7 million tons per year in 2001. Most of the coal produced at the Samples Mine does not require processing and is shipped by truck to the Paint Creek terminal for shipment by barge. Any processing and rail shipment that is required occurs through the 250 ton-per-hour Toms Fork preparation plant and the 4,000 ton-per-hour Toms Fork loadout facility on the CSX. The total cost of the property, plant and equipment of the Samples Mine at December 31, 1997, was \$97.6 million and the net book value was \$57.5 million. In April 1997, the Company acquired the Kayford James reserve area consisting of approximately 13 million tons of low-sulfur coal reserves adjacent to the Samples Mine for net consideration of approximately \$17.0 million.

Campbells Creek Operations. Campbells Creek operations include two contract underground mines operating on leased and fee properties located in Kanawha County, West Virginia containing approximately 6.8 million tons of dedicated coal reserves. Run-of-mine coal from the underground operations is processed at the Campbells Creek preparation plant, which is operated by a contractor. The total cost of the Campbells Creek operations, property, plant and equipment at December 31, 1997 was \$6.0 million, and the net book value was \$2.3 million. The Campbells Creek mines produced approximately .8 million tons of coal in 1997, and reserves for Campbells Creek operations are expected to be depleted in 2003.

Lone Mountain Operations. Lone Mountain's operations consist of two underground mines, the Darby Fork Mine and the Huff Creek Mine, both in Harlan County, Kentucky. These mines are currently operating predominantly on fee property containing approximately 2.9 million tons of dedicated recoverable coal reserves and there are significant additional reserves available for dedication to these operations. The Darby Fork Mine was a two section mine in 1997, and a third section was added in early 1998. All three-sections utilize battery cars for haulage. The Huff Creek Mine currently operates three sections, two with continuous haulage units. Coal produced from the Darby

Fork and Huff Creek Mines is transported on a beltline system directly to the 850 ton-per-hour Lone Mountain preparation plant where it is washed. The loadout has dual rail service on the Norfolk Southern and CSX, and is capable of loading at a rate of 3,000 tons per hour. The Darby Fork Mine produced .6 million tons of coal in 1997, and the Huff Creek Mine produced 1.4 million tons in the same period. The total cost of property, plant and equipment for the Lone Mountain operations at December 31, 1997, was \$54.7 million, and the net book value was \$22.2 million.

Coal-Mac Operations. Coal-Mac operates three surface mines in Pike County, Kentucky, and has entered into a contract mining agreement with Mingo Logan to mine the Phoenix reserve in Mingo and Logan Counties, West Virginia. Approximately 5.7 million recoverable tons of coal reserves in Pike County are dedicated to Coal-Mac's Kentucky operations. Coal-Mac's Kentucky production is trucked to the Elkhorn City loadout and shipped raw on the CSX. The total cost of property, plant and equipment at Coal-Mac's Kentucky operations at December 31, 1997, was \$17.4 million, and the net book value was \$14.6 million. During 1997, Coal-Mac operations mined approximately 1.7 million tons of coal.

Pardee Complex. The Pardee Complex, located on fee property containing approximately 12.3 million tons of dedicated recoverable coal reserves in Wise County, Virginia, includes the Pardee, Band Mill and Dogwood Mines and the Pardee preparation plant and loadout. The original Pardee Surface Mine was a contour mining operation utilizing a 28-cubic-yard loader, along with a small loader and auger operation. The mine produced approximately .7 million tons of coal in 1997, but since the merger with Ashland Coal, the original Pardee Surface Mine's contour mining operations have been closed and its production commitments have been moved to lower-cost operations. Approximately .5 million tons of coal will be produced from a new Pardee Mine in 1998 utilizing smaller-scale surface mining and auger equipment on reserves near the original Pardee Surface Mine.

The Band Mill Mine is a two-section underground mine initially developed in 1996. This mine produced approximately .7 million tons of coal in 1997. The second section, with a continuous haulage system, became operational in the first quarter of 1997. The Band Mill Mine is projected to produce approximately .9 million tons of coal per year until exhaustion of its dedicated reserves, estimated to occur in 2005.

The Dogwood Mine is a contract deep mine. Approximately .7 million tons of coal reserves are dedicated to the Dogwood Mine, and its reserves will deplete in 2002.

The majority of Pardee Complex surface-mined coal is shipped on a raw basis, while all deep production and some highwall production requires processing. Coal is processed at the 250 ton-per-hour Pardee preparation plant and shipped from the 4,000 tons-per-hour Pardee loadout on the Norfolk Southern railroad. The total cost of the Pardee Complex property, plant and equipment at December 31, 1997 was \$30.3 million, and the net book value was \$16.3 million.

#### Illinois Operations

Captain Mine. The Captain Mine in Perry County, Illinois, is a large-scale surface mine utilizing modern mining equipment, including an electric shovel with a 105-cubic-yard bucket and a bucket wheel excavator. The Captain Mine reserves are expected to be exhausted in mid-1998. 1997 production was approximately 2.8 million tons. At December 31, 1997, the total cost of the Captain Mine's property, plant and equipment was \$80.3 million, and the net book value was \$4.1 million.

Conant Mine. The Conant Mine, an underground operation also located in Perry County, Illinois, currently operates three continuous miners using battery powered coal haulers and the Archveyor(R) system. Approximately 25 million tons of recoverable coal are currently dedicated to Conant Mine operations, and production from the Conant Mine is expected to increase from 1997 production of approximately 2.0 million tons to approximately 2.6 million tons in 1998 and approximately 3.0 million tons annually in 1999-2002 (as a result of addition of a fourth section in late 1998 early 1999). The total cost for the Conant Mine's property, plant and equipment at December 31, 1997, was \$40.1 million, and the net book value was \$17.1 million.

The coal produced from the Captain and Conant Mines is processed through the Captain preparation plant and loadout and is loaded onto the Illinois Central Railroad or Union Pacific Railroad at the rate of 3,800 tons per hour. The total cost of the Captain preparation plant and loadout's property, plant and equipment at December 31, 1997, totalled \$40.3 million, and its net book value was \$1.4 million.

## Western Operations

Medicine Bow Mine. The Medicine Bow Mine a surface mine in Carbon County, Wyoming, produced 1.6 million tons of coal during 1997. As a result of competition from similarly-priced higher-Btu coal produced by the Company's competitors, the Medicine Bow Mine now is only expected to produce a total of approximately 1.9 million tons through its depletion in 2000. The Medicine Bow Mine utilizes a dragline with a 76-cubic-yard bucket and a dragline with a 64-cubic-yard bucket for overburden removal and reclamation. Significantly reduced mining and increased reclamation activities will continue through 1998 pending a determination when to increase coal production.

Seminole II Mine. The Seminole II Mine is a surface mine that first began production in 1973 and was idled in 1989. It was reactivated in mid-1995 and produced .6 million tons in 1997. Approximately 1.4 million tons of coal are currently dedicated to Seminole II Mine production. Equipment deployed at the Seminole II Mine includes the Archveyor(R) system and a 32-cubic-yard dragline. As a result of the same market factors experienced at the Medicine Bow Mine, the Seminole II Mine is not expected to produce significant amounts of coal in 1998, although reclamation activities will remain ongoing pending a determination when to increase coal production.

Coal from each of the Medicine Bow and Seminole II Mine loadouts is loaded out of stockpile areas for unit train shipment at a rate of 4,000 tons per hour on the Union Pacific Railroad. The total cost of property, plant and equipment at Medicine Bow and Seminole II Mines at December 31, 1997, was \$65.3 million, and the net book value was \$6.8 million.

In June 1996, the Company acquired approximately 58,000 acres of land containing approximately 96 million tons of low-sulfur coal reserves in the Carbon Basin reserve area, approximately 25 miles southeast of the Seminole II Mine, for \$14.2 million. Since acquiring this property, the Company has sold a significant portion of the noncoal producing lands to third parties. The Company intends to develop 27 million tons of these reserves as a large-scale surface mining operation, with production currently projected to begin in 2001.

All of the mining complexes, mines and related facilities described above in OPERATIONS are accessible by public road, and power to the complexes, mines and facilities is supplied by public utility companies doing business in the area of such operations. The total cost of property, plant and equipment reflects purchase accounting adjustments.

## TRANSPORTATION

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

The Lockwood Dock is located on a 60-acre site on the Big Sandy River approximately seven miles upstream from its confluence with the Ohio River. In addition to providing storage and transloading services, the Lockwood Dock provides certain maintenance and other services at the Company's idle Big Sandy Terminal operation. The coal transloading and storage business of Big Sandy Terminal and the Lockwood Dock was consolidated at the Lockwood Dock shortly after the July 1 merger with Ashland Coal.

The Paint Creek Terminal is located on leased property on the Kanawha River at Crown Hill, West Virginia. The facility transloads coal trucked from the Samples Mine for shipment by barge to the Company's customers.

In addition, Company subsidiaries together own a 17.5% interest in Dominion Terminal Associates ("DTA"), which leases and operates a ground storage-to-vessel coal transloading facility (the "DTA Facility") in Newport News, Virginia. The DTA Facility has a throughput capacity of 20 million tons of coal per year and ground storage capacity of approximately 1.7 million tons. The DTA Facility serves international customers, as well as domestic coal users located on the eastern seaboard of the United States. For additional information concerning the Company's investment in DTA, see the last paragraph in Note 18 to the Company's Consolidated Financial Statements on page 42 below and incorporated by reference in this Item 1.

## EMPLOYEES

As of March 11, 1998, the Company and its independent operating subsidiaries employed a total of 3,366 people (including 36 part-time employees), 1,392 of whom are represented by the UMWA. Apogee and Hobet each are signatories to the Wage Agreement, which was ratified on December 16, 1997, became effective January 1, 1998, and

expires on December 31, 2002. The provisions of the Wage Agreement will not significantly affect the Company's operating costs.

The terms of the Wage Agreement principally affected pension matters for laid-off miners by allowing miners with 20 years of pension credit to retire regardless of their age. Pension accruals for active miners also were increased by \$4 per month for all years of service, past and future, and effective in January 2000, the pension schedule for active miners was increased an additional \$2 per month per year of service. These changes together resulted in an increase of 25% in a miner's pension income. For retired members, pensions for all classes of retirees were increased by \$15 per month.

In addition, the Wage Agreement provides for wage increases totalling \$1.10 per hour over the first three years and a lump sum wage payment of \$600 after both the third and fourth years of the contract. Other benefits and changes included increases in certain life, accident and health care insurance benefits; increases in the contribution rates for the UMWA Training and Education Fund and the UMWA 1993 Benefit Fund; revised work protection procedures for grievances related to job opportunities and under the 1995 Memorandum of Understanding Regarding Job Opportunities; and rules changes to permit more flexible scheduling by employers.

#### REGULATIONS AFFECTING COAL MINING

Coal mining is subject to strict regulation by federal, state, and local authorities. The scope of the regulation includes environmental and health and safety matters, and permits are required to be obtained by mining companies, the terms of which permits strictly regulate the environmental effects of coal mining by the permittee.

##### Permitting and Environmental Matters

Numerous permits are required for mining operations. The Company believes all permits required to conduct present mining operations have been obtained. The Company believes that, upon the filing of the required information with the appropriate regulatory agencies, all permits necessary for continuing operations will be obtained. Nevertheless, the regulatory authorities exercise considerable discretion in the timing of permit issuance. Because both private individuals and the public at large possess rights to comment on and otherwise engage in the permitting process, no assurance can be made that all permits will be issued in a timely matter.

The federal Surface Mining Control and Reclamation Act of 1977 ("SMCRA") was enacted to regulate certain surface mining of coal and the surface effects of underground mining. All states in which the Company's subsidiaries operate have similar laws and regulations enacted pursuant to SMCRA which regulate surface and deep mining that impose, among other requirements, reclamation and environmental requirements and standards.

The federal Clean Water Act affects coal mining operations by imposing effluent discharge restrictions on pollutants discharged into waters. In addition, the United States Environmental Protection Agency ("EPA") has permitting requirements for storm water discharges from industrial facilities. These regulations require permits for some aspects of mining operations. Regular monitoring and compliance with reporting requirements and performance standards are preconditions for the issuance and renewal of permits governing the discharge of pollutants into waters. Further, mining operations are subject to Clean Water Act regulations with respect to discharges into some ponds created to treat or dispose of coal mining wastes.

All states in which the Company's subsidiaries operate also have laws restricting discharge of pollutants into the waters of those states.

The federal Resource Conservation and Recovery Act ("RCRA") and implementing federal regulations exclude from the definition of hazardous waste all coal extraction, beneficiation and processing wastes. Additionally, other coal mining wastes which are subject to an SMCRA permit are exempt from RCRA permits and standards. Each of the states in which the Company's subsidiaries are currently engaged in mining similarly exempt coal mine waste from their respective state hazardous waste laws and regulations. The federal Comprehensive Environmental Response, Compensation and Liability Act, as amended by the Superfund Amendments and Reauthorization Act, affects coal mining operations by subjecting them to liability for the remediation of releases of hazardous substances (other than waste excluded from federal and state regulation, as noted above) that may endanger public health or welfare or the environment.

The federal Clean Air Act, as amended in 1990, imposes numerous requirements on various categories of emission sources and West Virginia state air regulations impose permitting obligations and performance standards on certain coal preparation plants and coal handling facilities, such as crushers and screens.

#### Health and Safety Matters

The federal Mine Safety and Health Act of 1977 imposes health and safety standards on all mining operations. Regulations are comprehensive and affect numerous aspects of mining operations, including training of mine personnel, mining procedures, blasting, and the equipment used in mining operations. The Black Lung Benefits Reform Act of 1977 generally requires each coal mine operator to secure payment of federal and state black lung benefits to its employees through insurance, bonds, or contributions to a state-controlled fund. The Black Lung Benefits Reform Act of 1977 also provides for the payment from a trust fund of benefits and medical expenses to employees for whom no benefits have been obtainable from their employer. This trust is financed by a tax on coal sales.

The Coal Industry Retiree Health Benefit Act of 1992 ("Benefit Act") addressed two under-funded trust funds which were created to provide medical benefits for certain UMWA retirees. The Benefit Act provides for the funding of medical and death benefits for certain retired members of the UMWA through premiums to be paid by assigned operators (former employers), transfers of monies in 1993 and 1994 from an overfunded pension trust established for the benefit of retired UMWA members, and transfers from the Abandoned Mine Lands Fund (funded by a federal tax on coal production) that commenced in 1995. The constitutionality of the Benefit Act has been challenged and the U.S. Supreme Court has heard, but has not yet ruled upon, the case. If the Benefit Act is declared unconstitutional, there will be an immediate favorable benefit to the Company. However, the Company is uncertain of the ultimate financial impact of such decision because such impact will depend in part on the nature of substitute legislation, if any, arising as a consequence of such a ruling.

#### Compliance with Regulatory Requirements and Existing Environmental Liability

The Company's operating subsidiaries endeavor to conduct their operations in compliance with all applicable federal, state, and local laws and regulations. However, because of the extensive and comprehensive regulatory requirements, violations during mining operations are not unusual in the industry. From time to time the Company and its subsidiaries are party to civil and administrative proceedings as a result of alleged failures to comply with mandatory federal or state health and safety regulations. The Company believes that any adverse results in the currently pending proceedings, if incurred, would not have a material adverse effect on the Company's consolidated financial condition, results of operations, or liquidity.

Mingo Logan is a party to civil and administrative proceedings brought by owners of commercial surface property overlying part of Mingo Logan's Mountaineer Mine. These proceedings seek revocation of mining permits for the Mountaineer Mine and seek damages for loss in the value of the plaintiffs' property and business. The Company does not believe that Mingo Logan's mining permits will be revoked as a result of these proceedings, and that the damage claim will not have a material adverse effect on the Company's consolidated financial condition, results of operations, or liquidity.

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

On October 24, 1996, the rock strata overlaying an abandoned underground mine adjacent to the coal-refuse impoundment used by the Lone Mountain preparation plant failed, resulting in an accidental discharge of approximately 6.3 million gallons of water and fine coal slurry into a tributary of the Powell River in Lee County, Virginia. At the request of the EPA and the U.S. Fish and Wildlife Service, the United States Attorney for the Western District of

Virginia opened a criminal investigation of the 1996 incident. Arch Coal is cooperating with the investigation, the results of which are not expected until sometime later in 1998.

Except as described herein, the Company is not aware of any alleged or existing conditions on property in which it has an ownership or other interest that would give rise to material liability under federal, state, and local environmental laws, regulations, or ordinances. The Company believes that continued compliance with regulatory standards will not substantially affect its ability to compete with similarly situated coal mining companies.

#### SEASONALITY

The results of the third quarter of each year are frequently adversely affected by lower production and resultant higher costs because of scheduled vacation periods at the majority of the Company's mines. In addition, costs are typically somewhat higher during vacation periods because of maintenance activity carried on during those periods. These adverse effects on the third quarter may make the third quarter not comparable to the other quarters and not indicative of results to be expected for the full year.

#### RELIANCE ON MAJOR CUSTOMERS

The Company's total sales to Southern Company and AEP and their respective affiliates accounted for approximately 18% and 13%, respectively, of the Company's total revenues in 1997. Southern Company and AEP and/or their affiliates each currently have multiple long-term contracts with the Company. If the Company experienced an unanticipated and immediate loss of all of the contracts of either of these customers, the loss could have a material adverse effect on the Company's business and results of operations.

#### COMPETITION

The coal industry is highly competitive, and the Company competes (principally in price, location, and quality of coal) with a large number of other coal producers, some of which are substantially larger and have greater financial resources and larger reserve bases than the Company. Most long-term supply agreements and spot market orders are the result of competitive bidding. Coal also competes with other energy sources such as oil, natural gas, hydropower, and nuclear energy for steam and electrical power generation. Over time, the cost and other factors, such as safety and environmental considerations, relating to these alternative fuels may affect the overall demand for coal as a fuel.

#### ITEM 2. PROPERTIES

As of December 31, 1997, the Company's subsidiaries owned, or controlled primarily through long-term leases, approximately 275,000, 100,000 and 2,000 acres of coal lands in West Virginia, Eastern Kentucky, and Virginia, respectively; 161,000 acres of coal lands in the Illinois Basin; and 53,000 acres of coal lands in Wyoming. Approximately 14,500 acres of the Company's coal land are leased from the federal government with terms expiring between 1999 and 2011, subject to readjustment and/or extension and to earlier termination for failure to meet diligent development requirements. The Company's subsidiaries also control through ownership or long-term leases approximately 4,100 acres of land which are used either for its coal processing facilities or are being held for possible future development. The Pine Creek, Black Bear, Campbells Creek, Samples, Ruffner and Holden 25/Ragland preparation plants and related loadout facilities are located on properties held under leases which expire in 2030, 2007 (with an optional 20-year extension), 2003, 2012, 2062 and 2006 (with unlimited extensions), respectively, and the balance of the Company's preparation plants and loadout facilities are located on property owned by the Company. The Company's executive headquarters occupy approximately 50,000 square feet of leased space at CityPlace One, St. Louis, Missouri, and the Company maintains an operational headquarters in approximately 100,000 square feet of subleased space at 2205 Fifth Street Road, Huntington, West Virginia. The descriptions set forth above in Item 1. Business of the Company's subsidiaries' mining complexes, mines, transportation facilities and other operations are hereby incorporated into this Item 2 by reference.

The Company's subsidiaries currently own or lease the equipment that is significant to their mining operations. Hobet, Apogee and Catenary Coal Company lease equipment pursuant to a sale and leaseback transaction entered into in January 29, 1998. For further information about this 1998 sale-leaseback transaction, see Note 16 to the Company's Consolidated Financial Statements on page 41 below.

## COAL RESERVES

The Company estimates that its subsidiaries owned or controlled, as of December 31, 1997, approximately two billion recoverable tons of proven and probable coal reserves. Reserve estimates are prepared by the Company's engineers and geologists and reviewed and updated periodically. Total reserve estimates and reserves assigned/dedicated to mines and complexes will change from time to time reflecting mining activities, analysis of new engineering and geological data, changes in reserve holdings and other factors. The following table presents the Company's estimated reserves at December 31, 1997:

## Recoverable Coal

	MEASURED	INDICATED	TOTAL
	-----	-----	-----
	(THOUSANDS OF TONS)		
Central Appalachia.....	1,048,356	436,736	1,485,092
Illinois.....	312,861	101,550	414,411
Wyoming (and Other).....	101,783	72,236	174,019
Total.....	1,463,000	610,522	2,073,522
	=====	=====	=====

Approximately 47% of the Company's coal reserves are held in fee, with the balance controlled by leases most of which do not expire until the exhaustion of mineable and merchantable coal. Other leases have primary terms expiring in various years ranging from 1998 to 2013, and most contain options to renew for stated periods. Royalties are paid to lessors either as a fixed price per ton or as a percentage of the gross sales price of the mined coal. The majority of the significant leases are on a percentage royalty basis. In certain cases, a lease bonus (prepaid royalty) is required, payable either at the time of execution of the lease or in annual installments following such execution. In most cases, the prepaid royalty amount is applied to reduce future production royalties. Subsidiaries of the Company currently own or control approximately 22,000 acres of lands upon which exploration has not been conducted.

Federal and state legislation controlling air pollution affects the demand for certain types of coal by limiting the amount of sulfur dioxide which may be emitted as a result of fuel combustion and, thereby, encourages a greater demand for low-sulfur coal. So-called "compliance coal", i.e. coal which emits 1.2 pounds or less of sulfur dioxide per million Btu upon combustion without the aid of sulfur reduction technology, is referred to as such because combustion of such coal results in sulfur emissions within the parameters required by the Clean Air Act.

All of the identified coal reserves held by the Company's subsidiaries have been subject to preliminary coal seam analysis to test sulfur content. Of these reserves, approximately 32% consist of coal with a sulfur dioxide content of 1.2 lbs/MM Btu or less, and approximately 44% could be sold as low-sulfur coal. The balance is classified as high-sulfur coal. Some of the Company's low-sulfur coal can be marketed as compliance coal when blended with other compliance coal. Accordingly, most of the Company's reserves are primarily suitable for the domestic steam coal markets. However, a substantial portion of the low-sulfur and compliance coal reserves at the Mingo Logan operations may also be used as a high-volatile, low-sulfur, metallurgical coal.

The carrying cost of the Company's coal reserves at December 31, 1997, was \$748.6 million, consisting of \$17.7 million of prepaid royalties included in current assets, \$20.8 million of prepaid royalties classified as an other asset, and \$710.1 million net book value of coal lands and mineral rights.

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

From time to time, lessors or sublessors of land leased by the Company's subsidiaries have sought to terminate such leases on the basis that such subsidiaries' have failed to comply with the financial terms of the leases or that the mining and related operations conducted by such subsidiaries are not authorized by the leases. Some of these allegations relate to leases upon which the Company conducts operations material to the Company's consolidated

financial position, results of operations and liquidity, but the Company does not believe any pending claims by such lessors or sublessors have merit or will result in the termination of any material lease or sublease.

#### ITEM 3. LEGAL PROCEEDINGS

The description of pending legal proceedings with respect to the accidental discharge at Lone Mountain in the fourth paragraph under the "Compliance With Regulatory Requirements and Existing Environmental Liability" subsection under the "Regulations Affecting Coal Mining" section of Item 1 at page 8 of this report is incorporated herein by reference.

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

There were no matters submitted to a vote of security holders of the Company through the solicitation of proxies or otherwise during the fourth quarter of 1997.

#### ITEM X. EXECUTIVE OFFICERS

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

Steven F. Leer, 45, has been President and Chief Executive Officer of the Company since 1992.

Kenneth G. Woodring, 48, has been Executive Vice President--Mining Operations of the Company since the merger with Ashland Coal. Mr. Woodring served as Senior Vice President--Operations of Ashland Coal since 1989.

C. Henry Besten, Jr., 49, has been Vice President--Strategic Marketing of the Company and President of the Company's Arch Energy Resources, Inc. subsidiary since the merger with Ashland Coal. Mr. Besten served as Senior Vice President--Marketing for Ashland Coal since 1990.

John W. Eaves, 40, has been Vice President--Marketing of the Company since the merger with Ashland Coal. In the five years preceding the merger, he held a series of sales related positions with the Company, including President of the Company's Arch Coal Sales Company, Inc. subsidiary since 1995.

Jeffrey A. Hoops, 41, has been Vice President--Operations of the Company since the merger with Ashland Coal. In the five years preceding the merger, Mr. Hoops held various operating positions with Ashland Coal, including Vice President of Operations Planning and Central West Virginia Surface Operations from 1994 until the merger.

Patrick A. Kriegshauser, 36, has been Senior Vice President, Treasurer and Chief Financial Officer of the Company since July, 1996. During the prior five years, he served as Vice President--Controller, Vice President--Planning & Development, and Controller of Arch of West Virginia, Inc. (a subsidiary of the Company that was merged into Apogee in 1993).

David B. Peugh, 43, has been Vice President--Business Development of the Company since 1993. Prior to 1993, Mr. Peugh was Director of Exploration and Development of Ashland Coal.

Jeffry N. Quinn, 39, has been Senior Vice President--Law & Human Resources, Secretary and General Counsel of the Company since 1995. During the prior five years, he served as Senior Vice President, Secretary and General Counsel.

Robert W. Shanks, 44, has been Vice President--Operations of the Company since the merger with Ashland Coal, and has been President of Apogee Coal Company, a subsidiary of the Company, since 1995. In the five years prior to the merger, he was President of Apogee (formerly Arch of Illinois, Inc.) and Vice President of the Illinois Division of Apogee. Mr. Shanks is currently the Chairman of the Bituminous Coal Operators Association (the "BCOA").

## PART II

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

The Company's common stock is listed and traded on the New York Stock Exchange and also has unlisted trading privileges on the Chicago Stock Exchange (symbol: ACI).

Information regarding the Company's common stock is shown in the following table.

	QUARTER ENDED							
	1996				1997			
	3/31	6/30	9/30	12/31	3/31	6/30	9/30	12/31
Dividend per common share.....	--	--	\$ .38	--	\$.108	\$.108	\$.115	\$.115
Market price per common share								
High.....							\$30 3/8	\$30 5/16
Low.....							\$27 1/8	\$24 5/8

The Company's common stock did not trade publicly until the July 1, 1997 merger with Ashland Coal. Prices reflect New York Stock Exchange trading.

The Company expects to continue paying regular cash dividends, although there is no assurance as to the amount or payment of dividends in the future because they are dependent on the Company's future earnings, capital requirements, and financial condition. In addition, the payment of dividends is subject to the restriction described in Note 6 to the Company's Consolidated Financial Statements below on page 33.

As of March 9, 1998, there were 871 holders of record of the Company's common stock.

## ITEM 6. SELECTED FINANCIAL DATA

## FIVE-YEAR SELECTED FINANCIAL INFORMATION

	YEARS ENDED DECEMBER 31,				
	1997	1996	1995	1994	1993
	(IN THOUSANDS, EXCEPT PER SHARE DATA)				
<b>INCOME STATEMENT DATA:</b>					
Coal sales and other revenues.....	\$1,066,873	\$780,621	\$737,838	\$785,287	\$487,670
Costs and expenses:					
Cost of coal sales.....	918,862	669,295	657,529	648,091	459,493
Selling, general and administrative expenses.....	28,882	20,435	19,680	21,758	19,070
Amortization of coal supply agreements.....	18,063	12,604	13,374	15,346	7,672
Merger-related expenses.....	39,132	--	--	--	--
Write-down of impaired assets.....	--	--	10,241	--	--
Restructuring expenses.....	--	--	8,250	--	--
Other expenses.....	20,052	22,175	18,739	35,150	53,990
Income (loss) from operations.....	41,882	56,112	10,025	64,942	(52,555)
Interest expense, net.....	17,101	17,592	22,962	21,582	15,443
Provision (benefit) for income taxes....	(5,500)	5,500	(1,900)	8,200	(29,100)
Net income (loss).....	\$ 30,281	\$ 33,020	\$(11,037)	\$ 35,160	\$(38,898)
	=====	=====	=====	=====	=====
<b>BALANCE SHEET DATA:</b>					
Total assets.....	\$1,656,324	\$885,521	\$940,768	\$993,361	\$849,804
Working capital.....	40,904	33,166	40,077	27,512	(3,369)
Long-term debt.....	248,425	212,695	274,314	308,166	223,698
Other long-term obligations.....	594,127	421,754	429,993	413,209	413,427
Stockholders' equity.....	611,498	130,626	113,692	131,426	96,266
<b>COMMON STOCK DATA:</b>					
Basic and diluted earnings (loss) per common share.....	\$ 1.00	\$ 1.58	\$ (0.53)	\$ 1.68	\$ (1.86)
Dividends per share.....	.445	.38	.32	--	.38
Shares outstanding at year-end.....	39,658	20,948	20,948	20,948	20,948
<b>CASH FLOW DATA:</b>					
Cash provided by operating activities...	\$ 190,263	\$138,471	\$ 98,159	\$ 81,273	\$ 54,924
Depreciation, depletion and amortization.....	143,632	114,703	100,101	99,431	80,415
Purchases of property, plant and equipment.....	54,378	48,290	80,347	96,717	98,795
Dividend payments.....	13,630	8,000	6,697	--	8,000
EBITDA.....	224,646	170,815	128,617	164,373	27,860
<b>OPERATING DATA:</b>					
Tons sold.....	40,525	29,443	26,742	27,898	17,574
Tons produced.....	36,698	26,887	25,562	27,383	14,848

Certain amounts for years prior to 1997 have been reclassified to conform with the 1997 classifications with no effect on previously reported net income (loss) or stockholders' equity.

Information for 1997 reflects the merger with Ashland Coal on July 1, 1997.

Income from operations for 1997 reflects a \$39.1 million charge in connection with the Ashland Coal merger comprised of termination benefits, relocation costs and costs associated with the idling of duplicate facilities.

Income from operations for 1995 reflects total charges of \$18.5 million for restructuring and asset write-downs. The Company restructured its selling, general and administrative functions and reduced its salaried workforce by 143 employees. Total restructuring charges of \$8.3 million included charges for severance, pension and post-retiree medical benefits. As a result of implementing SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, the Company recorded charges of \$10.2 million to write-down certain idle assets to their fair value.

On July 31, 1995, the Company sold its timber rights to approximately 100,000 acres of property in the eastern United States for a gain of \$8.4 million.

In January 1994, the Company acquired the stock of Agipcoal Holding USA, Inc., and its subsidiaries, simultaneously sold certain of the operations and entered into a sale lease-back agreement for certain coal reserves for net consideration of \$65.9 million. Coal mining operations in Kentucky and West Virginia, and certain coal supply agreements, were acquired. The acquisition was accounted for as a purchase and, accordingly, the results of operations are included in the consolidated financial statements of the Company subsequent to the date of purchase.

The results of operations for 1993, were adversely affected by a seven-month strike by the UMWA against all of Apogee's operations as part of a nationwide strike against members of the BCOA. Depreciation and other expenses, including back-to-work bonuses and start-up costs, were expensed in cost of coal sales as incurred.

In 1993, in consultation with actuaries, the Company adjusted the discount rate, the black lung benefit cost escalation rate, rates of disability and other assumptions used in the actuarial determination of pneumoconiosis (black lung) liabilities to reflect more accurately actual experience. The effect of these changes was a significant increase in the unrecognized net actuarial gain. In accordance with Company policy, this gain was amortized as a credit to cost of coal sales and totaled approximately \$10 million annually in each of 1993 through 1997.

EBITDA is defined as income from operations before the effect of changes in accounting principles, unusual items (Notes 3 and 4 above), net interest expense, income taxes, depreciation, depletion and amortization. EBITDA is presented because it is a widely accepted financial indicator of a company's ability to incur and service debt. EBITDA should not be considered in isolation or as an alternative to net income, operating income, cash flows from operations or as a measure of a company's profitability, liquidity or performance under generally accepted accounting principles. This measure of EBITDA may not be comparable to similar measures reported by other companies.

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

The "Contingencies," "Certain Risk Factors," "Impact of Year 2000" and "Factors Routinely Affecting Results of Operations" sections below discuss factors that may cause actual results to differ materially from the forward-looking statements (within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934) in the "Outlook" and "Liquidity and Capital Resources" sections below, and elsewhere herein.

##### RESULTS OF OPERATIONS

###### Merger With Ashland Coal

On July 1, 1997, Ashland Coal merged with a subsidiary of the Company, and 18,660,054 shares of Company common stock were issued in the merger. The merger was accounted for as a purchase.

At the time of the merger, Ashland Coal was engaged in the mining, processing and marketing of low-sulfur bituminous coal primarily in the eastern United States, and Ashland Inc. owned stock representing approximately 57% of the voting power of Ashland Coal and 50% of the voting stock of the Company. Ashland Inc. currently owns approximately 54% of the Company's outstanding common stock.

Comparisons of 1997 to 1996 have been materially affected by the merger with Ashland Coal effective July 1, 1997.

###### 1997 Compared to 1996

Net income for 1997 was \$30.3 million compared to net income of \$33.0 million for 1996. The current year includes a one-time charge of \$39.1 million (\$23.8 million after tax) related to the Company's merger with Ashland Coal. Excluding this charge, the Company had net income of \$54.1 million for the year. The merger-related charge was comprised of termination benefits and relocation costs of \$8.1 million and costs of \$31.0 million associated with the idling of duplicate facilities, including a coal loading terminal on the eastern side of the Big Sandy River and the Pardee Surface Mine on the Kentucky/Virginia border. Coal loading operations were consolidated and are now being conducted from a terminal facility on the west side of the Big Sandy River that was operated by Ashland Coal prior to the merger. The Pardee Surface Mine's sales commitments are expected to be sourced from available capacity at other, lower-cost Arch Coal operations.

Gross profit on coal sales (selling price less cost of sales) on a per ton basis increased \$.11 per ton from 1996 to 1997. The average selling price increased \$.05 per ton while cost of coal sold decreased \$.06 per ton. The reduction in cost was primarily attributable to higher production from the Ruffner and Wyl0 Mines, cost improvement at Lone

Mountain's Huff Creek and Darby Fork mines, and the addition, as a result of the merger, of low-cost production from the Mingo Logan and Dal-Tex Complexes. Largely offsetting these effects were higher costs resulting from the depletion of the longwall reserves at Mine No. 37, higher costs at the Company's Wyoming and Pardee operations, and the addition of higher-cost surface production from the Hobet 21 Complex after the merger with Ashland Coal.

Selling, general and administrative expenses increased \$8.4 million primarily due to the effects of the Ashland Coal merger.

Amortization of coal supply agreements increased \$5.5 million. This increase is primarily due to the amortization of the carrying value of the Ashland Coal sales contracts, partially offset by a decrease in amortization resulting from the completion of amortization on certain other sales contracts at the end of 1996.

Interest expense declined \$1.0 million in 1997 due to lower average debt levels and the prepayment of higher-cost fixed-rate debt.

The income tax benefit recorded in 1997 was primarily attributed to the \$15.3 million tax benefit associated with the one-time merger-related charge discussed above.

EBITDA (income from operations before the effects of changes in accounting principles, unusual items (see notes 3 and 4 to Selected Financial Data at page 13 above), net interest expense, income taxes, depreciation, depletion and amortization) was \$224.6 million for 1997 compared to \$170.8 million for 1996. The increase in EBITDA is primarily attributable to the merger with Ashland Coal. EBITDA is a widely accepted financial indicator of a company's ability to incur and service debt, but EBITDA should not be considered in isolation or as an alternative to net income, operating income, or cash flows from operations, or as a measure of a company's profitability, liquidity or performance under generally accepted accounting principles. The Company's method of computing EBITDA also may not be the same method used to compute similar measures reported by other companies.

#### 1996 Compared to 1995

Net income of Arch Coal for 1996 was \$33.0 million compared to a net loss of \$11.0 million in 1995. A restructuring charge of \$8.3 million and a write down of impaired assets of \$10.2 million were reflected in 1995 results.

Gross profit on coal sales on a per-ton basis increased \$.91 per ton from 1995 to 1996. The average selling price decreased \$.95 per ton while cost of coal sold decreased \$1.86 per ton. The decrease in average selling price was primarily due to increased sales of lower-realization shipments from the Illinois and Wyoming operations. The decrease in costs were due to the sale of certain Kentucky operations, closing of higher-cost West Virginia operations in 1995, a decrease in postretirement benefit costs of approximately \$4.0 million, improved productivities at most operations, and improved geologic conditions at Mine No. 37. These positives were partially offset by lower yields and poor geologic conditions at Lone Mountain's Huff Creek and Darby Fork mines. Also, the Company reduced the estimated useful lives of certain long-lived assets which resulted in an additional \$11.3 million of depreciation and amortization expense recorded to cost of sales in 1996. These changes in estimates were primarily due to increased productivities and reductions in recoverable reserves. These assets were being depreciated on a straight-line basis over the estimated life of certain mines. As a result of increased production and adjustments to economically recoverable reserves, the life of the mines were reduced. Therefore, the asset lives were adjusted to conform to the estimated recoverable reserves of the respective mines.

Selling, general and administrative expenses increased \$.8 million primarily due to costs associated with the Company's incentive compensation plan, as the Company had net income as compared to a net loss in 1995.

Amortization of coal supply agreements decreased \$.8 million from 1995 largely due to the expiration of the AEP-Central Operating contract in the first quarter of 1996 and the buyout of a Carolina Power & Light contract on February 28, 1995.

Other expenses increased \$3.4 million in 1996 when compared to 1995. This increase resulted from a charge of \$1.7 million in connection with the settlement of a lawsuit with the Utah Division of State Lands and Forestry and \$1.4 million in connection with the redemption of debt.

Interest expense decreased \$5.0 million in 1996 due to lower average debt levels, including lower levels of higher-cost fixed-rate debt.

Income tax expense increased to \$5.5 million from a benefit of \$1.9 million principally due to an increase in the Company's profitability. The effective tax rate is sensitive to changes in profitability because of the effect of percentage depletion. The 1995 net tax benefit included a \$9.9 million provision for open tax years.

#### OUTLOOK

Several events, together with the negative effect on operating income resulting from the depletion of the longwall reserves at Mine No. 37, will materially and adversely affect the Company's results in 1998.

The most significant event was the expiration of one of the Company's long-term coal supply contracts with Georgia Power in December 1997. Under the contract, the Company supplied 1.9 million tons of low-sulfur coal per year from its Lone Mountain and Pardee operations and from third parties. The prices for coal shipped under this contract were significantly above the then current open market price of such coal. For 1997, 5.6% of the Company's pro forma combined revenues and 16.9% of its pro forma combined operating income (excluding the merger-related charge) related to sales under this contract, and the impact of its expiration will be disproportionate to the percentage of total shipments represented by the tonnage delivered under the contract. The Company continues to supply a significant amount of similar quality coal to Georgia Power at less favorable prices.

A customer of the Company has informed the Company that one of its power plants will no longer provide baseload capacity to a public utility and instead will be used to provide peak demand only and, as a result, the plant will require substantially less coal under the customer's existing above-market contract with the Company. The customer purchased 397,000 tons of coal from the Company in 1997. A significant long-term reduction in the volume of coal supplied under this contract will reduce the Company's after-tax earnings by as much as \$3 million annually. The Company has filed a civil action in Federal District Court in the Southern District of West Virginia alleging breach of contract and other causes of action against the customer in respect of the customer's failure to comply with the terms of this contract. As of December 31, 1997, the carrying amount of acquisition costs allocated to this coal supply contract amounts to approximately \$17 million. The Company's current estimates of undiscounted cash flows indicate the carrying amount of this asset is expected to be recovered.

In 1997, the Company fully amortized its original \$50 million unrecognized net gain realized in 1993 as a result of changes in the discount rate, black lung benefit cost escalation rate, rates of disability and other assumptions used in the actuarial calculation of pneumoconiosis (black lung) liabilities. The \$50 million pre-tax gain was being amortized as a credit to cost of coal sales and totaled approximately \$10 million (\$6 million after tax) annually in each of 1993 through 1997.

On January 31, 1998, the Company discontinued operation of two continuous miner units in Mine No. 37 and the Cave Branch preparation plant in Kentucky. The discontinued operations were expected to produce approximately 1.9 million tons of coal through scheduled depletion of their dedicated reserves in 1999. The first quarter of 1998 will be adversely affected by certain costs associated with discontinuing these operations. The Company does not anticipate a significant write-down of assets as most of the carrying amount of the assets is expected to be recovered.

These developments will be mitigated to some degree by synergies from the Ashland Coal merger, increased income from the Company's Ark Land subsidiary's ongoing third-party leasing efforts and normal sales of property, and by reduced interest expense as a result of lower debt levels in general and the refinancing of long-term debt at more favorable rates. In addition, operational improvements including improving geology at Lone Mountain's Huff Creek and Darby Fork Mines, deployment of a third equipment section at the Darby Fork Mine and a second equipment section at the Band Mill Mine, and improving costs at the Wylo Mine and Hobet 21 Complex are expected to contribute positively to 1998 results. There are a variety of factors, however, which could cause the improvements not to be realized. These factors are set forth below in "Factors Routinely Affecting Results of Operations". For example, adverse geologic conditions could unexpectedly recur at Lone Mountain's Huff Creek and Darby Fork Mines, or occur at other operations.

Management has decided to substantially scale back coal mining operations during 1998 at the Wyoming operations as a result of oversupply of competing coals in their market. In addition, the Hobet 07 Complex and the Captain Mine are scheduled to close in 1998 upon depletion of their economical dedicated reserves. Production losses as a result of mine closures, scaled-back production and depletion are expected to be offset to some degree by the second quarter 1998 start up of Mingo Logan's new surface mine in the Phoenix reserves, several new contract and

Company deep mines scheduled to open in 1998, and increased production as a result of the operational improvements referred to above. Nevertheless, the Company believes its 1998 production will decline somewhat from the pro forma combined production of the Company and Ashland Coal in 1997.

The Wage Agreement became effective January 1, 1998, and will expire December 31, 2002. The Wage Agreement, which covers the UMWA-represented employees of the Company's Hobet and Apogee subsidiaries, provides for wage increases totalling \$1.10 per hour over the first three years and a lump sum wage payment of \$600 after both the third and fourth year of the contract. In addition, certain other benefits, for both active and retired UMWA employees and their spouses and dependents, were improved under the Wage Agreement. The provisions of the Wage Agreement will not significantly affect the Company's operating costs.

#### LIQUIDITY AND CAPITAL RESOURCES

At December 31, 1997, Arch Coal's debt was 31% of capital employed and its current assets to current liabilities ratio was 1.2 to 1.0. Debt as a percent of capital employed is down from 62% at the end of 1996, reflecting the equity financing of the Ashland Coal merger (partially offset by the debt assumed in the merger) and strong cash flows from operations during 1997. During the six months following the Ashland Coal merger, debt as a percent of capital employed declined five percent.

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

	1997 -----	1996 -----	1995 -----
	(IN THOUSANDS)		
Cash provided by (used in):			
Operating activities.....	\$ 190,263	\$138,471	\$ 98,159
Investing activities.....	(80,009)	(72,638)	(45,299)
Financing activities.....	(114,793)	(69,619)	(40,549)

The 1997 increase in cash provided by operating activities from the 1996 level is principally due to the Ashland Coal merger, partially offset by tax payments related to prior year audits. Cash flow from 1996 operating activities exceeded that for 1995, primarily for the same reasons discussed above that 1996 costs were lower than 1995 levels.

The increase in cash used for investing activities in 1997 from the 1996 level principally reflects higher acquisition expenditures. The 1997 acquisition expenditures include \$17.0 million for the Kayford James reserves adjacent to the Samples Mine and \$6.0 million for a reserve acquisition adjacent to the Hobet 21 Complex, while 1996 expenditures include the \$14.2 million Carbon Basin reserve acquisition. The 1996 increase in cash used for investing activities from the 1995 level primarily is due to the higher amount of proceeds received for sales of assets in 1995. During 1995, the Company sold the timber rights to approximately 100,000 acres of its fee property, its supply company, the Pevler mining operation and various other assets (including the buyout of a sales contract) for proceeds totalling \$42.6 million.

Cash used in financing activities principally reflects reductions in borrowings of \$102.2 million in 1997, \$61.6 million in 1996 and \$33.9 million in 1995. The increase in debt repayments during 1997 versus 1996 primarily resulted from the higher amount of cash flow generated by operations in the second half of 1997. In addition to the increased debt repayments, 1997 dividend payments increased by \$5.6 million compared to 1996. Payments on borrowings during 1996 exceeded the 1995 level principally due to the lower costs and resulting higher cash flow generated by operations in 1996 versus 1995. 1996 debt repayments include a \$15.3 million payment in exchange for the early redemption of preferred stock of an acquired company, and a prepayment on indebtedness of \$18.3 million.

The Company entered into a five year, \$500 million revolving credit facility, effective July 1, 1997, with a group of banks. This agreement replaced the previous \$200 million revolving credit facility. The rate of interest on borrowings under the new agreement is, at the Company's option, a money-market rate determined by a competitive bid process, the PNC Bank base rate or a rate based on LIBOR. At December 31, 1997, the Company had \$190 million borrowed under the revolving credit agreement.

The Company periodically establishes uncommitted lines of credit with banks. These agreements generally provide for short-term borrowings at market rates. At December 31, 1997, there were \$95 million of such agreements and borrowings of \$36.3 million outstanding under these agreements.

The Company also has indebtedness of \$42.9 million at December 31, 1997, under senior notes that were issued on January 29, 1993, with scheduled principal payments of approximately \$7.1 million that began on January 31, 1997, and continue on each January 31 thereafter until final maturity on January 31, 2003.

Certain debt agreements contain covenants requiring current ratio and consolidated net worth amounts, as well as covenants restricting new borrowings, mortgages, lease commitments, investments and dividends to stockholders. At December 31, 1997, retained earnings of \$36.5 million were available for dividends.

In connection with the Ashland Coal merger, the Company assumed \$167.4 million of indebtedness, including senior notes with a principal balance of \$152.9 million. In August 1997, the Company redeemed the senior notes for \$170.7 million including accrued interest with proceeds from the revolving credit agreement.

The Company's expenditures for additions to property, plant and equipment (excluding acquisitions) were \$54.4 million, \$48.3 million and \$80.3 million in 1997, 1996 and 1995, respectively. The expenditures for 1997 include \$6.5 million to complete the upgrade and extension of the Hobet 21 conveyor system, \$8.6 million for improvements at Lone Mountain's Huff Creek and Darby Fork mines and \$4.1 million to add a second section with a continuous haulage system to the Band Mill Mine. 1996 expenditures include \$15.1 million related to the final phase of development of Lone Mountain's operations, \$5.9 million for the development of the Band Mill Mine and \$4.8 million for construction of the Archveyor(R) system for the Conant Mine. In 1995, the Company expended \$11.5 million for the development of the Pardee Surface Mine, \$9.4 million to complete the dragline operation at the Samples Mine (including a preparation plant and loadout), \$22.9 million for the development and expanded capacity at Lone Mountain and \$2.8 million towards the initial construction of an Archveyor(R) system for the Conant Mine. Arch Coal estimates that its expenditures for replacement and improvement of existing mining equipment, expansion of existing mines and development of new mines (excluding acquisitions) may be as much as \$100 million during 1998.

On January 29, 1998, the Company sold mining equipment for approximately \$74.2 million and leased back the equipment under an operating lease with a term of three years. This included the sale and leaseback of equipment purchased under an existing operating lease that expired on the same day. The proceeds of the sale were used to purchase the equipment under the expired lease for \$28.3 million and to pay down debt. The lease provides for annual rental payments of approximately \$9.1 million, \$11.6 million, \$11.2 million and \$2.7 million in 1998, 1999, 2000 and 2001, respectively. At the end of the lease term, the Company has the option to renew the lease for two additional one year periods or to purchase the equipment for approximately \$51.1 million. Alternatively, the equipment may be sold to a third party. In the event of such a sale, the Company will be required to make payment to the lessor in the event, and to the extent, that the proceeds of the third-party sale are below \$40.0 million. The gain on the sale and leaseback of \$10.7 million was deferred and will be amortized over the base term of the lease as a reduction of rental expense.

The Company has historically satisfied its working capital requirements, its capital expenditures (excluding major acquisitions) and scheduled debt repayments from its operating cash flow. Cash requirements for the acquisition of new business operations have generally been funded through a combination of cash generated from operating activities, utilization of revolving credit facilities and the issuance of long-term debt. The Company believes that cash generated from operations will continue to be sufficient to meet its 1998 working capital requirements, anticipated 1998 capital expenditures (excluding major acquisitions) and scheduled 1998 debt repayments.

#### CONTINGENCIES

##### Reclamation

The Federal Surface Mining Control and Reclamation Act of 1977 and similar state statutes require that mine property be restored in accordance with specified standards and an approved reclamation plan. The Company accrues for the costs of final mine closure reclamation over the estimated useful mining life of the property. These costs relate to reclaiming the pit and support acreage at surface mines and sealing portals at deep mines. Other costs of final mine closure common to both types of mining are related to reclaiming refuse and slurry ponds. The Company also accrues for reclamation that is completed during the mining process prior to final mine closure. The establishment of the final mine closure reclamation liability and the other ongoing reclamation liability is based upon permit requirements and requires various estimates and assumptions, principally associated with costs and productivities.

The Company reviews its entire environmental liability periodically and makes necessary adjustments, including permit changes and revisions to costs and productivities to reflect current experience. These recosting adjustments are

recorded to cost of coal sales. Favorable adjustments were \$4.4 million, \$4.5 million and \$5.0 million in 1997, 1996 and 1995, respectively. The Company's management believes it is making adequate provision for all expected reclamation and other associated costs with mine closures.

Reclamation and mine closing costs for operations as of December 31, 1997, in the aggregate, are estimated to be approximately \$137.6 million. At December 31, 1997 and December 31, 1996, the accrual for such costs, which is included in accrued reclamation and mine closure and in accrued expenses, was \$125.6 million and \$97.6 million, respectively.

#### Legal Contingencies

The Company is a party to numerous claims and lawsuits with respect to various matters. The Company provides for costs related to legal contingencies, including environmental matters, when a loss is probable and the amount is reasonably determinable. The Company estimates that at December 31, 1997, its probable aggregate loss as a result of such claims is \$5.6 million (included in other noncurrent liabilities) and believes that probable insurance recoveries of \$.8 million (included in other assets) related to these claims will be realized. The Company estimates that its reasonably possible aggregate losses from all material currently pending litigation could be as much as \$.9 million (before taxes) in excess of the probable loss previously recognized. After conferring with counsel, it is the opinion of management that the ultimate resolution of these claims, to the extent not previously provided for, will not have a material adverse effect on the consolidated financial position, results of operations, or liquidity of the Company.

On October 24, 1996, the rock strata overlaying an abandoned underground mine adjacent to the coal-refuse impoundment used by the Lone Mountain Preparation Plant failed, resulting in an accidental discharge of approximately 6.3 million gallons of water and fine coal slurry into a tributary of the Powell River in Lee County, Virginia. At the request of the EPA and the U.S. Fish and Wildlife Service, the United States Attorney for the Western District of Virginia has opened a criminal investigation of the 1996 incident. Arch Coal is cooperating with the investigation, the results of which are not expected until sometime later in 1998.

#### CERTAIN RISK FACTORS

**Credit risk--**The Company markets its coal principally to electric utilities in the United States. As a group, electric utilities generally are stable, well capitalized entities with favorable credit ratings. Credit is extended based on an evaluation of each customer's financial condition, and collateral is not generally required. Historically, the Company's credit losses have been minimal.

**Price risk--**Selling prices for the Company's products are determined by long-term contracts and the spot market. Selling prices in many of the Company's long-term contracts are subject to adjustment, including for changes in market conditions. Falling market prices raise the price risk under these contracts. Spot prices fluctuate primarily because of changes in demand for and supply of coal. Demand for coal in the short term is primarily driven by changes in demand for electricity in the areas serviced by the utilities purchasing the Company's coal. Demand for electricity in turn depends on the level of economic activity and other factors such as prolonged temperature extremes. The supply of coal in the spot market has historically been most affected by excess productive capacity in the industry and short-term disruptions, sometimes labor-related. The coal industry is highly competitive, and Arch Coal competes with a large number of other coal producers. Factors such as the availability of sulfur dioxide emissions allowances issued by the EPA, utility deregulation, and new clean air regulations have had, or will have, the effect of further intensifying competition between producers in the eastern United States, and producers in other regions, including other countries. Producers in some of those regions, because of geological conditions, local labor costs, or access to inexpensive transportation modes, are able to produce and deliver coal into some markets at a lower cost than the Company. These competitive factors have an impact on the Company's pricing.

Arch Coal's operating subsidiaries purchase substantial amounts of power, fuel, and supplies, generally under purchase orders at current market prices or purchase agreements of relatively short duration.

Apogee and Hobet employees are covered by the Wage Agreement, which provides for certain wage rates and benefits. Employees of two other operating subsidiaries are covered by other collective bargaining organizations, and employees at the Company's other operating subsidiaries are not covered by a union contract but are compensated at rates representative of prevailing wage rates in the local area. Among factors influencing such wage rates are the wage rates paid under the Wage Agreement.

Although the Company cannot predict changes in its costs of production and coal prices with certainty, Arch Coal believes that in the current economic environment of low to moderate inflation, the price adjustment provisions in its older long-term contracts will largely offset changes in the costs of providing coal under those contracts, except for those costs related to changes in productivity. However, the increasingly shorter terms of sales contracts and the consequent absence of price adjustment provisions in such shorter long-term contracts also makes it more likely that increases in mining costs during the contract term will not be recovered by the Company through a later price adjustment. Further, because levels of general price inflation are closely linked to levels of economic activity, it is expected that changes in costs of producing coal for the spot market may be offset in part by changes in spot coal prices. The Company attempts to limit exposure to depressed spot market prices which result from industry overcapacity by entering into long-term coal supply agreements, which ordinarily provide for prices somewhat in excess of spot market prices. In the event of a disruption of supply, the Company might, depending on the level of its sales commitments, benefit from higher spot prices if its own mines were not affected by the disruption.

Interest rate risk--Arch Coal has significant debt which is linked to short-term interest rates. If interest rates rise, Arch Coal's costs relative to those obligations would also rise. Because an increase in interest rates is usually an outgrowth of a higher level of economic activity and because increased economic activity would likely lead to a higher demand for electricity and consequently to higher spot prices for coal, Arch Coal believes that the negative effects of higher interest rates on Arch Coal's earnings could be partially offset, depending on the level of its sales commitments at the time, by higher spot prices.

The Company has entered into an interest-rate swap agreement to modify the interest characteristics of its outstanding debt. At December 31, 1997, the Company had an interest-rate swap agreement having a total notional value of \$25 million. This agreement was used to convert variable-rate debt to fixed-rate debt. Under this agreement, the Company pays a weighted average fixed rate of 6.03% and is receiving a weighted average variable rate based upon 30-day LIBOR. The remaining life on the swap at December 31, 1997, was approximately 58 months.

#### IMPACT OF YEAR 2000

At the time of the merger of Ashland Coal into the Company, the entities utilized different computer systems. In order to standardize key financial, informational and operational computer systems, the Company is currently in the process of replacing its key systems. The new systems, including associated software, will be Year 2000 compliant. The system replacement project is estimated to be completed not later than the third quarter of 1999, which is prior to any anticipated impact of year 2000 on the Company's operating systems. The Company believes that with modifications to existing software and conversions to new software, the Year 2000 issue will not pose significant operational problems for its computer systems. However, if such modifications and conversions at the Company's principal operations are not made, or are not completed on a timely basis, the current systems' inability to properly process year 2000 data could have a material adverse effect on the operations of the Company.

The total cost of these new systems is estimated at approximately \$5 million, which includes the purchase of new software and consulting services. All such costs will be capitalized. As of December 31, 1997, the Company has incurred approximately \$1.4 million in software and consulting costs. The Company believes that the total costs associated with replacing and modifying its current systems will not have a material effect on its results of operations. Additional systematic efforts are being made to identify and evaluate within the Company, and with respect to the Company's vendors, suppliers, and other entities with which it exchanges electronic information, Year 2000 risk and appropriate steps to eliminate such risk at reasonable cost.

The costs of the project and the date on which the Company believes it will complete the Year 2000 modifications are based on management's best estimates, which were derived utilizing numerous assumptions of future events, including the continued availability of certain resources and other factors. However, there can be no guarantee that these estimates will be achieved, and actual results could differ materially from those anticipated.

#### FACTORS ROUTINELY AFFECTING RESULTS OF OPERATIONS

The Company sells a substantial portion of its coal production pursuant to long-term coal supply agreements, and as a consequence may experience fluctuations in operating results in the future, both on an annual and quarterly basis, as a result of expiration or termination of, or sales price redeterminations or suspensions of deliveries under, such coal supply agreements. Other short and long-term contracts define base or optional tonnage requirements by

reference to the customer's requirements, which are subject to change as a result of factor's beyond the Company's (and sometimes the customer's) control, including utility deregulation. In addition, price adjustment provisions permit a periodic increase or decrease in the contract price to reflect increases and decreases in production costs, changes in specified price indices or items such as taxes or royalties. Price reopener provisions provide for an upward or downward adjustment in the contract price based on market factors, and from time to time the Company has renegotiated contracts after execution to extend contract term or to accommodate changing market conditions. The contracts also typically include stringent minimum and maximum coal quality specifications and penalty or termination provisions for failure to meet such specifications, force majeure provisions allowing suspension of performance or termination by the parties during the duration of certain events beyond the control of the affected party, and some long-term contracts contain provisions that permit the utility to terminate the contract if changes in the law make it illegal or uneconomic for the utility to consume the Company's coal or if the utility has unexpected difficulties in utilizing the Company's coal. Imposition of new nitrous oxide emissions limits in connection with Phase II of the Clean Air Act in 2000 could result in price adjustments, or in affected utilities seeking to terminate or modify long-term contracts in reliance on such termination provisions. If the parties to any long-term contracts with the Company were to modify, suspend or terminate those contracts, the Company could be adversely affected to the extent that it is unable to find alternative customers at the same or better level of profitability.

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

The Company's customers frequently combine various qualities of coal, nuclear, natural gas and other energy sources in their generating operations, and, accordingly, their demand for coal of the kind produced by the Company varies depending on price and transportation, regulatory, and other factors.

The Company's coal production and sales are subject to a variety of operational, transportation, geologic, and weather-related factors that routinely cause production to fluctuate.

Operational factors affecting production include anticipated and unanticipated events. For example, at Mingo Logan's Mountaineer Mine, the longwall equipment must be dismantled and moved to a new area of the mine whenever the coal reserves in a segment of the mine, called a panel, are exhausted. The size of a panel varies, and therefore, the frequency of moves can also vary. Unanticipated events, such as the unavailability of essential equipment because of breakdown or unscheduled maintenance, could adversely affect production. Permits are sometimes delayed by unanticipated regulatory requests or processing delays. Timely completion of improvement projects and equipment relocation depends to a large degree on availability of labor and equipment, timely issuance of permits, and the weather. Sales can be adversely affected by fluctuations in production and by transportation delays arising from equipment unavailability and weather-related events, such as flooding.

Changes in transportation rates and service also significantly influence the Company's results. CSX and Norfolk Southern Corporation are major railroads in the eastern United States which together transport most of the coal sold by the Company. CSX and NS agreed to acquire Conrail Inc. ("Conrail"), another major railroad, whose primary service area is the Northeastern United States, and have divided Conrail's assets between them. Costs of the reconstituted CSX and NS may be somewhat lower than the costs of those railroads prior to the acquisition. If lower costs are realized and freight rates are lowered as a consequence, the coal of some producers could become less costly on a delivered basis and therefore gain competitive advantage in some markets. It is not possible to predict with certainty the effects of the division of Conrail on interregional competition and, specifically, the effects on the Company.

Geologic conditions within mines are not uniform. Overburden ratios at the surface mines vary, as do roof and floor conditions and seam thickness in underground mines. These variations can be either positive or negative for production.

Weather conditions can also have a significant effect on the Company's production, depending on the severity and duration of the condition. For example, extremely cold weather combined with substantial snow and ice accumulations may impede surface operations directly and all operations indirectly by making it difficult for workers and suppliers to reach the mine sites.

The results of the third quarter of each year are normally adversely affected by lower production and resultant higher costs because of scheduled vacation periods. In addition, costs are typically somewhat higher during vacation periods because of maintenance activity carried on during those periods. These adverse effects on the third quarter may make the third quarter not comparable to the other quarters and not indicative of results to be expected for the full year.

Apogee and Hobet operations are parties to the Wage Agreement. From time to time in the past, strikes and work stoppages have adversely affected production at Apogee's and Hobet's mining complexes. Any future strike or work stoppage that affected these operations for a prolonged period would have a significant adverse effect on the Company's results of operations.

Any one or a combination of changing demand; fluctuating selling prices; routine operational, geologic, transportation and weather-related factors; unexpected regulatory changes; changes in transportation rates and service; results of litigation; or labor disruptions may occur at times or in a manner that causes current and projected results of operations to deviate from projections and expectations. Any event disrupting substantially all production at any of the Company's principal mines for a prolonged period would have a significant adverse effect on the Company's current and projected results of operations. Unexpected decreases in production from anticipated levels usually lead to increased mining costs and decreased net income.

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

The quantitative and qualitative disclosures of market risk under SEC Regulation S-K, Item 305, will be provided, in accordance with the SEC's requirements, for the Company's fiscal years ending after June 15, 1998. Reference is made to the second paragraph under the Interest rate risk subsection of the Certain Risk Factors discussion at page 19 of this report for information about the Company's current derivatives positions. The Company accrues amounts to be paid or received under its interest rate swap agreements over the lives of the agreements. Such amounts are recognized as adjustments to interest expense over the lives of the agreements, thereby adjusting the effective interest rate on the Company's debt. The Company's accounting policies with respect to its current derivatives positions do not materially affect the Company's determination of financial position, cash flows or results of operations.

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REPORT OF INDEPENDENT AUDITORS

To the Stockholders and Board of Directors  
 Arch Coal, Inc.

We have audited the consolidated balance sheet of Arch Coal, Inc. and subsidiaries as of December 31, 1997, and the related consolidated statements of income, stockholders' equity, and cash flows for the year then ended. Our audit also included the financial statement schedule for the year ended December 31, 1997, listed in the Index at Item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Arch Coal, Inc. and subsidiaries at December 31, 1997, and the consolidated results of their operations and their cash flows for the year then ended, in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedule for 1997, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

Ernst & Young LLP

Louisville, Kentucky  
 January 29, 1998

To Arch Coal, Inc.:

We have audited the accompanying consolidated balance sheet of Arch Coal, Inc. and subsidiaries as of December 31, 1996, and the related consolidated statements of income, stockholders' equity and cash flows for the years ended December 31, 1996 and 1995. These financial statements and the schedule referred to below are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Arch Coal, Inc. and subsidiaries as of December 31, 1996, and the results of their operations and their cash flows for the years ended December 31, 1996 and 1995, in conformity with generally accepted accounting principles.

As discussed in Note 13 to the consolidated financial statements, in 1995 the Company changed its method of accounting for impairments of long-lived assets.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule listed in the index of financial statements at Item 14(a) is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN LLP

St. Louis, Missouri  
January 16, 1997 (except with  
respect to the matter discussed  
in Note 11 as to which the  
date is April 4, 1997)

## CONSOLIDATED STATEMENTS OF INCOME

## ARCH COAL, INC. AND SUBSIDIARIES

	YEAR ENDED DECEMBER 31		
	1997	1996	1995
(IN THOUSANDS OF DOLLARS EXCEPT PER SHARE DATA)			
REVENUES			
Coal sales.....	\$1,034,813	\$750,123	\$706,845
Other revenues.....	32,060	30,498	30,993
	1,066,873	780,621	737,838
COSTS AND EXPENSES			
Cost of coal sales.....	918,862	669,295	657,529
Selling, general and administrative expenses.....	28,882	20,435	19,680
Amortization of coal supply agreements.....	18,063	12,604	13,374
Merger-related expenses.....	39,132	--	--
Write-down of impaired assets.....	--	--	10,241
Restructuring expenses.....	--	--	8,250
Other expenses.....	20,052	22,175	18,739
	1,024,991	724,509	727,813
Income from operations.....	41,882	56,112	10,025
Interest expense, net:			
Interest expense.....	(17,822)	(18,783)	(23,794)
Interest income.....	721	1,191	832
	(17,101)	(17,592)	(22,962)
Income (loss) before income taxes.....	24,781	38,520	(12,937)
Provision (benefit) for income taxes.....	(5,500)	5,500	(1,900)
NET INCOME (LOSS).....	\$ 30,281	\$ 33,020	\$ (11,037)
Basic and diluted earnings (loss) per common share.....	\$ 1.00	\$ 1.58	\$ (0.53)

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

## CONSOLIDATED BALANCE SHEETS

## ARCH COAL, INC. AND SUBSIDIARIES

	DECEMBER 31	
	1997	1996
	(IN THOUSANDS OF DOLLARS)	
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents.....	\$ 9,177	\$ 13,716
Trade accounts receivable.....	133,810	75,657
Other receivables.....	14,046	5,143
Inventories.....	50,419	35,234
Prepaid royalties.....	17,745	2,624
Deferred income taxes.....	8,506	14,500
Other.....	9,475	6,738
Total current assets.....	243,178	153,612
Property, plant and equipment		
Coal lands and mineral rights.....	853,053	394,634
Plant and equipment.....	890,303	691,834
Deferred mine development.....	102,909	76,151
	1,846,265	1,162,619
Less accumulated depreciation, depletion and amortization.....	(696,339)	(595,552)
Property, plant and equipment, net.....	1,149,926	567,067
Other assets		
Prepaid royalties.....	20,826	3,723
Coal supply agreements.....	185,306	83,369
Deferred income taxes.....	44,023	67,207
Other.....	13,065	10,543
Total other assets.....	263,220	164,842
Total assets.....	\$1,656,324	\$ 885,521
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable.....	\$ 84,692	\$ 42,712
Accrued expenses.....	88,082	77,734
Current portion of debt.....	29,500	--
Total current liabilities.....	202,274	120,446
Long-term debt.....	248,425	212,695
Accrued postretirement benefits other than pension.....	323,115	228,843
Accrued reclamation and mine closure.....	116,199	97,595
Accrued workers' compensation.....	97,759	70,849
Accrued pension cost.....	21,730	14,297
Other noncurrent liabilities.....	35,324	10,170
Total liabilities.....	1,044,826	754,895
Stockholders' equity		
Common stock, \$.01 par value, 100,000,000 shares authorized, 39,657,898 issued and outstanding in 1997 and 20,948,444 issued and outstanding in 1996	397	209
Paid-in capital.....	472,425	8,392
Retained earnings.....	138,676	122,025
Total stockholders' equity.....	611,498	130,626
Total liabilities and stockholders' equity.....	\$1,656,324	\$ 885,521

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

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

## ARCH COAL, INC. AND SUBSIDIARIES

Three years ended December 31, 1997

	COMMON STOCK	PAID-IN CAPITAL	RETAINED EARNINGS	TOTAL
	-----	-----	-----	-----
	(IN THOUSANDS OF DOLLARS)			
Balance at January 1, 1995.....	\$209	\$ 8,392	\$122,825	\$131,426
Net loss.....			(11,037)	(11,037)
Dividends paid (\$.32 per share).....			(6,697)	(6,697)
	----	-----	-----	-----
Balance at December 31, 1995.....	209	8,392	105,091	113,692
Net income.....			33,020	33,020
Dividends paid (\$.38 per share).....			(8,000)	(8,000)
Income tax charge related to assets acquired from related parties.....			(8,086)	(8,086)
	----	-----	-----	-----
Balance at December 31, 1996.....	209	8,392	122,025	130,626
Net income.....			30,281	30,281
Dividends paid (\$.445 per share).....			(13,630)	(13,630)
Issuance of 18,660,054 shares of common stock to stockholders of Ashland Coal, Inc. pursuant to the merger agreement.....	187	462,984		463,171
Issuance of 49,400 shares of common stock under the stock incentive plan.....	1	1,049		1,050
	----	-----	-----	-----
Balance at December 31, 1997.....	\$397	\$472,425	\$138,676	\$611,498
	====	=====	=====	=====

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

## CONSOLIDATED STATEMENTS OF CASH FLOWS

## ARCH COAL, INC. AND SUBSIDIARIES

	YEAR ENDED DECEMBER 31		
	1997	1996	1995
	(IN THOUSANDS OF DOLLARS)		
<b>OPERATING ACTIVITIES</b>			
Net income (loss).....	\$ 30,281	\$ 33,020	\$(11,037)
Adjustments to reconcile to cash provided by operating activities:			
Depreciation, depletion and amortization.....	143,632	114,703	100,101
Prepaid royalties expensed.....	8,216	4,754	3,998
Net gain on disposition of assets.....	(4,802)	(7,959)	(8,514)
Merger-related expenses.....	33,096	--	--
Write-down of impaired assets.....	--	--	10,241
Changes in operating assets and liabilities.....	(28,842)	(551)	(2,730)
Other.....	8,682	(5,496)	6,100
Cash provided by operating activities.....	190,263	138,471	98,159
<b>INVESTING ACTIVITIES</b>			
Additions to property, plant and equipment.....	(54,378)	(48,290)	(80,347)
Additions to coal supply agreements.....	--	(7,150)	(1,924)
Additions to prepaid royalties.....	(7,967)	(7,071)	(5,633)
Payments for acquisitions.....	(22,931)	(14,200)	--
Proceeds from dispositions of property, plant and equipment.....	5,267	4,073	42,605
Cash used in investing activities.....	(80,009)	(72,638)	(45,299)
<b>FINANCING ACTIVITIES</b>			
Proceeds from (payments on) revolver and lines of credit.....	78,897	(11,000)	(14,500)
Payments on notes.....	(181,110)	(50,619)	(19,352)
Dividends paid.....	(13,630)	(8,000)	(6,697)
Proceeds from sale of common stock.....	1,050	--	--
Cash used in financing activities.....	(114,793)	(69,619)	(40,549)
Increase (decrease) in cash and cash equivalents.....	(4,539)	(3,786)	12,311
Cash and cash equivalents, beginning of year.....	13,716	17,502	5,191
Cash and cash equivalents, end of year.....	\$ 9,177	\$ 13,716	\$ 17,502
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>			
Cash paid during the year for interest.....	\$ 18,593	\$ 20,294	\$ 24,772
Cash paid during the year for income taxes, net of refunds.....	\$ 21,918	\$ 14,731	\$ 966

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

## 1. ACCOUNTING POLICIES

## Principles of Consolidation

The consolidated financial statements include the accounts of Arch Coal, Inc. and its subsidiaries (the Company), which operate in the coal mining industry. The Company produces steam and metallurgical coal from surface and deep mines in Kentucky, West Virginia, Virginia, Illinois and Wyoming, for sale to utility, industrial and export markets. All subsidiaries are wholly owned. Significant intercompany transactions and accounts have been eliminated in consolidation.

The Company's 17.5% partnership interest in Dominion Terminal Associates is accounted for on the equity method in the consolidated balance sheets. Allocable costs of the partnership for coal loading and storage are included in other expenses in the consolidated statements of income.

## Accounting Estimates

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

## Cash and Cash Equivalents

Cash and cash equivalents are stated at cost. Cash equivalents consist of highly liquid investments with an original maturity of three months or less when purchased.

## Inventories

Inventories are comprised of the following:

	DECEMBER 31	
	1997	1996
Coal.....	\$25,359	\$21,866
Supplies.....	25,060	13,368
	\$50,419	\$35,234
	=====	=====

Coal and supplies inventories are valued at the lower of average cost or market. The Company has recorded a valuation allowance for obsolete supplies inventories of \$17.7 million and \$11.3 million at December 31, 1997 and 1996, respectively.

## Coal Acquisition Costs and Prepaid Royalties

Coal lease rights obtained through acquisition of other companies are capitalized and amortized primarily by the units-of-production method over the estimated recoverable reserves.

Rights to leased coal lands are often acquired through royalty payments. Where royalty payments represent prepayments recoupable against production, they are capitalized, and amounts expected to be recouped within one year are classified as a current asset. As mining occurs on these leases, the prepayment is offset against earned royalties and is included in the cost of coal sales.

## Coal Supply Agreements

Acquisition costs allocated to coal supply agreements (sales contracts) are capitalized and amortized on the basis of coal to be shipped over the term of the contract. Accumulated amortization for sales contracts was \$60.3 million and \$43.0 million at December 31, 1997 and 1996, respectively.

## 1. ACCOUNTING POLICIES (CONTINUED)

## Exploration Costs

Costs related to locating coal deposits and determining the economic mineability of such deposits are expensed as incurred.

## Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Costs of purchasing rights to coal reserves and of developing new mines or significantly expanding the capacity of existing mines are amortized using the units-of-production method over the estimated recoverable reserves. Plant and equipment are depreciated principally on the straight-line method over the estimated useful lives of the assets, which range from three to 20 years.

## Asset Impairment

If facts and circumstances suggest that a long-lived asset may be impaired, the carrying value is reviewed. If this review indicates that the value of the asset will not be recoverable, as determined based on projected undiscounted cash flows related to the asset over its remaining life, then the carrying value of the asset is reduced to its estimated fair value.

## Revenue Recognition

Coal sales revenues include sales to customers of coal produced at Company operations and purchased from other companies. The Company recognizes revenue from coal sales at the time title passes to the customer. Revenues other than from coal sales are included in other revenues and are recognized as services are performed or otherwise earned.

## Interest Rate Swap Agreements

The Company accrues amounts to be paid or received under interest rate swap agreements over the lives of the agreements. Such amounts are recognized as adjustments to interest expense over the lives of agreements, thereby adjusting the effective interest rate on the Company's debt.

## Income Taxes

Deferred income taxes are based on temporary differences between the financial statement and tax bases of assets and liabilities existing at each balance sheet date using enacted tax rates for years during which taxes are expected to be paid or recovered.

## Earnings Per Common Share

In 1997, Statement of Financial Accounting Standards (SFAS) No. 128, Earnings per Share was issued. SFAS No. 128 replaced the calculation of primary and fully diluted earnings per share (EPS) with basic and diluted EPS. Unlike primary, basic EPS excludes any dilutive effects of options, warrants and convertible securities. Diluted EPS is very similar to the previously reported fully diluted EPS. The adoption of the provisions of SFAS No. 128 did not have any effect on previously reported EPS amounts.

## Reclassifications

Certain amounts in the 1996 and 1995 financial statements have been reclassified to conform with the classifications in the 1997 financial statements with no effect on previously reported net income (loss) or stockholders' equity.

## 2. MERGER AND ACQUISITIONS

On July 1, 1997, Ashland Coal, Inc. (Ashland Coal) merged with a subsidiary of the Company. Under the terms of the merger, Ashland Coal's stockholders received one share of the Company's common stock for each common share of Ashland Coal and 20,500 shares of the Company's common stock for each share of Ashland Coal preferred stock. A total of 18,660,054 shares of Company common stock were issued in the merger, resulting in a total purchase price (including fair value of stock options and transaction related fees) of approximately \$464.8 million. The merger was accounted for under the purchase method of accounting. Accordingly, the cost to acquire Ashland Coal has been preliminarily allocated to the assets acquired and liabilities assumed according to their respective estimated fair

## 2. MERGER AND ACQUISITIONS (CONTINUED)

values and the results of operations of Ashland Coal are included in the consolidated statements of income effective July 1, 1997.

Summarized below are the unaudited pro forma combined results of operations for the years ended December 31, 1997 and 1996 as though the merger had occurred on January 1, 1997 and 1996, respectively:

	1997	1996
	-----	-----
Revenues.....	\$1,389,542	\$1,357,485
Income before income taxes.....	49,018	50,141
Net income.....	51,632	47,878
Earnings per common share.....	\$ 1.30	\$ 1.21

The unaudited pro forma results of operations do not reflect the total cost savings and other synergies that may result from the merger. In the opinion of the management of the Company, all adjustments necessary to present pro forma results of operations have been made. The unaudited pro forma results of operations do not purport to be indicative of the results that would have occurred had the merger occurred at the beginning of these periods or results of operations that may be achieved in the future.

In connection with the merger, the Company recorded a one-time charge of \$39.1 million (before tax) or \$23.8 million (after tax) comprised of termination benefits and relocation costs of \$8.1 million and costs of \$31.0 million associated with the idling of duplicate facilities, including a coal loading terminal on the Big Sandy River and the Pardee Surface Mine on the Kentucky/Virginia border. The terminal's coal loading operations were consolidated with the operations of another terminal facility formerly operated by Ashland Coal. The Pardee Surface Mine's sales commitments are expected to be sourced from available capacity at other, lower-cost Company operations. The termination benefits and relocation costs relate principally to corporate employees. During the six months ended December 31, 1997, the Company paid approximately \$5.5 million in termination and relocation benefits against the liabilities established for such purposes.

In November 1997, the Company acquired approximately 23 million tons of low-sulfur reserves that are adjacent to the Hobet 21 mining complex for \$6.0 million.

In April 1997, the Company acquired the Kayford James reserve area consisting of approximately 13 million tons of low-sulfur reserves that are adjacent to the Samples Mine for net consideration of \$17.0 million.

In June 1996, the Company acquired approximately 58,000 acres in the Carbon Basin reserve area consisting of approximately 96 million tons of low-sulfur reserves for \$14.2 million.

## 3. PREPAID ROYALTIES

The Company has entered into various noncancelable royalty lease agreements under which future minimum payments are approximately \$32.0 million per year through 2002, and \$255.0 million in the aggregate thereafter. Geological surveys performed by outside consultants indicate that there are sufficient reserves relative to these properties to permit recovery of the Company's investment.

## 4. ACCRUED EXPENSES

Accrued expenses consist of the following:

	DECEMBER 31	
	1997	1996
	-----	-----
Accrued payroll and related benefits.....	\$17,314	\$12,410
Accrued income taxes.....	-	19,000
Accrued taxes other than income taxes.....	22,259	14,272
Accrued postretirement benefits other than pension.....	14,390	13,000
Accrued workers' compensation.....	12,649	10,298
Other accrued expenses.....	21,470	8,754
	-----	-----
	\$88,082	\$77,734
	=====	=====

## 5. INCOME TAXES

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

	1997	1996	1995
	-----	-----	-----
Current:			
Federal.....	\$ 8,250	\$ 9,200	\$ 200
State.....	(250)	1,050	--
	-----	-----	-----
Total current.....	8,000	10,250	200
	-----	-----	-----
Deferred:			
Federal.....	(13,100)	(4,050)	(800)
State.....	(400)	(700)	(1,300)
	-----	-----	-----
Total deferred.....	(13,500)	(4,750)	(2,100)
	-----	-----	-----
	\$ (5,500)	\$ 5,500	\$(1,900)
	=====	=====	=====

A reconciliation of the statutory federal income tax expense (benefit) on the Company's pretax income to the actual provision (benefit) for income taxes follows:

	1997	1996	1995
	-----	-----	-----
Income tax expense (benefit) at statutory rate.....	\$ 8,673	\$ 13,482	\$(4,528)
Increase (decrease) in taxes resulting from:			
Percentage depletion allowance.....	(13,543)	(10,431)	(6,701)
State income taxes, net of effect of federal taxes.....	(570)	350	(1,281)
Nondeductible expenses, net of nontaxable income.....	236	1,000	700
Other items.....	(296)	1,099	9,910
	-----	-----	-----
	\$ (5,500)	\$ 5,500	\$(1,900)
	=====	=====	=====

The other items category in the statutory rate reconciliation includes provisions in excess of statutory requirements for open tax years.

The Company's federal income tax returns for the years 1992 through 1994 are currently under review by the Internal Revenue Service (IRS). During 1997, the Company settled its protest of certain adjustments proposed by the IRS for the federal income tax returns for the years 1987 through 1989. A deposit of \$8.0 million was made in April 1997 in anticipation of the settlement and a final payment of approximately \$4.0 million will be made in the first quarter of 1998.

The IRS audits for the federal income tax returns for the years 1990 and 1991 are partially settled and the Company has filed an appeal with the IRS for certain unagreed issues. The appeal was held in abeyance awaiting IRS determination of certain issues that carryover from the prior years' audit. During 1996, the IRS completed its audits for the tax years 1990 and 1991 and the Company and the IRS agreed to a settlement of various tax issues for a payment of \$6.5 million including interest which was charged against previously recorded reserves. Part of the settlement related to the acquisition from the Company's stockholders of certain Illinois coal reserves for \$55.2 million. The acquisition was valued for accounting purposes at the stockholders' net book value of \$22.8 million with the \$32.4 million difference between the net book value and fair market value less \$12.3 million of deferred tax benefits being recorded as a reduction to stockholders' equity. As part of the settlement with the IRS, the Company agreed to adjust the fair market value of the coal properties to \$33.8 million for tax purposes resulting in a decrease to the deferred tax asset of \$8.1 million from \$12.3 million to \$4.2 million. The decrease in the deferred tax asset was charged directly to stockholders' equity in 1996. Management expects to reach final settlement of the audits for the tax years 1990 and 1991 during 1998 based generally on prior years' audit settlements.

Management believes that the Company has adequately provided for any income taxes and interest which may ultimately be paid with respect to all open tax years.

## 5. INCOME TAXES (CONTINUED)

Significant components of the Company's deferred tax assets and liabilities that result from carryforwards and temporary differences between the financial statement basis and tax basis of assets and liabilities are summarized as follows:

	DECEMBER 31	
	1997	1996
Deferred tax assets:		
Postretirement benefits other than pension.....	\$129,818	\$ 89,249
Alternative minimum tax credit carryforward.....	80,441	42,503
Workers' compensation.....	30,503	27,631
Reclamation and mine closure.....	23,905	5,264
Net operating loss carryforwards.....	8,214	7,677
Other.....	28,498	23,819
Total deferred tax assets.....	301,379	196,143
Deferred tax liabilities:		
Coal lands and mineral rights.....	86,471	28,529
Plant and equipment.....	79,962	50,373
Deferred mine development.....	3,643	4,469
Coal supply agreements.....	38,406	8,834
Other.....	40,368	22,231
Total deferred tax liabilities.....	248,850	114,436
Net deferred tax asset.....	52,529	81,707
Less current asset.....	8,506	14,500
Long-term deferred tax asset.....	\$ 44,023	\$ 67,207

If not used, the carryforwards for net operating losses of \$21.1 million will expire in the years 2003 through 2010. The alternative minimum tax credit carryforwards have no statutory expiration date.

The Company is required to record a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized. It is management's belief that the Company's net deferred income tax asset will more likely than not be realized by generating sufficient taxable income in the future.

## 6. DEBT AND FINANCING ARRANGEMENTS

Debt consists of the following:

	DECEMBER 31	
	1997	1996
Indebtedness to banks under revolving credit agreement (weighted average rate at December 31, 1997-6.14%; 1996-6.12%).....	\$190,000	\$147,000
7.79% senior notes due January 31, 2003, payable in seven equal annual installments beginning January 31, 1997.....	42,860	50,000
Indebtedness to banks under lines of credit (weighted average rate at December 31, 1997-7.05%).....	36,302	--
9.85% senior notes.....	--	8,000
Other.....	8,763	7,695
	277,925	212,695
Less current portion.....	29,500	--
Long-term debt.....	\$248,425	\$212,695

In connection with the Ashland Coal merger, the Company assumed \$167.4 million of indebtedness, principally in senior notes, which were paid in August 1997 with proceeds from the revolving credit agreement.

## 6. DEBT AND FINANCING ARRANGEMENTS (CONTINUED)

Effective July 1, 1997, the Company has a revolving credit agreement, which terminates in 2002, with a group of banks providing for borrowings of up to \$500 million. This replaced a revolving credit agreement providing for borrowings of up to \$200 million. The rate of interest on borrowings under this agreement is, at the Company's option, a money-market rate determined by a competitive bid process, the PNC Bank base rate or a rate based on LIBOR. The provisions of the revolving credit agreement require a facility fee, which is currently computed at the rate of 0.085% per annum on the amount of the commitment. The rate used to compute the facility fee is redetermined quarterly based upon the Company's ratio of debt to capital and may vary from 0.070% to 0.200% per annum.

The Company periodically establishes uncommitted lines of credit with banks. These agreements generally provide for short-term borrowings at market rates. At December 31, 1997, there were \$95 million of such agreements in effect.

Except for amounts expected to be repaid in 1998, amounts borrowed under the revolving credit agreement and the bank lines of credit are classified as long-term as the Company has the intent and the ability to maintain these borrowings on a long-term basis. Aggregate maturities of debt at December 31, 1997, are \$29.5 million in 1998, \$23.4 million in 1999, \$7.6 million in 2000, \$7.6 million in 2001, \$197.6 million in 2002, and \$12.2 million thereafter. Included in these maturities are expected discretionary prepayments of \$21.2 million in 1998 and \$15.1 million in 1999.

Certain debt agreements contain covenants requiring current ratio and consolidated net worth amounts, as well as covenants restricting new borrowings, mortgages, lease commitments, investments and dividends to stockholders. At December 31, 1997, retained earnings of \$36.5 million were available for dividends.

The Company enters into interest rate swap agreements to modify the interest characteristics of its outstanding debt. At December 31, 1997, the Company had an interest rate swap agreement having a notional value of \$25.0 million. This agreement was used to convert variable-rate debt to fixed-rate debt. Under this agreement, the Company pays a fixed rate of 6.03% and was receiving a variable rate at December 31, 1997 of 5.97%. The swap agreement matures in 2002.

## 7. FAIR VALUES OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

Cash and cash equivalents: The carrying amounts approximate fair value.

Debt: The carrying amounts of the Company's borrowings under its revolving credit agreement and lines of credit approximate their fair value. The fair values of the Company's senior notes and other long-term debt are estimated using discounted cash flow analyses, based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.

Interest rate swaps: The fair values of interest rate swaps are based on quoted market prices, which reflect the present value of the difference between estimated future amounts paid and received.

The carrying amounts and fair values of the Company's financial instruments at December 31, 1997 and 1996 are as follows:

	1997		1996	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Cash and cash equivalents.....	\$ 9,177	\$ 9,177	\$ 13,716	\$ 13,716
Revolving credit agreement.....	190,000	190,000	147,000	147,000
Senior notes.....	42,860	44,690	58,000	59,510
Lines of credit.....	36,302	36,302	--	--
Other debt.....	8,763	8,763	7,695	7,695
Interest rate swap.....	--	(93)	--	--

## 8. ACCRUED WORKERS' COMPENSATION

The Company is liable under the federal Mine Safety and Health Act of 1977, as amended, to provide for pneumoconiosis (black lung) benefits to eligible employees, former employees, and dependents with respect to claims filed by such persons on or after July 1, 1973. The Company is also liable under various states' statutes for black lung benefits. The Company currently provides for federal and state claims principally through a self-insurance program. Charges are being made to operations as determined by independent actuaries, at the present value of the actuarially computed present and future liabilities for such benefits over the employees' applicable years of service. In addition, the Company is liable for workers' compensation benefits for traumatic injuries which are accrued as injuries are incurred. Workers' compensation costs (credits) include the following components:

	1997	1996	1995
	-----	-----	-----
Self-insured black lung benefits:			
Service cost.....	\$ 678	\$ 639	\$ 572
Interest cost.....	2,353	1,735	1,879
Net amortization and deferral.....	(10,084)	(9,766)	(9,691)
	-----	-----	-----
	(7,053)	(7,392)	(7,240)
Other workers' compensation benefits.....	12,182	13,350	13,041
	-----	-----	-----
	\$ 5,129	\$ 5,958	\$ 5,801
	-----	-----	-----

The actuarial assumptions used in the determination of black lung benefits included a discount rate of 7.25% as of December 31, 1997 (7.5% and 7.25% as of December 31, 1996 and 1995, respectively) and a black lung benefit cost escalation rate of 4% in 1997, 1996 and 1995. In consultation with independent actuaries, the Company changed the discount rate, black lung benefit cost escalation rate, rates of disability and other assumptions used in the actuarial determination of black lung liabilities as of January 1, 1993, to better reflect actual experience. The effect of these changes was a significant increase in the unrecognized net gain. This gain was amortized through 1997 and totaled approximately \$10 million (before tax) and \$6 million (after tax) in each of the years 1997, 1996 and 1995.

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

	DECEMBER 31	
	1997	1996
	-----	-----
Actuarial present value for self-insured black lung:		
Benefits contractually recoverable from others.....	\$ 5,053	\$ 5,665
Benefits for Company employees.....	42,677	24,842
	-----	-----
Accumulated black lung benefit obligation.....	47,730	30,507
Unrecognized net gain (loss).....	(3,004)	7,347
	-----	-----
	44,726	37,854
Traumatic and other workers' compensation.....	65,682	43,293
	-----	-----
Accrued workers' compensation.....	110,408	81,147
Less amount included in accrued expenses.....	12,649	10,298
	-----	-----
	\$ 97,759	\$70,849
	=====	=====

## 9. ACCRUED RECLAMATION AND MINE CLOSING COSTS

The federal Surface Mining Control and Reclamation Act of 1977 and similar state statutes require that mine property be restored in accordance with specified standards and an approved reclamation plan. The Company accrues for the costs of final mine closure over the estimated useful mining life of the property. These costs relate to reclaiming the pit and support acreage at surface mines and sealing portals at deep mines. Other costs common to both types of mining are related to reclaiming refuse and slurry ponds. The Company accrues for current mine disturbance which will be reclaimed prior to final mine closure. The establishment of the final mine closure reclamation liability and the current disturbance is based upon permit requirements and requires various estimates and assumptions, principally associated with costs and productivities. The Company accrued \$10.8 million, \$6.1

## 9. ACCRUED RECLAMATION AND MINE CLOSING COSTS (CONTINUED)

million and \$6.5 million in 1997, 1996 and 1995, respectively, for current and final mine closure reclamation. Cash payments for final mine closure reclamation and current disturbances approximated \$8.5 million, \$9.8 million and \$12.2 million for 1997, 1996 and 1995, respectively. Periodically, the Company reviews its entire environmental liability and makes necessary adjustments, including permit changes as granted by state authorities and revisions to costs and productivities, to reflect current experience. These recosting adjustments are recorded in cost of coal sales. Favorable adjustments were \$4.4 million, \$4.5 million and \$5.0 million in 1997, 1996 and 1995, respectively. The Company's management believes it is making adequate provisions for all expected reclamation and other costs associated with mine closures.

## 10. EMPLOYEE BENEFIT PLANS

## Defined Benefit Pension Plans

The Company has noncontributory defined benefit pension plans covering certain of its salaried and non-union hourly employees. Benefits are generally based on the employee's years of service and compensation. The Company funds the plans in an amount not less than the minimum statutory funding requirements nor more than the maximum amount that can be deducted for federal income tax purposes. Plan assets consist primarily of equity securities and fixed income securities.

The net pension cost of the plans includes the following components:

	1997	1996	1995
	-----	-----	-----
Service cost of benefits earned.....	\$ 2,788	\$ 2,295	\$ 2,339
Interest cost on projected benefit obligation.....	4,970	4,051	3,454
Actual return on plan assets.....	(6,980)	(4,159)	(9,052)
Net amortization and deferral.....	2,086	1,281	5,405
	-----	-----	-----
Net periodic pension cost.....	2,864	3,468	2,146
Provision for restructuring.....	--	--	2,125
	-----	-----	-----
	\$ 2,864	\$ 3,468	\$ 4,271
	=====	=====	=====

The following table sets forth the plans' funded status and amounts recognized in the consolidated balance sheets for pension benefits:

	DECEMBER 31	
	1997	1996
	-----	-----
Actuarial present value of benefit obligation:		
Vested benefits.....	\$66,261	\$46,195
Nonvested benefits.....	4,577	2,974
	-----	-----
Accumulated benefit obligation.....	70,838	49,169
Effect of projected compensation increases.....	13,247	7,541
	-----	-----
Projected benefit obligation.....	84,085	56,710
Plan assets at fair value.....	64,577	45,929
	-----	-----
Projected benefit obligation in excess of plan assets.....	19,508	10,781
Unrecognized transition credit.....	1,085	1,283
Unrecognized prior service cost.....	(879)	(1,017)
Unrecognized net gain.....	3,451	3,250
	-----	-----
Accrued pension cost.....	23,165	14,297
Less amount included in accrued expenses.....	1,435	--
	-----	-----
	\$21,730	\$14,297
	=====	=====

## 10. EMPLOYEE BENEFIT PLANS (CONTINUED)

The assumptions used in computing the information above were as follows:

	DECEMBER 31		
	1997	1996	1995
Discount rate.....	7.25%	7.50%	7.25%
Expected long-term rate of return on plan assets.....	9.00%	9.00%	9.00%
Future compensation growth rate.....	5.00%	5.00%	5.00%

## Multiemployer Pension and Benefit Plans

Under the labor contract with the United Mine Workers of America (UMWA), the Company made payments of \$2.0 million in 1997 and \$1.9 million in each of 1996 and 1995 into a multiemployer defined benefit pension plan trust established for the benefit of union employees. Payments are based on hours worked and are expensed as paid. Under the Multiemployer Pension Plan Amendments Act of 1980, a contributor to a multiemployer pension plan may be liable, under certain circumstances, for its proportionate share of the plan's unfunded vested benefits (withdrawal liability). The Company has estimated its share of such amount to be \$11.5 million at December 31, 1997. The Company is not aware of any circumstances which would require it to reflect its share of unfunded vested pension benefits in its financial statements.

The Coal Industry Retiree Health Benefit Act of 1992 (Benefit Act) provides for the funding of medical and death benefits for certain retired members of the UMWA through premiums to be paid by assigned operators (former employers), transfers of monies in 1993 and 1994 from an overfunded pension trust established for the benefit of retired UMWA members, and transfers from the Abandoned Mine Lands Fund (funded by a federal tax on coal production) commencing in 1995. The Company treats its obligation under the Benefit Act as a participation in a multiemployer plan and recognizes expense as premiums are paid. The Company recognized \$3.9 million in 1997, \$2.8 million in 1996 and \$2.6 million in 1995 in expense relative to premiums paid pursuant to the Benefit Act.

## Other Postretirement Benefits Plans

The Company currently provides certain postretirement health and life insurance coverage for eligible employees. Generally, covered employees who terminate employment after meeting the eligibility requirements for pension benefits are also eligible for postretirement coverage for themselves and their dependents. The salaried employee postretirement medical and dental plans are contributory, with retiree contributions adjusted periodically, and contain other cost-sharing features such as deductibles and coinsurance. The postretirement medical plan for retirees who were members of the UMWA is not contributory. The Company's current funding policy is to fund the cost of all postretirement health and life insurance benefits as they are paid.

The net periodic postretirement benefit cost of these plans includes the following components:

	1997	1996	1995
Service cost.....	\$ 3,717	\$ 2,246	\$ 3,383
Interest cost.....	19,546	15,648	17,050
Net amortization and deferral.....	(2,573)	(1,527)	67
Net periodic postretirement benefit cost.....	<u>\$20,690</u>	<u>\$16,367</u>	<u>\$20,500</u>

## 10. EMPLOYEE BENEFIT PLANS (CONTINUED)

The following table sets forth the amounts recognized in the consolidated balance sheets for postretirement benefits other than pension, none of which have been funded:

	DECEMBER 31	
	1997	1996
Accumulated postretirement benefit obligation:		
Retirees.....	\$149,365	\$123,130
Fully eligible active plan participants.....	101,888	62,403
Other active plan participants.....	82,655	34,799
	-----	-----
	333,908	220,332
Unrecognized net gain.....	2,302	20,996
Unrecognized prior service gain.....	1,295	515
	-----	-----
Accrued postretirement obligation.....	337,505	241,843
Less amount included in accrued expenses.....	14,390	13,000
	-----	-----
	\$323,115	\$228,843
	=====	=====

The discount rate used in determining the accumulated postretirement benefit obligation was 7.25% and 7.5% at December 31, 1997 and 1996, respectively. The assumed health care cost trend rate for 1998 is 6% (7% in 1997), decreasing to 5% in the year 1999. The health care cost trend rate assumption has a significant effect on the amounts reported. For example, increasing the assumed health care cost trend rate by one percentage point in each year would increase the accumulated postretirement benefit obligation as of December 31, 1997, by \$54.1 million or 16.2%, and the net periodic postretirement benefit cost for 1997 by \$5.2 million or 29.9%.

Net periodic postretirement benefit cost decreased approximately \$4.1 million (an increase in net income of \$2.4 million) in 1996 due to changes in certain actuarial assumptions, including a decrease in the healthcare cost trend rate and a decrease in the discount rate.

## Other Plans

The Company sponsors savings plans which were established to assist eligible employees in providing for their future retirement needs. The Company's contributions to the plans were \$4.6 million in 1997 and \$3.4 million in each of 1996 and 1995.

## 11. CAPITAL STOCK

On April 4, 1997, the Company changed its capital stock whereby the number of authorized shares was increased to 100,000,000 common shares, the par value was changed to \$.01 per share, and a common stock split of 338.0857-for-one was effected. All share and per share information reflect the stock split.

On July 25, 1997, the Company's Board of Directors authorized a share repurchase plan under which the Company may repurchase, from time to time, up to 1,000,000 shares of the Company's common stock. Shares acquired may be used for general corporate purposes. At December 31, 1997, no shares had been repurchased under this authorization.

## 12. STOCK INCENTIVE PLANS

On April 4, 1997, the stockholders approved the 1997 Stock Incentive Plan (Company Incentive Plan) reserving 6,000,000 shares of Arch Coal common stock for awards to officers and other selected key management employees of the Company. The Company Incentive Plan provides the Board of Directors with the flexibility to grant stock options, stock appreciation rights (SARs), restricted stock, restricted stock units, performance stock, performance units, merit awards, phantom stock awards and rights to acquire stock through purchase under a stock purchase program (Awards). Stock options outstanding under the Ashland Coal plans at the date of the merger were exchanged for fully vested stock options in the Company Incentive Plan. Stock options generally become exercisable in full or in part one year from the date of grant and are granted at a price equal to 100% of the fair market value of the stock on the date of grant. SARs entitle employees to receive a payment equal to the appreciation in market value of the stated number

## 12. STOCK INCENTIVE PLANS (CONTINUED)

of common shares from the SARs exercise price to the market value of the shares on the date of its exercise. Unexercised options and SARs lapse 10 years after the date of grant. Restricted stock awards entitle employees to purchase shares at a nominal cost. Such awards entitle employees to vote shares acquired and to receive any dividends thereon, but such shares cannot be sold or transferred and are subject to forfeiture if employees terminate their employment prior to the prescribed period, which can be from one to five years. Merit awards are grants of stock without restriction and at a nominal cost. Performance share or unit awards can be earned by the recipient if the Company meets certain pre-established performance measures. Until earned, the performance awards are nontransferable, and when earned, performance awards are payable in cash, stock, or restricted stock as determined by the Board of Directors. As of December 31, 1997, 341,100 performance shares had been granted and will be earned by participants based on company performance for the years 1998 through 2001. Phantom stock awards are based on the appreciation of hypothetical underlying shares or the earnings performance of such shares and may be paid in cash or in shares. As of December 31, 1997, stock options and performance shares were the only type of Awards granted.

Information regarding stock options under the Company Incentive Plan is as follows for the year ended December 31, 1997 (in thousands except per share data):

	COMMON SHARES	WEIGHTED AVERAGE PRICE
	-----	-----
Options outstanding at January 1.....	--	\$ --
Issued in exchange for Ashland Coal, Inc. stock options.....	675	23.69
Granted.....	300	27.88
Exercised.....	(49)	21.25
	-----	
Options outstanding at December 31.....	926	25.23
	=====	
Options exercisable at December 31.....	626	\$23.88
Options available for grant at December 31.....	4,684	

The Company applies Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations in accounting for the Company Incentive Plan. Accordingly, no compensation expense has been recognized for the fixed stock option portion of the Company Incentive Plan. Had compensation expense for the fixed stock option portion of the Company Incentive Plan been determined based on the fair value at the grant dates for awards under this plan consistent with the method of SFAS No. 123, Accounting for Stock-Based Compensation, the Company's net income and earnings per common share for the year ended December 31, 1997 would have been reduced to the pro forma amounts of \$29.9 million and \$.98, respectively. For purposes of these pro forma disclosures, the estimated fair value of the options is recognized as compensation expense over the options' vesting period. The stock options granted in 1997 vest ratably over three years.

The fair value per option granted in 1997 was \$8.36. Exercise prices for options outstanding as of December 31, 1997, range from \$11 to \$34.375, and the weighted average remaining contractual life at that date was 6.8 years. The fair value of options granted in 1997 was determined to be \$2.5 million using the Black-Scholes option pricing model and the following weighted-average assumptions:

Risk-free interest rate.....	6.33%
Dividend yield.....	2%
Volatility of the expected market price of the Company's common stock.....	0.29
Expected life of options (in years).....	5

## 12. STOCK INCENTIVE PLANS (CONTINUED)

The table below shows pertinent information on options outstanding at December 31, 1997, priced below \$25 per share and priced at \$25 per share or more.

	OPTION EXERCISE PRICE	
	BELOW \$25	\$25 OR MORE
Options outstanding (in thousands).....	338	588
Weighted-average exercise price.....	\$20.40	\$28.00
Weighted-average remaining contractual life (in years).....	5.2	7.7
Options currently exercisable (in thousands).....	338	288
Weighted-average exercise price of options currently exercisable.....	\$20.40	\$28.12

## 13. CHANGES IN ESTIMATES AND OTHER NON-RECURRING REVENUES AND EXPENSES

During 1996, the Company sold an idle processing plant and loadout facilities in Eastern Kentucky for the assumption of the environmental liabilities. As a result, the Company recognized a gain of \$4.9 million which is included in other revenues. During 1995, the Company sold its timber rights to approximately 100,000 acres of property in the Eastern United States for a gain of \$8.4 million which is included in other revenues.

During 1996, the Company reduced the estimated useful lives of certain long-lived assets (primarily related to life of mine assets including preparation plants and beltlines) for depreciation and amortization purposes. These changes in estimates were primarily due to increased productivities and reductions in recoverable reserves. As a result, an additional \$11.3 million (after tax impact of \$6.9 million or \$.33 per share) of depreciation and amortization expense was recorded in cost of coal sales. The assets included a preparation plant that had an original life of 16 years that was adjusted to 7.5 years, a preparation plant and beltline related to a surface mine that carried an original life of 20 years that was adjusted to 17 years and deferred mine development for a surface mine with an original life of 5 years adjusted to 4 years.

Effective September 30, 1995, the Company adopted the provisions of SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of. As a result, the Company recorded charges of \$10.2 million to write down certain assets to their fair value. These assets included idled facilities at the Company's Arch of Illinois, Arch of Kentucky and Cumberland River Coal Company operations. Fair value was based upon management's best estimate of discounted cash flows.

During 1995, the Company restructured its selling, general and administrative functions and reduced its salaried workforce by 143 employees, 52 of which accepted the Company's early retirement program. Total restructuring charges of \$8.3 million included charges for severance, pension and postretirement medical benefits. The restructuring reflected the Company's efforts to reduce its costs and improve its competitive position.

## 14. CONCENTRATION OF CREDIT RISK AND MAJOR CUSTOMERS

The Company places its cash equivalents in investment-grade short-term investments and limits the amount of credit exposure to any one commercial issuer.

The Company markets its coal principally to electric utilities in the United States. As of December 31, 1997 and 1996, accounts receivable from electric utilities located in the United States totaled \$102.8 million and \$61.3 million, respectively. Generally, credit is extended based on an evaluation of the customer's financial condition, and collateral is not generally required. Credit losses are provided for in the financial statements and historically have been minimal.

The Company is committed under long-term contracts to supply coal that meets certain quality requirements at specified prices. These prices are generally adjusted based on indices. Quantities sold under some of these contracts may vary from year to year within certain limits at the option of the customer. Sales (including spot sales) to major customers were as follows:

	1997	1996	1995
Customer A.....	\$187,800	\$147,567	\$127,911
Customer B.....	129,981	86,756	82,857

## 15. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings (loss) per common share:

	1997	1996	1995
	-----	-----	-----
Numerator:			
Net income (loss).....	\$30,281	\$33,020	\$(11,037)
	=====	=====	=====
Denominator:			
Weighted average shares-denominator for basic.....	30,374	20,948	20,948
Dilutive effect of employee stock options.....	34	--	--
	-----	-----	-----
Adjusted weighted average shares-denominator for diluted.....	30,408	20,948	20,948
	=====	=====	=====
Basic earnings (loss) per common share.....	\$ 1.00	\$ 1.58	\$ (0.53)
	=====	=====	=====
Diluted earnings (loss) per common share.....	\$ 1.00	\$ 1.58	\$ (0.53)
	=====	=====	=====

## 16. SALE AND LEASEBACK

On January 29, 1998, the Company sold mining equipment for approximately \$74.2 million and leased back the equipment under an operating lease with a term of three years. This included the sale and leaseback of equipment purchased under an existing operating lease that expired on the same day. The proceeds of the sale were used to purchase the equipment under the expired lease for \$28.3 million and to pay down debt. The lease provides for annual rental payments of approximately \$9.1 million, \$11.6 million, \$11.2 million and \$2.7 million in 1998, 1999, 2000 and 2001, respectively. At the end of the lease term, the Company has the option to renew the lease for two additional one year periods or purchase the equipment for approximately \$51.1 million. Alternatively, the equipment may be sold to a third party. In the event of such a sale, the Company will be required to make payment to the lessor in the event, and to the extent, that the proceeds are below \$40.0 million. The gain on the sale and leaseback of \$10.7 million was deferred and will be amortized over the base term of the lease as a reduction of rental expense.

## 17. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Company receives certain services and purchases fuel, oil and other products on a competitive basis from subsidiaries of Ashland Inc., which totaled \$4.7 million in 1997, \$3.8 million in 1996 and \$5.0 million in 1995. Ashland Inc. owns approximately 54% of the Company's outstanding shares of common stock. Management believes that charges between the Company and Ashland Inc. for services and purchases were concluded on terms equivalent to those prevailing among unaffiliated parties.

## 18. COMMITMENTS AND CONTINGENCIES

The Company leases equipment, land and various other properties under noncancelable long-term leases, expiring at various dates. Rental expense related to these operating leases amounted to \$14.9 million in 1997, \$8.5 million in 1996 and \$8.1 million in 1995. Minimum annual rentals due in future years under lease agreements in effect at December 31, 1997 are as follows:

1998.....	\$ 7,949
1999.....	5,037
2000.....	4,349
2001.....	3,618
2002.....	3,487
Thereafter.....	5,452
	-----
	\$29,892
	=====

The Company is a party to numerous claims and lawsuits with respect to various matters. The Company provides for costs related to contingencies when a loss is probable and the amount is reasonably determinable. As of December 31, 1997, the Company estimates that its probable aggregate loss as a result of such claims is \$5.6 million (included in

## 18. COMMITMENTS AND CONTINGENCIES (CONTINUED)

other noncurrent liabilities) and believes that probable insurance recoveries of \$.8 million (included in other assets) related to these claims will be realized. The Company estimates that its reasonably possible aggregate losses from all currently pending litigation could be as much as \$.9 million (before tax) in excess of the probable loss previously recognized. However, the Company believes it is probable that substantially all of such losses, if any occur, will be insured. After conferring with counsel, it is the opinion of management that the ultimate resolution of these claims, to the extent not previously provided for, will not have a material adverse effect on the consolidated financial condition, results of operations, or liquidity of the Company.

A customer of the Company has informed the Company that one of its power plants will no longer provide baseload capacity to a public utility and instead will be used to provide peak demand only and, as a result, the plant will require substantially less coal under the customer's existing above-market contract with the Company. The Company has filed a civil action in Federal District Court in the Southern District of West Virginia alleging breach of contract and other causes of action against the customer in respect of the customer's failure to comply with the terms of this contract. As of December 31, 1997, the carrying amount of acquisition costs allocated to this coal supply contract amounts to approximately \$17 million. The Company's current estimates of undiscounted cash flows indicate the carrying amount of this asset is expected to be recovered.

The Company holds a 17.5% general partnership interest in Dominion Terminal Associates (DTA), which operates a ground storage-to-vessel coal transloading facility in Newport News, Virginia. DTA leases the facility from Peninsula Ports Authority of Virginia (PPAV) for amounts sufficient to meet debt-service requirements. Financing is provided through \$132.8 million of tax exempt bonds issued by PPAV which mature July 1, 2016. Under the terms of a throughput and handling agreement with DTA, each partner is charged its share of cash operating and debt-service costs in exchange for the right to use its share of the facility's loading capacity and is required to make periodic cash advances to DTA to fund such costs. On a cumulative basis, costs exceeded cash advances by \$8.6 million at December 31, 1997 (included in other noncurrent liabilities). Future payments for fixed operating costs and debt service are estimated to approximate \$3.3 million annually through 2015 and \$26.0 million in 2016.

## 19. CASH FLOW

The changes in operating assets and liabilities as shown in the consolidated statements of cash flows are comprised of the following:

	1997	1996	1995
	-----	-----	-----
Decrease (increase) in operating assets:			
Receivables.....	\$(12,179)	\$ 10,857	\$(1,802)
Inventories.....	16,323	4,024	8,133
Increase (decrease) in operating liabilities:			
Accounts payable and accrued expenses.....	5,403	(7,464)	233
Income taxes.....	(27,448)	(1,145)	(2,867)
Accrued postretirement benefits other than pension.....	7,437	4,566	8,810
Accrued reclamation and mine closure.....	(9,370)	(10,492)	(6,877)
Accrued workers' compensation.....	(9,008)	(897)	(8,360)
	-----	-----	-----
Changes in operating assets and liabilities.....	\$(28,842)	\$ (551)	\$(2,730)
	=====	=====	=====

## 20. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Quarterly financial data for 1997 and 1996 is summarized below:

	MARCH 31	JUNE 30	SEPT. 30	DEC. 31
	-----	-----	-----	-----
1997:				
Coal sales and other revenues.....	\$198,461	\$196,425	\$329,475	\$342,512
Income (loss) from operations.....	16,314	16,296 (20,468)	29,740	
Net income (loss).....	10,420	11,732	(13,001)	21,130
Earnings (loss) per common share.....	0.50	0.56	(0.33)	0.53
1996:				
Coal sales and other revenues.....	\$189,643	\$192,071	\$196,966	\$201,941
Income from operations.....	14,949	11,112	16,713	13,338
Net income.....	7,600	5,235	10,929	9,256
Earnings per common share.....	0.36	0.25	0.52	0.44

-----  
 During the first quarter of 1997, the Company recorded \$3.1 million in costs associated with the impoundment failure in October 1996 at Lone Mountain Processing, Inc. and a \$3.3 million reduction in its reclamation and mine closure liability due to permit changes.

During the second quarter of 1997, the Company recorded a \$4.2 million reduction in its workers' compensation liability due to better than anticipated safety performance, \$1.5 million in costs associated with the impoundment failure noted in (1) and a \$1.5 million charge to other expenses in connection with the Trail Mountain lawsuit.

During the third quarter of 1997, the Company recorded a \$39.1 million charge in connection with the Ashland Coal merger comprised of termination benefits, relocation costs and costs associated with the idling of duplicate facilities.

During the fourth quarter of 1997, the Company recorded a \$1.1 million reduction in its reclamation and mine closure liability as a result of permit changes and a favorable adjustment of \$2.0 million due to changes in actuarial assumptions related to postretirement and pension benefit obligations.

During the third quarter of 1996, the Company sold an idle processing plant and loadout facility in Eastern Kentucky for a gain of \$4.9 million included in other revenues and recorded charges to other expenses of \$1.7 million in connection with the Trail Mountain lawsuit and \$1.4 million in connection with the redemption of debt.

During the fourth quarter of 1996, the Company recorded a \$3.8 million reduction in its reclamation and mine closure liability due to permit changes granted by state authorities and revisions to costs associated with removal of structures and productivities to reflect current experience.

During the fourth quarter of 1996, no income tax provision was required in order to achieve the effective tax rate.

The sum of the quarterly earnings per common share amounts may not equal earnings per common share for the full year, because per share amounts are computed independently for each quarter and for the year based on the weighted average number of common shares outstanding during each period.

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

On July 1, 1997, the Board of Directors of the Company engaged Ernst & Young LLP, to act as the Company's independent certified public accountant. Ernst & Young LLP replaced Arthur Andersen LLP, who was dismissed on July 1, 1997. Ernst & Young LLP acts as the independent auditor for Ashland, the Company's majority stockholder, and Ashland consolidates the financial statements of the Company as a consequence of the merger with Ashland Coal. Arthur Andersen LLP's reports on the Company's financial statements for the fiscal years ended December 31, 1996 and 1995 did not contain an adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope or accounting principles. There were no disagreements between the Company and Arthur Andersen LLP on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedures during such fiscal years or thereafter through and including the date of the conclusion of Arthur Andersen LLP's services, which, if not resolved to the satisfaction of Arthur Andersen LLP, would have caused Arthur Andersen LLP to make reference to the matter in their reports.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

There is hereby incorporated by reference into this Annual Report on Form 10-K the information appearing under the subcaption "Nominees for Director" which appears under the caption "Election of Directors" beginning on Page 2 in the Company's Proxy Statement to be distributed to Company stockholders in connection with the Company's 1998 Annual Meeting (the "1998 Proxy Statement"). See also the list of the Company's executive officers and related information under "Executive Officers" in Part I, Item X herein.

ITEM 11. EXECUTIVE COMPENSATION

There is hereby incorporated by reference into this Annual Report on Form 10-K the information appearing in and under the "Summary Compensation Table", the "Option Grants in Last Fiscal Year" table, the "Aggregated Option Exercise in Last Fiscal Year and Fiscal Year-End Option Values" table, the "Long-Term Incentive Plan Awards in Last Fiscal Year" table, the Pension Plan section (including the table therein), the Employment Agreements and Other Arrangements section, the Compensation of Directors section, and the Compensation Committee Interlocks and Insider Participation section appearing on Pages 10 to 13 in the Company's 1998 Proxy Statement. No portion of the Personnel and Compensation Committee and Stock Incentive Committee Report on Executive Compensation for 1997 or the Arch Coal Performance Graph is incorporated herein in reliance on Regulation S-K, Item 402(a)(8).

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

There is hereby incorporated by reference into this Annual Report on Form 10-K the information appearing under the caption "Security Ownership of Certain Beneficial Owners and Management" beginning on Page 5 of the Company's 1998 Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

There is hereby incorporated by reference into this Annual Report on Form 10-K the information appearing under the caption "Certain Relationships and Related Transactions" beginning on Page 13 of the Company's 1998 Proxy Statement.

## ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

## (a) Documents filed as part of this Report

	PAGE
	----
(1) The following consolidated financial statements of Arch Coal, Inc. and subsidiaries are included in Item 8 at the page indicated:	
Reports of Independent Auditors.....	23
Consolidated Statements of Income--Years Ended December 31, 1997, 1996 and 1995.....	25
Consolidated Balance Sheets--December 31, 1997 and 1996.....	26
Consolidated Statements of Stockholders' Equity--Years Ended December 31, 1997, 1996 and 1995.....	27
Consolidated Statements of Cash Flows--Years Ended December 31, 1997, 1996 and 1995.....	28
Notes to Consolidated Financial Statements.....	29
(2) The following consolidated financial statement schedule of Arch Coal, Inc. and subsidiaries is included in Item 14 at the page indicated:	
II--Valuation and Qualifying Accounts.....	48

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and, therefore, have been omitted.

## (3) Exhibits filed as part of this Report are as follows:

EXHIBIT NUMBER	EXHIBIT TITLE
-----	-----
3.1	Restated Certificate of Incorporation of Arch Coal, Inc. (Exhibit 3.1)
3.2	Restated and Amended Bylaws of Arch Coal, Inc. (Exhibit 3.4)
4.1	Stockholders Agreement, dated as of April 4, 1997, among Carboex International, Ltd., Ashland Inc. and Arch Coal, Inc. (formerly Arch Mineral Corporation) (Exhibit 4.1)
4.2	Registration Rights Agreement, dated as of April 4, 1997, among Arch Coal, Inc. (formerly Arch Mineral Corporation), Ashland Inc., Carboex International, Ltd. and the entities listed on Schedules I and II thereto (Exhibit 4.2)
4.3	Agreement Relating to Nonvoting Observer, executed as of April 4, 1997, among Carboex International, Ltd., Ashland Inc., Ashland Coal, Inc. and Arch Coal, Inc. (formerly Arch Mineral Corporation) (Exhibit 4.3)
4.4	Credit Agreement dated as of July 1, 1997, by and among Arch Coal, Inc., the banks party thereto, PNC Bank, National Association, as Administrative and Syndication Agent and Morgan Guaranty Tract Company of New York, as Documentation and Syndication Agent (incorporated herein by reference to Exhibit 4.1 to the Current Report of Arch Coal, Inc. on Form 8-K filed July 15, 1997).
4.5	Lease Intended as Security dated as of January 15, 1998, among Apogee Coal Company, Catenary Coal Company and Hobet Mining, Inc., as Lessees; The First Security Bank, National Association, as Lessor, and the Certificate Purchasers named therein.
10.1	Coal Off-Take Agreement, executed as of April 4, 1997, among Arch Coal, Inc. (formerly Arch Mineral Corporation), Carboex International, Ltd. and Ashland Inc. (Exhibit 10.1)
10.2	Sales Agency Agreement, executed as of April 4, 1997, among Arch Coal, Inc. (formerly Arch Mineral Corporation), Ashland Inc. and Carboex S.A. (Exhibit 10.2)
10.3	Assignment, Assumption and Amendment of Coal Sales Agency Agreement, executed as of April 4, 1997, among Arch Coal, Inc. (formerly Arch Mineral Corporation), Ashland Coal, Inc., Saarbergwerke AG and Carboex International, Ltd. (Exhibit 10.3)

EXHIBIT  
NUMBER

## EXHIBIT TITLE

- 10.4 Shareholder Services Contract, executed as of April 4, 1997, among Arch Coal, Inc. (formerly Arch Mineral Corporation), Ashland Coal, Inc., Carboex International, Ltd. and Ashland Inc. (Exhibit 10.4)
- 10.5 Deed of Lease and Agreement between Dingess-Rum Coal Company and Amherst Coal Company (predecessor to Ark Land Company), dated June 1, 1962, as supplemented January 1, 1968, June 1, 1973, July 1, 1974, November 12, 1987, Lease Exchange Agreement dated July 2, 1979 amended as of January 1, 1984 and January 7, 1993; February 24, 1993; Partial Release dated as of May 6, 1988; Assignments dated March 15, 1990, October 5, 1990 (Exhibit 10.8)
- 10.6 Agreement of Lease by and between Shonk Land Company, Limited Partnership and Lawson Hamilton (predecessor to Ark Land Company), dated February 8, 1983, as amended October 7, 1987, March 9, 1989, April 1, 1992, October 31, 1992, December 5, 1992, February 16, 1993, August 4, 1994, October 1, 1995, July 31, 1996 and November 27, 1996 (Exhibit 10.9)
- 10.7 Lease between Little Coal Land Company and Ashland Land & Development Co., a wholly-owned subsidiary of Ashland Coal, which was merged into Allegheny Land Company, a second tier subsidiary of the Company (Exh. 10.11).
- 10.8 Agreement of Lease dated January 1, 1988, between Courtney Company and Allegheny Land Company (legal successor by merger with Allegheny Land Co. No. 2, the assignee of Primeacre Land Corporation under October 5, 1992, assignments), a second-tier subsidiary of the Company (Exhibit 10.3 to the Company's first-tier subsidiary, Ashland Coal, Inc.'s Form 10-K for the year ended December 31, 1995, filed with the SEC on March 6, 1996, is incorporated herein by reference).
- 10.9 Lease between Dickinson Properties, Inc., the Southern Land Company, and F. B. Nutter, Jr. and F. B. Nutter, Sr., predecessors in interest to Hobet Mining & Construction Co., Inc., an independent operating subsidiary of the Company that subsequently changed its name to Hobet Mining, Inc. (Exh. 10.14).
- 10.10 Lease between Oglebay Norton Company and F. B. Nutter, Sr., predecessor in interest to Hobet Mining & Construction Co., Inc., an independent operating subsidiary of the Company that subsequently changed its name to Hobet Mining, Inc. (Exh. 10.15).
- 10.11 Lease Agreement between Fielden B. Nutter, Dorothy Nutter and Hobet Mining & Construction Co., Inc., an independent operating subsidiary of the Company that subsequently changed its name to Hobet Mining, Inc. (Exh. 10.22).
- 10.12 Lease and Modification Agreement between Horse Creek Coal Land Company, Ashland and Hobet Mining & Construction Co., Inc., an independent operating subsidiary of the Company that subsequently changed its name to Hobet Mining, Inc. (Exh. 10.24).
- 10.13 Lease Agreement between C. C. Lewis Heirs Limited Partnership and Allegheny Land Company, a second-tier subsidiary of the Company (Exh. 10.25).
- 10.14 Sublease between F. B. Nutter, Sr., et al., and Hobet Mining & Construction Co., Inc., an independent operating subsidiary of the Company that subsequently changed its name to Hobet Mining, Inc. (Exh. 10.27).
- 10.15 Coal Lease Agreement dated as of March 31, 1992, among Hobet Mining, Inc. (successor by merger with Dal-Tex Coal Corporation) as lessee and UAC and Phoenix Coal Corporation, as lessors, and related Company Guarantee (Exhibit 10.2 to the Company's first-tier subsidiary, Ashland Coal, Inc.'s Form 8-K dated April 6, 1992, is incorporated herein by reference).
- 10.16 Lease dated as of October 1, 1987, between Pocahontas Land Corporation and Mingo Logan Collieries Company whose name is now Mingo Logan Coal Company (Exhibit 10.3 to Amendment No. 1 filed with SEC on February 14, 1990, to the Company's first-tier subsidiary, Ashland Coal, Inc.'s Form 8-K filed with the SEC on February 8, 1990, is incorporated herein by reference).
- 10.17 Consent, Assignment of Lease and Guaranty dated January 24, 1990, among Pocahontas Land Corporation, Mingo Logan Coal Company, Mountain Gem Land, Inc. and Ashland Coal, Inc. (Exhibit 10.4 to Amendment No. 1 filed with the SEC on February 14, 1990, to the Company's first-tier subsidiary, Ashland Coal, Inc.'s Form 8-K filed with the SEC on February 8, 1990, is incorporated herein by reference).
- 10.18 Employment Agreement between Arch Mineral Corporation and Steven F. Leer, dated March 1, 1992 (Exhibit 10.12)

EXHIBIT NUMBER -----	EXHIBIT TITLE -----
10.19	Consulting Agreement between Arch Mineral Corporation and Ronald E. Samples, effective September 1, 1992, as amended by letter agreements dated October 6, 1992, September 1, 1993, September 1, 1994, September 1, 1995, August 31, 1996 and March 30, 1997 (Exhibit 10.13)
10.20	Form of At Will Employee Retention/Severance Agreement (Exhibit 10.14)
10.21	Form of Indemnity Agreement between Arch Coal, Inc. and Indemnitee (as defined therein) (Exhibit 10.15)
10.22	Arch Coal, Inc. 1998 Incentive Compensation Plan
10.23	Arch Coal, Inc. (formerly Arch Mineral Corporation) Deferred Compensation Plan (Exhibit 10.17)
10.24	Arch Coal, Inc. Deferred Compensation Plan for Directors' Fees (Exhibit 10.18)
10.25	Arch Coal, Inc. 1997 Stock Incentive Plan (Exhibit 10.9; appears as Annex E to Appendix A to the Proxy Statement/Prospectus forming part of the Company's S-4 Registration Statement)
10.26	Arch Mineral Corporation 1996 ERISA Forfeiture Plan (Exhibit 10.20)
16	Letter of Arthur Andersen & Company LLP filed pursuant to Regulation S-K, Item 304(a)(3)
21	Subsidiaries of the Company
23.1	Consent of Independent Auditors
23.2	Consent of (Predecessor) Independent Accountants
24	Power of Attorney
27	Financial Data Schedule

-----  
 Incorporated by reference from the Company's Registration Statement on Form S-4 (Registration No. 333-28149) filed with the SEC on May 30, 1997. The exhibit number referred to within the parentheses corresponds to the number of such exhibit in Item 21 of such Registration Statement.

Incorporated by reference from the Company's first-tier subsidiary, Ashland Coal, Inc.'s, Registration Statement on Form S-1 (Registration No. 33-22425) filed with the SEC on June 9, 1988, and Amendments No. 1, No. 2 and No. 3 filed with the SEC on July 14, 1988, August 3, 1988, and August 5, 1988, respectively, and Post-Effective Amendment No. 1 filed with the SEC on August 11, 1988. The exhibit number referred to within the parentheses corresponds to the number of such exhibit in Item 16(a) of Post-Effective Amendment No. 1 to such Registration Statement.

Included with this Report.

Exhibits 10.22, 10.23, 10.24, 10.25 and 10.26 are executive compensation plans.

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

(b) Reports on Form 8-K

No reports on Form 8-K were filed by the Company in the quarter ended December 31, 1997.

## SCHEDULE II

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

DESCRIPTION -----	BALANCE AT BEGINNING OF YEAR -----	ADDITIONS CHARGED TO COSTS AND EXPENSES -----	DEDUCTIONS -----	OTHER -----	YEAR -----	BALANCE AT END OF -----
Year Ended December 31, 1997						
Reserves Deducted from Asset Accounts						
Property, Plant, and Equipment.....	\$ 100	\$ --	\$ 100	\$ --		\$ --
Other Assets--Other						
Notes and Accounts Receivable.....	410	61	--	--		471
Current Assets--Supplies Inventory.....	11,313	1,218	282	5,432		17,681
Year Ended December 31, 1996						
Reserves Deducted from Asset Accounts						
Property, Plant, and Equipment.....	\$ 1,111	\$ --	\$1,011	\$ --		\$ 100
Other Assets--Other						
Notes and Accounts Receivable.....	408	150	148	--		410
Current Assets--Supplies Inventory.....	11,976	500	1,163	--		11,313
Year Ended December 31, 1995						
Reserves Deducted from Asset Accounts						
Property, Plant, and Equipment.....	\$ 1,156	\$ --	\$ 45	\$ --		\$ 1,111
Other Assets--Other						
Notes and Accounts Receivable.....	749	117	458	--		408
Current Assets--Supplies Inventory.....	11,437	1,273	734	--		11,976

-----  
Reserves utilized, unless otherwise indicated.

Balances acquired in the Ashland Coal merger.

## SIGNATURES

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

ARCH COAL, INC.  
(REGISTRANT)

BY: /s/ PATRICK A. KRIEGSHAUSER

-----  
Patrick A. Kriegshauser  
Senior Vice President, Treasurer  
and Chief Financial Officer

Date: March 16, 1998

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on March 16, 1998.

## SIGNATURES

-----

## CAPACITY

-----

/s/ STEVEN F. LEER

President and Chief Executive Officer and Director

-----  
Steven F. Leer

/s/ PATRICK A. KRIEGSHAUSER

Senior Vice President, Treasurer, and Chief Financial Officer

-----  
Patrick A. Kriegshauser

/s/ JAMES P. PYE

Controller

-----  
James P. Pye

James R. Boyd  
Robert A. Charpie  
Paul W. Chellgren  
Thomas L. Feazell  
Juan Antonio Ferrando  
John R. Hall  
Robert L. Hintz  
Douglas H. Hunt  
Steven F. Leer  
Thomas Marshall  
James L. Parker  
J. Marvin Quin

Director  
Director

By: /s/ JEFFRY N. QUINN

-----  
Jeffry N. Quinn  
As Attorney-in Fact

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

## EXHIBIT INDEX

EXHIBIT NUMBER -----	EXHIBIT TITLE -----
3.1	Restated Certificate of Incorporation of Arch Coal, Inc. (Exhibit 3.1)
3.2	Restated and Amended Bylaws of Arch Coal, Inc. (Exhibit 3.4)
4.1	Stockholders Agreement, dated as of April 4, 1997, among Carboex International, Ltd., Ashland Inc. and Arch Coal, Inc. (formerly Arch Mineral Corporation) (Exhibit 4.1)
4.2	Registration Rights Agreement, dated as of April 4, 1997, among Arch Coal, Inc. (formerly Arch Mineral Corporation), Ashland Inc., Carboex International, Ltd. and the entities listed on Schedules I and II thereto (Exhibit 4.2)
4.3	Agreement Relating to Nonvoting Observer, executed as of April 4, 1997, among Carboex International, Ltd., Ashland Inc., Ashland Coal, Inc. and Arch Coal, Inc. (formerly Arch Mineral Corporation) (Exhibit 4.3)
4.4	Credit Agreement dated as of July 1, 1997, by and among Arch Coal, Inc., the banks party thereto, PNC Bank, National Association, as Administrative and Syndication Agent and Morgan Guaranty Tract Company of New York, as Documentation and Syndication Agent (incorporated herein by reference to Exhibit 4.1 to the Current Report of Arch Coal, Inc. on Form 8-K filed July 15, 1997).
4.5	Lease Intended as Security dated as of January 15, 1998, among Apogee Coal Company, Catenary Coal Company and Hobet Mining, Inc., as Lessees; The First Security Bank, National Association, as Lessor, and the Certificate Purchasers named therein.
10.1	Coal Off-Take Agreement, executed as of April 4, 1997, among Arch Coal, Inc. (formerly Arch Mineral Corporation), Carboex International, Ltd. and Ashland Inc. (Exhibit 10.1)
10.2	Sales Agency Agreement, executed as of April 4, 1997, among Arch Coal, Inc. (formerly Arch Mineral Corporation), Ashland Inc. and Carboex S.A. (Exhibit 10.2)
10.3	Assignment, Assumption and Amendment of Coal Sales Agency Agreement, executed as of April 4, 1997, among Arch Coal, Inc. (formerly Arch Mineral Corporation), Ashland Coal, Inc., Saarbergwerke AG and Carboex International, Ltd. (Exhibit 10.3)
10.4	Shareholder Services Contract, executed as of April 4, 1997, among Arch Coal, Inc. (formerly Arch Mineral Corporation), Ashland Coal, Inc., Carboex International, Ltd. and Ashland Inc. (Exhibit 10.4)
10.5	Deed of Lease and Agreement between Dingess-Rum Coal Company and Amherst Coal Company (predecessor to Ark Land Company), dated June 1, 1962, as supplemented January 1, 1968, June 1, 1973, July 1, 1974, November 12, 1987, Lease Exchange Agreement dated July 2, 1979 amended as of January 1, 1984 and January 7, 1993; February 24, 1993; Partial Release dated as of May 6, 1988; Assignments dated March 15, 1990, October 5, 1990 (Exhibit 10.8)
10.6	Agreement of Lease by and between Shonk Land Company, Limited Partnership and Lawson Hamilton (predecessor to Ark Land Company), dated February 8, 1983, as amended October 7, 1987, March 9, 1989, April 1, 1992, October 31, 1992, December 5, 1992, February 16, 1993, August 4, 1994, October 1, 1995, July 31, 1996 and November 27, 1996 (Exhibit 10.9)
10.7	Lease between Little Coal Land Company and Ashland Land & Development Co., a wholly-owned subsidiary of Ashland Coal, which was merged into Allegheny Land Company, a second tier subsidiary of the Company (Exh. 10.11).
10.8	Agreement of Lease dated January 1, 1988, between Courtney Company and Allegheny Land Company (legal successor by merger with Allegheny Land Co. No. 2, the assignee of Primeacre Land Corporation under October 5, 1992, assignments), a second-tier subsidiary of the Company (Exhibit 10.3 to the Company's first-tier subsidiary, Ashland Coal, Inc.'s Form 10-K for the year ended December 31, 1995, filed with the SEC on March 6, 1996, is incorporated herein by reference).

EXHIBIT NUMBER -----	EXHIBIT TITLE -----
10.9	Lease between Dickinson Properties, Inc., the Southern Land Company, and F. B. Nutter, Jr. and F. B. Nutter, Sr., predecessors in interest to Hobet Mining & Construction Co., Inc., an independent operating subsidiary of the Company that subsequently changed its name to Hobet Mining, Inc. (Exh. 10.14).
10.10	Lease between Oglebay Norton Company and F. B. Nutter, Sr., predecessor in interest to Hobet Mining & Construction Co., Inc., an independent operating subsidiary of the Company that subsequently changed its name to Hobet Mining, Inc. (Exh. 10.15).
10.11	Lease Agreement between Fielden B. Nutter, Dorothy Nutter and Hobet Mining & Construction Co., Inc., an independent operating subsidiary of the Company that subsequently changed its name to Hobet Mining, Inc. (Exh. 10.22).
10.12	Lease and Modification Agreement between Horse Creek Coal Land Company, Ashland and Hobet Mining & Construction Co., Inc., an independent operating subsidiary of the Company that subsequently changed its name to Hobet Mining, Inc. (Exh. 10.24).
10.13	Lease Agreement between C. C. Lewis Heirs Limited Partnership and Allegheny Land Company, a second-tier subsidiary of the Company (Exh. 10.25).
10.14	Sublease between F. B. Nutter, Sr., et al., and Hobet Mining & Construction Co., Inc., an independent operating subsidiary of the Company that subsequently changed its name to Hobet Mining, Inc. (Exh. 10.27).
10.15	Coal Lease Agreement dated as of March 31, 1992, among Hobet Mining, Inc. (successor by merger with Dal-Tex Coal Corporation) as lessee and UAC and Phoenix Coal Corporation, as lessors, and related Company Guarantee (Exhibit 10.2 to the Company's first-tier subsidiary, Ashland Coal, Inc.'s Form 8-K dated April 6, 1992, is incorporated herein by reference).
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10.23	Arch Coal, Inc. (formerly Arch Mineral Corporation) Deferred Compensation Plan (Exhibit 10.17)
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10.26	Arch Mineral Corporation 1996 ERISA Forfeiture Plan (Exhibit 10.20)

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16	Letter of Arthur Andersen & Company LLP filed pursuant to Regulation S-K, Item 304(a)(3)
21	Subsidiaries of the Company
23.1	Consent of Independent Auditors
23.2	Consent of (Predecessor) Independent Accountants
24	Power of Attorney
27	Financial Data Schedule

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Incorporated by reference from the Company's Registration Statement on Form S-4 (Registration No. 333-28149) filed with the SEC on May 30, 1997. The exhibit number referred to within the parentheses corresponds to the number of such exhibit in Item 21 of such Registration Statement.

Incorporated by reference from the Company's first-tier subsidiary, Ashland Coal, Inc.'s, Registration Statement on Form S-1 (Registration No. 33-22425) filed with the SEC on June 9, 1988, and Amendments No. 1, No. 2 and No. 3 filed with the SEC on July 14, 1988, August 3, 1988, and August 5, 1988, respectively, and Post-Effective Amendment No. 1 filed with the SEC on August 11, 1988. The exhibit number referred to within the parentheses corresponds to the number of such exhibit in Item 16(a) of Post-Effective Amendment No. 1 to such Registration Statement.

Included with this Report.

=====  
Counterpart no. \_\_\_ of \_\_\_ serially numbered manually executed counterparts. To the extent that this document constitutes chattel paper under the Uniform Commercial Code, no security interest in this document may be created through the transfer and possession of any counterpart other than Counterpart No. 1.

Lease Intended as Security

Dated as of January 15, 1998

among

Apogee Coal Company  
Catenary Coal Company  
Hobet Mining, Inc.  
as Lessees

First Security Bank, National Association  
as Lessor

and

The persons listed on Schedule I hereto  
as Certificate Purchasers

=====  
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Exhibit E-5	Form of Certificate Trustee's Officer's Certificate
Exhibit F	Form of Assumption Agreement

## Lease Intended As Security

This Lease Intended as Security (as amended and supplemented from time to time, this "Lease") is entered into as of January 15, 1998 among: Apogee Coal Company, a Delaware corporation ("Apogee"), with its principal office at Pyatt Black Top Road, Percy, Illinois 62272, Catenary Coal Company, a Delaware corporation ("Catenary") with its principal office at 5914 Cabin Creek Road, Eskdale, West Virginia 25122, and Hobet Mining, Inc., a West Virginia corporation with its principal office at State Route 119, South Schaffer Road, Madison, West Virginia 25130 ("Hobet") (Hobet, Apogee and Catenary are each a "Lessee" and collectively, "Lessees"); First Security Bank, National Association, a national banking association (in its individual capacity, "First Security"), not in its individual capacity (except as specifically set forth herein) but solely in its capacity as certificate trustee under the Trust Agreement referred to below, as lessor ("Certificate Trustee" or "Lessor"); and the Persons listed in Schedule I hereto as certificate purchasers (each individually a "Certificate Purchaser" and collectively, together with any permitted successors or assigns, the "Certificate Purchasers"; provided that no such reference shall be deemed to refer to any Person who is not a holder of a Certificate at the date of determination, other than for purposes of Article VII hereof).

### Recitals:

Whereas, on the Delivery Date, Lessor, on behalf of the Certificate Purchasers, will purchase from each Lessee, and each Lessee will transfer to Lessor, for the benefit of Certificate Purchasers, the items of personal property described on Schedule II hereto set forth under such Lessee's name (each such item, together with any replacement Units that may be hereafter substituted for any thereof and subject to this Lease from time to time, being referred to collectively as the "Units" and individually as a "Unit"); and

Whereas, upon the transfer of the Units on the Delivery Date, Lessor, on behalf of the Certificate Purchasers, will lease the Units described on Schedule II hereto set forth under each Lessee's name to such Lessee and each Lessee will lease the Units described on Schedule II hereto set forth under such Lessee's name from Lessor, for the benefit of the Certificate Purchasers, pursuant to the terms of this Lease, upon the terms and conditions hereinafter set forth; and

Whereas, each Certificate Purchaser shall hold an undivided interest in each Unit equal to such Certificate Purchaser's Investment Percentage, which interest shall be represented by a Certificate registered in such Certificate Purchaser's name;

Now Therefore, in consideration of the mutual terms and conditions herein contained, the parties hereto agree as follows:

Article I  
Definitions

In this Lease and each other Operative Document, unless the context otherwise requires:

(a) any term defined below by reference to another instrument or document shall continue to have the meaning ascribed thereto whether or not such other instrument or document remains in effect;

(b) words importing the singular include the plural and vice versa;

(c) words importing a gender include any gender;

(d) a reference to a part, clause, section, article, exhibit or schedule is a reference to a part, clause, section and article of, and exhibit and schedule to, such Operative Document;

(e) a reference to any statute, regulation, proclamation, ordinance or law includes all statutes, regulations, proclamations, ordinances or laws amending, supplementing, supplanting, varying, consolidating or replacing them, and a reference to a statute includes all regulations, proclamations and ordinances issued or otherwise applicable under that statute;

(f) a reference to a document includes any amendment or supplement to, or replacement or novation of, that document;

(g) a reference to a party to a document includes that party's successors and permitted assigns;

(h) a reference to "including" means including without limiting the generality of any description preceding such term and for purposes hereof the rule of ejusdem generis shall not be applicable to limit a general statement followed by or referable to an enumeration of specific matters to matters similar to those specifically mentioned; and

(i) except as otherwise provided in the Operative Documents, all computations and determinations as to accounting or financial matters and all financial statements to be delivered pursuant to the Operative Documents shall be made and prepared in accordance with GAAP (including principles of consolidation where appropriate), and all accounting or financial terms shall have the meanings ascribed to such terms by GAAP; provided, however, that all accounting terms used in Article IV of the Parent Guaranty (and all defined terms used in the definition of any accounting term used in Article IV of the Parent Guaranty shall have the meaning given to such terms (and defined terms) under GAAP as in effect on the date hereof applied on a basis consistent with those used in preparing the financial information referred to in clause (p) of Article IV of the Parent Guaranty. In the event of any change after the date hereof in GAAP, and if such change would result in the inability to determine compliance with the financial covenants set forth in Article IV of the Parent Guaranty based upon Parent Guarantor's regularly prepared financial statements by reason of the preceding sentence, then the parties hereto agree to endeavor, in good faith, to agree upon an amendment to this Lease that would adjust such financial covenants in a manner that would not affect the substance thereof, but would allow compliance therewith to be determined in accordance with Parent Guarantor's financial statements at that time.

Further, each of the parties to the Operative Documents and their counsel have reviewed and revised the Operative Documents, or requested revisions thereto, and the usual rule of construction that any ambiguities are to be resolved against the drafting party shall be inapplicable in construing and interpreting the Operative Documents.

"Acceptance Certificate" is defined in Section 3.5.

"Accrual Rent" means, with respect to each Rent Period, an amount equal to interest accrued on the Lease Balance outstanding during such period at the Interest Rate.

"Administrative Charge" means an amount equal to the amount, if any, required to compensate each Certificate Purchaser for any losses (including, without limitation, any loss, cost or expense incurred by reason of the liquidation or reemployment of deposits or funds acquired by such Certificate Purchaser to fund its obligations under the Operative Documents) it may incur as a result of (i) any Lessee's payment of Rent other than on a Payment Date, (ii) any Lessee's payment of the Lease Balance on any date other than a Payment Date, or (iii) any condition described in Article VII hereof.

"Affiliate" as to any Person means any other Person (i) which directly or indirectly controls, is controlled by, or is under common control with such Person, (ii) which beneficially owns or holds 5% or more of any class of the voting or other equity interests of such Person, or (iii) 5% or more of any class of voting interests or other equity interests of which is beneficially owned or held, directly or indirectly, by such Person. Control, as used in this definition, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ownership of voting securities, by contract or otherwise, including the power to elect a majority of the directors or trustees of a corporation or trust, as the case may be.

"Applicable Administrative Charge" means, as of any date of determination in respect of any event, any Administrative Charge determined to be due and owing in respect of such event.

"Applicable Laws and Regulations" means all existing and future applicable laws (including Environmental Laws), rules, regulations, statutes, treaties, codes, ordinances, permits, certificates, orders and licenses of and interpretations by, any Authority, and applicable judgments, decrees, injunctions, writs, orders or like action of any court, arbitrator or other administrative, judicial or quasi-judicial tribunal or agency of competent jurisdiction (including those pertaining to health, safety or the environment), to which any Lessee or any Unit is subject.

"Applicable Percentage" means, as of the end of the Base Term and each Renewal Term, the percentage set forth opposite each such date on Schedule II to this Lease.

"Applicable Percentage Amount" means, as of any date of determination, the product obtained by multiplying the aggregate original Purchase Price of the Units then subject to this Lease by the Applicable Percentage for the period in which such date occurs.

"Appraisal" means each appraisal of the Units from an Appraiser received pursuant to the terms of this Lease.

"Appraised Value" means, with respect to any Unit as of any date of determination, the Fair Market Value of such Unit as set forth in the Appraisal therefor.

"Appraiser" means Marston & Marston, Inc., or such other Person as may be selected by Lessor.

"Assumption Agreement" means an assumption agreement in the form of Exhibit F attached hereto or otherwise acceptable to Lessor entered into pursuant to Section 14.1.

"Authority" means any applicable foreign, Federal, state, county, municipal or other government or governmental, quasi-governmental or regulatory authority, agency, board, body, commission, instrumentality, court or tribunal, or any political subdivision of any thereof, or arbitrator or panel of arbitrators.

"Authorized Trustee Officer" means any officer in the corporate trust administration department of the Certificate Trustee, including any Vice President, Assistant Vice President, Secretary, Assistant Secretary or any other officer of the Certificate Trustee customarily performing functions similar to those performed by any of the above designated officers and also, with respect to a particular matter, any officer to whom such matter is referred because of such officer's knowledge of and familiarity with the particular subject.

"B of A" means Bank of America National Trust & Savings Association.

"BALCAP" is defined in Section 3.9.

"Base Rate" means, relative to any day during any Rent Period or portion thereof with respect to the Lease Balance, the rate of interest publicly announced from time to time by B of A in San Francisco, California as its "Reference Rate" on such day of such Rent Period, with any change in the "Reference Rate" to take effect on the day specified in such public announcement. The "Reference Rate" is set by B of A based on various factors, including B of A's costs and desired return, general economic conditions and other factors, and is used as a reference point for pricing some loans (which loans may be priced at, above or below the "Reference Rate").

"Base Term" is defined in Section 4.1.

"Basic Rent" is defined in Section 4.3.

"Benefit Arrangement" means at any time an "employee benefit plan," within the meaning of Section 3(3) of ERISA, which is neither a Plan nor a Multiemployer Plan and which is maintained, sponsored or otherwise contributed to by Parent Guarantor or any ERISA Affiliate.

"Bill of Sale" is defined in Section 3.5.

"Board of Directors" means, with respect to a corporation, either the board of directors or any duly authorized committee of that board of directors which, pursuant to the by-laws of such corporation, has the same authority as that board of directors as to the matter at issue.

"Business Day" means any day on which Federal and state chartered banks in the States of Illinois, California, Missouri and Utah are all open for commercial banking business.

"Capital Rent" means, for each Payment Date during the Base Term and each Renewal Term, that portion of the installment of Basic Rent payable on such Payment Date designated as Capital Rent on Schedule II.

"Casualty" means any of the following events in respect of any Unit: (a) the total loss of such Unit, the total loss of use thereof due to theft, disappearance, destruction, damage beyond repair or the rendering of such Unit permanently unfit for normal use for any reason whatsoever; (b) any damage to such Unit which results in an insurance settlement with respect to such Unit on the basis of a total loss or a constructive total loss; (c) the permanent condemnation, confiscation or seizure of, or requisition of title to or use of, such Unit; or (d) as a result of any Applicable Laws and Regulations or other action by any Authority, the use of such Unit in the normal course of any

Lessee's business shall have been prohibited, directly or indirectly, for a period equal to the lesser of 180 consecutive days and the remaining Lease Term.

"Casualty Amount" means, with respect to any Unit as of any date specified for payment thereof, a portion of the Lease Balance equal to the product obtained by multiplying the entire outstanding Lease Balance by the Unit Value Fraction of such Unit, plus all Accrual Rent accrued on such portion of the Lease Balance to the date of payment, plus the Applicable Administrative Charge on such portion of the Lease Balance.

"Casualty Recoveries" shall have the meaning provided in Section 6.1.

"Certificate" is defined in Section 2.1(a) of the Trust Agreement.

"Certificate Purchaser" is defined in the introductory paragraph.

"Certificate Purchaser Amount" means at any time of determination, the aggregate amount funded by a Certificate Purchaser under Section 2.1 minus the aggregate amount of all distributions of invested capital (including a Certificate Purchaser's pro rata share of Capital Rent) actually received by such Certificate Purchaser.

"Certificate Trustee" means First Security Bank, National Association, not in its individual capacity (except as expressly provided herein) but solely as Certificate Trustee under the Trust Agreement, and any successor or replacement Certificate Trustee expressly permitted under the Operative Documents.

"Claims" means liabilities, obligations, damages, losses, demands, penalties, fines, claims, actions, suits, judgments, settlements, utility charges, costs, fees, expenses and disbursements (including, without limitation, legal fees (including allocated time charges of internal counsel)) and expenses and costs of investigation which, in the case of counsel or investigators retained by an Indemnitee, shall be reasonable) of any kind and nature whatsoever.

"Code" means the Internal Revenue Code of 1986.

"Collateral" means all of each of Lessee's right, title and interest in and to each of the following, however arising and whether now existing or hereafter acquired or arising:

(a) the Units (including all Parts thereof, accessions thereto and replacements and substitutions therefor);

(b) the Subleases;

(c) all contracts necessary to operate and maintain the Units;

(d) any rights to a rebate, offset or other assignment, warranty or service under a purchase order, invoice or purchase agreement with any manufacturer of any Unit;

(e) all books, manuals, logs, records, writings, data bases, information and other property relating to, used or useful in connection with, evidencing, embodying, incorporating or referring to, any of the foregoing; and

(f) all products, accessions, rents, issues, profits, returns, income, investment property and proceeds of and from any and all of the foregoing Collateral (including proceeds which constitute property of the types described in clauses (a), (b), (c), (d) and (e) above and, to the extent not otherwise included, all payments under insurance (whether or not Certificate Purchaser is the loss payee thereof), or any indemnity, warranty or guaranty, payable by reason of loss or damage to or otherwise with respect to any of the foregoing Collateral).

"Commitment" means, as to any Certificate Purchaser, such Certificate Purchaser's obligation to make amounts available for the purchase of Units, in an aggregate amount not to exceed at any one time outstanding the amount set forth opposite such Certificate Purchaser's name on Schedule I.

"Commitment Percentage" means, as to any Certificate Purchaser, at any date of determination, the percentage of the aggregate unfunded Commitment represented by such Certificate Purchaser's unfunded Commitment.

"Consolidated Capitalization" means as of any date of determination, for Parent Guarantor and its Subsidiaries as of such date, determined and consolidated in accordance with GAAP, the sum of (i) total stockholders' equity, and (ii) Consolidated Debt.

"Consolidated Debt" means as of any date of determination the aggregate of the following for Parent Guarantor and its Subsidiaries, as of such date, determined and consolidated in accordance with GAAP: (i) all indebtedness for borrowed money (including, without limitation, all subordinated indebtedness), (ii) all amounts raised under or liabilities in respect of any note purchase or acceptance credit facility, (iii) all indebtedness in respect of any other transaction (including production payments (excluding royalties), installment purchase agreements, forward sale or purchase agreements, capitalized leases and conditional sales agreements) having the commercial effect of a borrowing of money entered into by such Person to finance its operations or capital requirements, and (iv) the amount of all indebtedness (whether matured or unmatured, liquidated or unliquidated, direct or indirect, absolute or contingent, or joint or several) in respect of all Guarantees of indebtedness for borrowed money. It is expressly agreed that the amount of the indebtedness in respect of the Guaranty by Parent Guarantor of the Port Bond shall be excluded from the amount determined under clause (iv) of the previous sentence. Further, it is expressly agreed that the difference between actual funded

indebtedness and the fair market value of funded indebtedness recorded as required by Accounting Principles Board Opinion No. 16 (as in effect on the Delivery Date) will be excluded from indebtedness in the determination of Consolidated Debt.

"Consolidated EBITDA" for any period of determination means the sum of income from operations before the effect of changes in accounting principles and extraordinary items, depreciation, amortization, depletion, net interest expense and income taxes, in each case of Parent Guarantor and its Subsidiaries for such period determined and consolidated in accordance with GAAP.

"Consolidated Tangible Net Worth" means, (i) the total assets of Parent Guarantor and its Subsidiaries which would be shown as assets on a consolidated balance sheet of Parent Guarantor and its Subsidiaries as of such time prepared in accordance with GAAP, after eliminating all amounts properly attributable to minority interests, if any, in the stock and surplus of Subsidiaries, minus (ii) (A) the total liabilities of Parent Guarantor and its Subsidiaries which would be shown as liabilities on a consolidated balance sheet of Parent Guarantor and its Subsidiaries as of such time prepared in accordance with GAAP and (B) the net book amount of all assets of Parent Guarantor and its Subsidiaries (after deducting any reserves applicable thereto) which would be shown as intangible assets on a consolidated balance sheet of Parent Guarantor and its Subsidiaries as of such time prepared in accordance with GAAP.

"Dal-Tex Lease" means that certain Equipment Lease dated as of January 29, 1993 among First Trust National Association, as successor in interest to Continental Bank, National Association, as Trustee, as Lessor, Hobet Mining, Inc., as successor in interest to Dal-Tex Coal Corporation, and Ashland Coal, Inc.

"Dal-Tex Security Agreement" means that certain Security Agreement dated as of January 29, 1993 from First Trust National Association, as successor in interest to Continental Bank, National Association, as Trustee, to Bank of America NT & SA, as successor in interest to Continental Bank, N.A., as Collateral Agent.

"Debt/Capitalization Ratio" means the ratio of Consolidated Debt (as the numerator) to Consolidated Capitalization (as the denominator), expressed as a percentage.

"Delivery Date" means the actual date on or prior to January 29, 1998 on which the transactions contemplated in Article II are completed.

"Delivery Date Notice" is defined in Section 3.1.

"Employee Benefit Plan" means an employee benefit plan (within the meaning of Section 3(3) of ERISA, including any multiemployer plan (within the meaning of Section 3(37) (A) of ERISA)), or any "plan" as defined in Section 4975(e) (1) of the Code and as interpreted by the Internal Revenue Service and the Department of Labor in rules, regulations, releases or bulletins in effect at the time of any determination under the Operative Documents. The assets of an Employee Benefit Plan shall be determined using the foregoing criteria, including on the date hereof the Department of Labor plan asset regulation (29 C.F.R. ss. 2510.3-101).

"Environmental Laws" means and includes the Resource Conservation and Recovery Act of 1976, the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), the Hazardous Materials Transportation Act of 1975, the Toxic Substances Control Act, the Clean Air Act, the Federal Insecticide, Fungicide and Rodenticide Act and all similar Federal, state and local environmental laws, ordinances, rules, orders, statutes, decrees, judgments, injunctions, codes and regulations, and any other Federal, state or local laws, ordinances, rules, codes and regulations relating to the environment, human health or natural resources or the regulation or control of or imposing liability or standards of conduct concerning human health, the environment, Hazardous Materials or the clean-up or other remediation of a Unit or any facility or location at which Units are stored or serviced.

"ERISA" means the Employee Retirement Income Security Act of 1974.

"ERISA Affiliate" means each entity required to be aggregated with Parent Guarantor pursuant to the requirement of Section 414(b) or 414(c) of the Code.

"Eurodollar Reserve Percentage" means the daily average for the applicable Rent Period of the maximum rate at which reserves (including, without limitation, any supplemental, marginal and emergency reserves) are imposed during such Rent Period by the Board of Governors of the Federal Reserve System (or any successor) on "eurocurrency liabilities," as defined in such Board's Regulation D (or in respect of any other category of liabilities that includes deposits by reference to which the interest rate on the Lease Balance is determined or any category of extension of credit or other assets that include loans by non-United States offices of B of A or the LIBOR Office to United States residents), subject to any amendments of such reserve requirement by such Board or its successor, taking into account any transitional adjustments thereto. For purposes of this definition, the Lease Balance shall be deemed to be "eurocurrency liabilities" as defined in Regulation D without benefit or credit for any proratations, exemptions or offsets under Regulation D.

"Event of Default" is defined in Section 8.1.

"Excluded Amounts" means:

(a) all indemnity payments and expenses to which Lessor, Certificate Trustee or any Certificate Purchaser (or the respective successors, assigns, agents, officers, directors or employees of any such Person) is entitled pursuant to the Operative Documents;

(b) any amounts payable under any Operative Document to reimburse Lessor, Certificate Trustee or any Certificate Purchaser (including the reasonable expenses of Lessor, Certificate Trustee, and any Certificate Purchaser incurred in connection with any such payment) for performing any of the obligations of any Lessee under and as permitted by any Operative Document;

(c) any insurance proceeds (or payments with respect to risks self-insured or policy deductibles) under liability policies payable to Lessor, Certificate Trustee or any Certificate Purchaser (or the respective successors, assigns, agents, officers, directors or employees of any such Person);

(d) any insurance proceeds under policies maintained by Lessor, Certificate Trustee or any Certificate Purchaser and not required to be maintained by Lessees under this Lease;

(e) any amounts payable to Lessor, Certificate Trustee, First Security or any Certificate Purchaser pursuant to Section 3.9 or 9.1, whether or not such amounts are or can be characterized as Supplemental Rent; and

(f) any payments of interest on payments referred to in clauses (a) through (e) above.

"Fair Market Value" means, with respect to any Unit as of any date, the retail price which a purchaser would pay to purchase such Unit in an arm's-length transaction between a willing buyer and a willing seller, neither of them being under any compulsion to buy or sell. In making any determination of Fair Market Value, Appraiser may assume such Unit has been maintained in accordance with the requirements of this Lease and that such Unit is in the condition in which it is required to be hereunder as of the date for which such determination is made (unless such fair market value is being determined for purposes of Section 11.4, in which case the foregoing assumptions shall not be made and Appraiser shall determine the actual condition of each Unit). Appraiser shall use such reasonable methods of appraisal as are chosen by Lessor.

"First Security" means First Security Bank, National Association or any successor financial institution acting as Certificate Trustee under the Operative Documents, in each case, in its individual capacity.

"Funding" is defined in Section 2.1.

"GAAP" means Generally Accepted Accounting Principles as are in effect from time to time, subject to the provisions of clause (i) of this Article I, and applied on a consistent basis both as to classification of items and amounts.

"Governmental Action" means all applicable permits, authorizations, registrations, consents, approvals, waivers, exceptions, variances, orders, judgments, decrees, licenses, exemptions, publications, filings, notices to and declarations of or with, or required by, any Authority, or required by any Applicable Laws and Regulations.

"Guaranty" of any Person shall mean any obligation of such Person guaranteeing or in effect guaranteeing any liability or obligation of any other Person in any manner, whether directly or indirectly, including any such liability arising by virtue of partnership agreements, including any agreement to indemnify or hold harmless any other Person, any performance bond or other suretyship arrangement and any other form of assurance against loss, except endorsement of negotiable or other instruments for deposit or collection in the ordinary course of business.

"Hazardous Material" means petroleum and petroleum products, byproducts or breakdown products, radioactive materials, asbestos-containing materials, radon gas and any hazardous or solid waste, hazardous substance or chemical substance, as such terms are defined under the Resource Conservation and Recovery Act (42 U.S.C. Sections 4901 et seq.), the Comprehensive Environmental Response, Compensation and Liability Act (42 U.S.C. Sections 9601 et seq.), the Toxic Substances Control Act (15 U.S.C. Sections 2601 et seq.) or any similar state law.

"Incipient Default" means any condition, event or act, which with notice or lapse of time or both, would become an Event of Default.

"Indebtedness" means, as to any Person at any time, any and all indebtedness, obligations or liabilities (whether matured or unmatured, liquidated or unliquidated, direct or indirect, absolute or contingent, or joint or several) of such Person for or in respect of: (i) borrowed money, (ii) amounts raised under or liabilities in respect of any note purchase or acceptance credit facility, (iii) reimbursement obligations (contingent or otherwise) under any letter of credit, currency swap agreement, interest rate swap, cap, collar or floor agreement or other interest rate management device, (iv) any other transaction (including production payments (excluding royalties), installment purchase agreements, forward sale or purchase agreements, capitalized leases and conditional sales agreements) having the commercial effect of a borrowing of money entered into by such Person to finance its operations or capital requirements (but not including trade payables and accrued expenses incurred in the ordinary course of business which are not represented by a promissory note or other evidence of indebtedness and which are not more than thirty (30) days past due), or (v) any Guaranty of any such Indebtedness.

"Indemnitee" means each Certificate Purchaser, Lessor, Certificate Trustee, First Security and their respective Affiliates, successors, permitted assigns, permitted transferees, invitees, contractors, servants, employees, officers, directors, shareholders, partners, participants, representatives and agents; provided, however, that in no event shall any Lessee be an Indemnitee.

"Insurance Requirements" means all terms and conditions of any insurance

policy required by this Lease to be maintained or caused to be maintained by Lessees, and all requirements of the issuer of any such policy.

"Interest Rate" means, with respect to any Rent Period or portion thereof, the rate per annum equal to the sum of (a) unless, per the terms of Section 2.9(c) or Section 7.6 hereof, the Base Rate is in effect, the LIBO Rate or (b) if the Base Rate is in effect, the Base Rate, in each case, for such Rent Period plus the number of basis points set forth below opposite Parent Guarantor's Debt/Capitalization Ratio as of the most recently ended fiscal quarter reported prior to the commencement of such Rent Period:

Ratio	Basis Points
Equal to or less than 30%	20
Greater than 30% to 35%	22.5
Greater than 35% to 40%	25
Greater than 40% to 45%	30
Greater than 45% to 50%	37.5
Greater than 50% to 55%	45
Greater than 55%	65

"Internal Revenue Code" means the Internal Revenue Code of 1986, as the same may be amended or supplemented from time to time, and any successor statute of similar import, and the rules and regulations thereunder, as from time to time in effect.

"Investments" means collectively all of the following with respect to any Person: (i) investments or contributions by any of any Lessee, Parent Guarantor or any Subsidiary Guarantor or their Subsidiaries directly or indirectly in or to the capital of or other payments to (except in connection with transactions for the sale of goods or services for fair value in the ordinary course of business) such Person, (ii) loans by any of any Lessee, Parent Guarantor or any Subsidiary Guarantor or their Subsidiaries to such Person, (iii) guaranties by any Lessee, Parent Guarantor or any Subsidiary Guarantor or any of their Subsidiaries directly or indirectly of the obligations of such Person, or (iv) other obligations, contingent or otherwise, of any Lessee, Parent Guarantor or any Subsidiary Guarantor or any of their Subsidiaries to or for the benefit of such Person. If the nature of an Investment is tangible property then the amount of such Investment shall be determined by valuing such property at fair value in accordance with the past practice of such Lessee, Parent Guarantor or such Subsidiary Guarantor, as applicable, and such fair values shall be satisfactory to Lessor, in its sole discretion.

"Investment Percentage" means, as to any Certificate Purchaser, at a particular time, the percentage of the outstanding Lease Balances at such time represented by such Certificate Purchaser's Certificate.

"Lease" is defined in the introductory paragraph.

"Lease Balance" means, as of any date of determination, the aggregate Purchase Price less all payments of Capital Rent and payments thereof pursuant to Sections 6.1, 8.2 and 11.5 theretofore paid by Lessees.

"Lease Term" is defined in Section 4.1.

"Lessee" or "Lessees" is defined in the introductory paragraph.

"Lessees' Agent" means Parent Guarantor.

"Lessor" is defined in the introductory paragraph of this Lease.

"Lessor Liens" means Liens on or against any Unit (a) which result from any act of, or any Claim against, Certificate Trustee (in its individual capacity or as Certificate Trustee or both), Lessor or any Certificate Purchaser unrelated to the transactions contemplated by the Operative Documents or (b) which result from any Tax owed by any such Person, except any Tax for which Lessees are obligated to indemnify.

"LIBO Rate" means, relative to any Rent Period with respect to the Lease Balance, the rate per annum equal to the quotient obtained by dividing (i) the rate per annum at which deposits in United States Dollars appear on the Telerate page 3750 (or any successor page) at or about 11:00 a.m. London time two (2) Business Days prior to the beginning of such Rent Period for delivery on the first day of such Rent Period, and in an amount approximately equal to the amount of the Lease Balance and for a period approximately equal to such Rent Period, by (ii) a percentage equal to 100% minus the Eurodollar Reserve Percentage.

"LIBOR Office" means B of A's London, England branch, or such other office of B of A as designated from time to time by notice from Lessor to Certificate Purchasers, whether or not outside the United States, which shall be used for purposes of establishing LIBO Rates hereunder.

"Lien" means any lien, mortgage, deed of trust, encumbrance, pledge, charge, lease, easement, servitude, right of others or security interest of any kind, including any thereof arising under any conditional sale or other title retention agreement.

"Loan Documents" means the Revolving Credit Facility, the Administrative Agent's Letter (as defined in the Revolving Credit Facility), the Guaranty Agreement (as defined in the Revolving Credit Facility) and any other instruments, certificates or documents delivered or contemplated to be delivered thereunder or in connection therewith.

"Major Unit" means each shovel, dragline and any Unit with an Appraised Value in excess of \$2,000,000.

"Material Adverse Effect" means any set of circumstances or events which

(a) has or could reasonably be expected to have any material adverse effect whatsoever upon the validity or enforceability of this Lease or any other Operative Document, (b) is or could reasonably be expected to be materially adverse to the business, financial condition or results of operations of Lessees, Parent Guarantor and Subsidiary Guarantors taken as a whole, (c) impairs materially or could reasonably be expected to impair materially the ability of Lessees, Parent Guarantor and Subsidiary Guarantors taken as a whole to duly and punctually pay or perform their Obligations, or (d) impairs materially or could reasonably be expected to impair materially the ability of Lessor or any Certificate Purchaser, to the extent permitted, to enforce their legal remedies pursuant to this Lease or any other Operative Document.

"Multiemployer Plan" has the meaning assigned to the term "multiemployer plan" in Section 3(37) of ERISA.

"Multiple Employer Plan" means a Plan which has two or more contributing sponsors (including Parent Guarantor or any of its ERISA Affiliates) at least two of whom are not under common control, as such a plan is described in Sections 4063 and 4064 of ERISA.

"Obligation" means any obligation or liability of any Lessee, Parent Guarantor or any Subsidiary Guarantor to Lessor or any Certificate Purchaser, howsoever created, arising or evidenced, whether direct or indirect, absolute or contingent, now or hereafter existing, or due or to become due, under or in connection with this Lease or any other Operative Document.

"Officer's Certificate" of a Person means a certificate signed by a Responsible Officer of such Person.

"Operative Documents" means this Lease (including all Annexes, Exhibits and Schedules hereto), the Parent Guaranty, the Subsidiary Guaranty, the Bills of Sale, the Certificates, the Acceptance Certificate, the Delivery Date Notice and any Assumption Agreement.

"Parent Guarantor" means Arch Coal, Inc., a Delaware corporation.

"Parent Guaranty" means that certain Guaranty and Suretyship Agreement dated as of January 15, 1998 by Parent Guarantor for the benefit of Lessor and Certificate Purchasers.

"Part" is defined in Section 5.4.

"Payment Date" means the last day of each Rent Period.

"Payment Default" means an event described in Section 8.1(a) (without giving effect to any grace periods).

"PBGC" means the Pension Benefit Guaranty Corporation or any entity succeeding to any or all of its functions under ERISA.

"Pension Plan" means, with respect to any Person, a "pension plan" as such term is defined in section 3(2) of ERISA which is subject to Title IV of ERISA and to which such Person may have any liability or contingent liability, including, but not limited to, liability by reason of having been a substantial employer within the meaning of section 4063 of ERISA at any time during the preceding five years, or by reason or being deemed to be a contributing sponsor under section 4069 of ERISA.

"Permitted Contest" means actions taken by a Person to contest in good faith, by appropriate proceedings initiated timely and diligently prosecuted, the legality, validity or applicability to any Unit or any interest therein of any Person of: (a) any law, regulation, rule, judgment, order, or other legal provision or judicial or administrative requirements; (b) any term or condition of, or any revocation or amendment of, or other proceeding relating to, any authorization or other consent, approval or other action by any Authority; or (c) any Lien or Tax; provided that the initiation and prosecution of such contest would not: (i) result in, or materially increase the risk of, the imposition of any criminal liability on any Indemnitee; (ii) materially and adversely affect the Liens created by the Operative Documents or the right, title or interest of Lessor or any Certificate Purchaser in or to any of the Units or the right of Lessor or any Certificate Purchaser to receive payment of all or any portion of any payment of Rent, Lease Balance, Administrative Charge or any other amount payable under the Operative Documents; (iii) permit, or pose a material risk of, the sale or forfeiture of, or foreclosure on, any Unit or (iv) materially and adversely affect the fair market value, utility or remaining useful life of any Unit or any interest therein or the continued economic operation thereof; and provided further that in any event adequate reserves in accordance with GAAP are maintained against any adverse determination of such contest.

"Permitted Encumbrances" means:

(i) Liens for taxes, assessments, or similar charges, incurred in the ordinary course of business and which are not yet due and payable;

(ii) Pledges or deposits made in the ordinary course of business to secure payment of reclamation liabilities, worker's compensation, or to participate in any fund in connection with worker's compensation, unemployment insurance, old-age pensions or other social security programs;

(iii) Liens of mechanics, materialmen, warehousemen, carriers, or other like Liens, securing obligations incurred in the ordinary course of business that are not yet due and payable and Liens of landlords securing obligations to pay lease payments that are not yet due and payable or in default;

(iv) Good-faith pledges or deposits made in the ordinary course of

business to secure performance of bids, tenders, contracts (other than for the repayment of borrowed money) or leases, not in excess of the aggregate amount due thereunder, or to secure statutory obligations, or surety, appeal, indemnity, performance or other similar bonds required in the ordinary course of business (it being understood that any appeal or similar bond (other than such a bond required pursuant to Applicable Laws and Regulations to secure in the ordinary course payment of worker's compensation or reclamation liabilities) in an amount exceeding \$50,000,000 shall not be in the ordinary course of business);

(v) Encumbrances consisting of zoning restrictions, easements or other restrictions on the use of real property, none of which materially impairs the use of such property or the value thereof, and none of which is violated in any material respect by existing or proposed structures or land use;

(vi) Liens on property leased by Parent Guarantor or any of its Subsidiaries under capital or operating leases (in either case, as the nature of such lease is determined in accordance with GAAP) securing obligations of Parent Guarantor or such Subsidiary to the lessor under such leases;

(vii) Purchase Money Security Interests; and

(viii) The following, (A) if the validity or amount thereof is being contested in good faith by appropriate and lawful proceedings diligently conducted so long as levy and execution thereon have been stayed and continue to be stayed or (B) if a final judgment is entered and such judgment is discharged within thirty (30) days of entry, and they do not in the aggregate materially impair the ability of any Lessee, Parent Guarantor or any Subsidiary Guarantor to perform its Obligations hereunder or under the Operative Documents:

(1) Claims or Liens for taxes, assessments or charges due and payable and subject to interest or penalty, provided that such Lessee, Parent Guarantor or such Subsidiary Guarantor maintains such reserves or other appropriate provisions as shall be required by GAAP and pays all such taxes, assessments or charges forthwith upon the commencement of proceedings to foreclose any such Lien;

(2) Claims, Liens or encumbrances upon, and defects of title to, real or personal property, including any attachment of personal or real property or other legal process prior to adjudication of a dispute on the merits;

(3) Claims or Liens of mechanics, materialmen, warehousemen, carriers, or other statutory nonconsensual Liens; or

(4) Liens resulting from judgments or orders described in Section 8.1(j);

provided, however, that no such Permitted Encumbrance shall attach or extend to any Collateral.

"Permitted Investments" shall mean (a) direct obligations of the United States of America and agencies thereof for which the full faith and credit of the United States is pledged, (b) obligations fully guaranteed by the United States of America, (c) certificates of deposit issued by, or bankers' acceptances of, or time deposits with, any bank, trust company or national banking association incorporated or doing business under the laws of the United States of America or one of the States thereof having combined capital and surplus and retained earnings of at least \$500,000,000 (including the Certificate Trustee if such conditions are met), (d) repurchase agreements with any financial institution having a combined capital and surplus of at least \$650,000,000 fully collateralized by obligations of the type described in clauses (a) and (c) above and (e) any money market fund investing solely in investments of the type described in clause (a), (b) or (c) above (which shall not include any hedge, future or other contract relating thereto); provided that if all of the above investments are unavailable, the entire amount to be invested may be used to purchase Federal funds from an entity described in (c) above; and provided further that no investment shall be eligible as a "Permitted Investment" unless the final maturity or date of return of such investment is 91 days or less from the date of purchase thereof.

"Permitted Liens" means (i) any rights in favor of Lessor and the Certificate Purchasers pursuant to this Lease or any other Operative Documents; (ii) materialmen's, mechanics', workers', artisan's, repairmen's, employees' or other like Liens securing payment of the price of goods or services rendered in the ordinary course of business for amounts the payment of which is not overdue or is being contested pursuant to a Permitted Contest; (iii) any Lessor Lien; (iv) Liens for current Taxes which are not delinquent or the validity of which is being contested pursuant to a Permitted Contest and (v) statutory Liens of landlords securing obligations to pay lease payments that are not yet due and payable or in default.

"Person" means an individual, corporation, partnership, joint venture, association, joint-stock company, trust, limited liability company, unincorporated organization or Authority.

"Plan" means at any time an employee pension benefit plan (including a Multiple Employer Plan, but not a Multiemployer Plan) which is covered by Title IV of ERISA or is subject to the minimum funding standards under Section 412 of the Internal Revenue Code and either (i) is maintained by any ERISA Affiliate for employees of any ERISA Affiliate or (ii) has at any time within the preceding five years been maintained by any entity which was at such time an ERISA Affiliate for employees of any entity which was at such time an ERISA Affiliate.

"Port Bond" means collectively, those certain Coal Terminal Revenue Refunding Bonds (Dominion Terminal Associates Project), Series 1987-A, B, C and D Bonds issued by Peninsula Ports Authority of Virginia, a political subdivision of the Commonwealth of Virginia, in the face amount of \$89,600,000, together with any renewals thereof or replacements therefor so long as the face amount thereof is not in excess of \$89,600,000.

"Private Placement Agreement" means that certain Note Agreement for \$50,000,000 of 7.79% Senior Notes of Arch Mineral Corporation, due January 31, 2003, as amended.

"Proceeds" is defined in Section 11.1(c).

"Prohibited Transaction" means a transaction that is prohibited under Code Section 4975 or ERISA Section 406 and not exempt under Code Section 4975 or ERISA Section 408.

"Purchase Money Security Interest" shall mean Liens upon tangible personal property securing loans to Parent Guarantor or any of its Subsidiaries or deferred payments by Parent Guarantor or such Subsidiary for the purchase of such tangible personal property.

"Purchase Option" is defined in Section 11.1(b).

"Purchase Option Exercise Amount" means as of any date of determination, the sum of (a) the Lease Balance as of the date of purchase, plus (b) all accrued but unpaid Rent, plus (c) the Applicable Administrative Charge, if any, plus (d) all other sums then due and payable under the Operative Documents by Lessees or any of their Affiliates.

"Purchase Price" for a Unit means the Appraised Value of such Unit, and the aggregate Purchase Price of all Units shall be the aggregate Appraised Value of the Units, not to exceed the Aggregate Commitment Amount.

"Recourse Deficiency Amount" means, with respect to the exercise of the Sale Option, the difference between (X) the Purchase Option Exercise Amount at the last day of any Renewal Term in which such Sale Option was elected and (Y) the product obtained by multiplying 15% by the Appraised Value of all Units then subject to this Lease as of the first day of the Renewal Term in which the Sale Option was elected.

"Regulated Activity" means the use, Release, generation, treatment, storage, recycling, transportation or disposal of Hazardous Material to the extent such activities are regulated by any Authority.

"Release" means the release, deposit, disposal or leak of any Hazardous Material into or upon or under any land or water or air, or otherwise into the environment, including, without limitation, by means of burial, disposal, discharge, emission, injection, spillage, leakage, seepage, leaching, dumping, pumping, pouring, escaping, emptying, placement and the like.

"Renewal Term" is defined in Section 4.2.

"Rent" means Basic Rent and Supplemental Rent, collectively.

"Rent Period" means, (i) for the Base Term or any Renewal Term the period beginning on the first day of the Base Term and ending on (but excluding) (A) with respect to the first Rent Period, the date which occurs three months after the third Business Day following the Delivery Date and (B) with respect to each other Rent Period, each consecutive three-month period thereafter, with each such period ending on the date which numerically corresponds to the date on which such period commenced; provided, however, that (a) if such Rent Period would otherwise end on a day which is not a Business Day, then such Rent Period shall be extended to the next following Business Day, unless (solely for purposes of determining Rent Periods in connection with calculating Accrual Rent on a LIBO Rate basis) the effect of such extension would be to carry such Rent Period into another calendar month, in which case such Rent Period shall end on the Business Day immediately preceding such numerically corresponding day, and (b) no Rent Period may end later than the last day of the Lease Term.

"Reportable Event" means a "reportable event" described in Section 4043 of ERISA and the regulations thereunder with respect to a Plan or Multiemployer Plan.

"Required Certificate Purchasers" means, as of the date of the determination, holders of Certificates representing at least 51% of the then outstanding Lease Balance.

"Responsible Officer" means the Chairman or Vice Chairman of the Board of Directors, the Chairman or Vice Chairman of the Executive Committee of the Board of Directors, the President, any Senior Vice President, Executive Vice President or the Treasurer.

"Revolving Credit Facility" means that certain Credit Agreement dated as of July 1, 1997 by and among PNC Bank, National Association, as administrative and syndication agent, Morgan Guaranty Trust Company of New York, as documentation and syndication agent and the banks party thereto, as such agreement is amended, modified, restated, replaced or refinanced from time to time, including any similar successor agreement or agreements or arrangement or arrangements providing for revolving or working capital indebtedness, whether or not secured; provided that if B of A is no longer a lender thereunder, the term "Revolving Credit Facility" shall be deemed to refer to the last such agreement[s] or arrangement[s] to have been in effect, exclusive of any modification to the terms of such agreements or arrangements that were made in contemplation of the termination of such facility.

"Sale Option" is defined in Section 11.1(c).

"Sale Recourse Amount" is defined in Section 11.1(c).

"SEC" means the United States Securities and Exchange Commission.

"Securities Act" means the Securities Act of 1933, as amended.

"Significant Subsidiary" means any Subsidiary (other than a Lessee) of Parent Guarantor which at any time (i) has gross revenues equal to or in excess of five percent (5%) of the gross revenues of Parent Guarantor and its Subsidiaries on a consolidated basis, or (ii) has total assets equal to or in excess of five percent (5%) of the total assets of Parent Guarantor and its Subsidiaries, in either case, as determined and consolidated in accordance with GAAP.

"Sublease" is defined in Section 5.2.

"Subsidiary" of any Person at any time means (i) any corporation or trust of which 50% or more (by number of shares or number of votes) of the outstanding capital stock or shares of beneficial interest normally entitled to vote for the election of one or more directors or trustees (regardless of any contingency which does or may suspend or dilute the voting rights) is at such time owned directly or indirectly by such Person or one or more of such Person's Subsidiaries, (ii) any partnership of which such Person is a general partner or of which 50% or more of the partnership interests is at the time directly or indirectly owned by such Person or one or more of such Person's Subsidiaries, (iii) any limited liability company of which such Person is a member or of which 50% or more of the limited liability company interests is at the time directly or indirectly owned by such Person or one or more of such Person's Subsidiaries or (iv) any corporation, trust, partnership, limited liability company or other entity which is controlled or capable of being controlled by such Person or one or more of such Person's Subsidiaries.

"Subsidiary Guarantors" means Allegheny Land Company, Arch Coal Sales Company, Inc., Ark Land Company, Cumberland River Coal Company and Mingo Logan Coal Company and each other Person that joins the Subsidiary Guaranty as a Subsidiary Guarantor.

"Subsidiary Guaranty" means that certain Guaranty and Suretyship Agreement dated as of January 15, 1998 made by the Subsidiary Guarantors for the benefit of Lessor and Certificate Purchasers.

"Supplemental Rent" means any and all amounts, liabilities and obligations other than Basic Rent which Lessees assume or agree or are otherwise obligated to pay under this Lease or any other Operative Document (whether or not designated as Supplemental Rent) to Lessor, any Certificate Purchaser or any other Person, including, without limitation, any Administrative Charge, the Sale Recourse Amount, indemnities and damages for breach of any covenants, representations, warranties or agreements.

"Taxes" and "Tax" means any and all fees (including, without limitation, documentation, recording, license and registration fees), taxes (including, without limitation, income (whether net, gross or adjusted gross), gross receipts, sales, rental, use, turnover, value-added, property, excise and stamp taxes), levies, imposts, duties, charges, assessments or withholdings of any nature whatsoever, together with any penalties, fines or interest thereon or additions thereto.

"Termination Date" means the date on which the Lease Term (including any Renewal Term) ends pursuant to (a) Article VIII in connection with an Event of Default, or (b) Section 11.5 in connection with an early termination, or (c) Section 11.1 in connection with the exercise of the Purchase Option or Sale Option.

"Transaction Costs" means

(i) the reasonable fees and expenses of Chapman and Cutler and any local or special counsel incurred in connection with the negotiation, execution and delivery of the term sheet, the commitment letters, the Operative Documents, and the transactions contemplated thereby incurred through the Delivery Date (subject to the provisions of Section 3.9);

(ii) the allocated reasonable internal counsel fees of B of A incurred in connection with the Operative Documents;

(iii) the fees and expenses of the Appraiser and insurance consultant;

(iv) the fees, costs and expenses of Lessor; and

(v) all costs of searching and perfecting a first priority security interest in the Units.

"Trust Agreement" means the Trust Agreement dated as of January 15, 1998, among the Certificate Purchasers and the First Security.

"Trust Estate" means all estate, right, title and interest of Lessor in, to and under the Trust Agreement, the Lease and all of the other Operative Documents and in and to the Units, including (a) all amounts (other than Excluded Amounts) of Rent and other payments due or to become due of any kind under any Operative Document or for or with respect to the Units or payable under any of the foregoing, (b) any or all payments or proceeds received by Lessor after the termination of this Lease with respect to the Units as the result of the sale, lease or other disposition thereof, and (c) proceeds of the investments in the Certificates, together with any other moneys, proceeds or property received by Lessor under or in connection with the Operative Documents.

"UCC" means the Uniform Commercial Code of Illinois or any other applicable jurisdiction.

"Units" is defined in the Recitals.

"Unit Value Fraction" means, with respect to any Unit, a fraction determined as of any Payment Date the numerator of which is the Purchase Price for such Unit and the denominator of which is the aggregate Purchase Price of all Units then subject to this Lease, including such Unit.

"Welfare Plan" means, with respect to any Person, a "welfare plan" as such term is defined in section 3(1) of ERISA to which such Person or any ERISA Affiliate to such Person may have any liability or contingent liability.

## Article II

### Acquisition and Lease; General Provisions

Section 2.1. Funding; Payment of Purchase Price. (a) Subject to the terms and conditions hereinafter set forth, and in reliance on the representations and warranties contained herein or made pursuant hereto, upon receipt of the Delivery Date Notice, each Certificate Purchaser shall transfer to Lessor on the specified Delivery Date an amount equal to the product of the aggregate Purchase Price of the Units specified in the Delivery Date Notice, multiplied by such Certificate Purchaser's Commitment Percentage (each such transfer being referred to herein as a "Funding"). In no event shall any Certificate Purchaser be required to provide funds under this Lease in an aggregate amount exceeding such Certificate Purchaser's Commitment.

(b) Remittances pursuant to this Section 2.1 shall be made in immediately available funds by wire transfer to the account of Lessor set forth below (or to such other account as specified by Lessor to each Certificate Purchaser from time to time not less than three Business Days prior to the date of the requested Funding) and must be received by Lessor by 11:00 a.m., Chicago time, on the specified Delivery Date:

Bank: First Security Bank, National Association

ABA Routing #: 124-0000-12

Account #: 051-0922115

Payee: First Security Bank, N.A.  
Notify: DeAnn Madsen (801) 246-5809

Reference: Arch Coal Acct. No. 33833

Section 2.2. Application of Funds; Sale and Lease of Units. On the Delivery Date, upon (a) receipt by Lessor of all amounts to be paid by the Certificate Purchasers pursuant to Section 2.1, and (b) satisfaction or waiver of each of the conditions set forth in Article III, (i) Lessor shall purchase, for the benefit of the Certificate Purchasers, from each Lessee the Units to be acquired on the Delivery Date from such Lessee, as specified in the Delivery Date Notice delivered pursuant to Section 3.1, (ii) in consideration therefor, Lessor, on behalf of the Certificate Purchasers, shall pay, from the funds made available by the Certificate Purchasers pursuant to Section 2.1, an amount equal to the aggregate Purchase Price of the Units being so sold and purchased in immediately available funds remitted by wire transfer in the amounts and to the accounts specified in the Delivery Date Notice, and (iii) Lessor, on behalf of the Certificate Purchasers, shall lease to each Lessee the Units to be leased to such Lessee set forth on Schedule II so purchased by Lessor and each Lessee shall accept delivery of and lease from Lessor such Units to be leased by such Lessee pursuant to this Lease. Each Certificate Purchaser shall hold an undivided interest in each Unit equal to such Certificate Purchaser's Investment Percentage.

Section 2.3. Time and Place of Delivery Date. The Delivery Date shall take place on the Delivery Date set forth in the Delivery Date Notice, commencing at 9:00 a.m., Chicago time, at Chapman and Cutler, 111 West Monroe Street, Chicago, Illinois 60603, subject to the following:

(i) the Funding and Delivery Date shall occur on a Business Day on or after the date hereof and not later than January 29, 1998, it being understood that there may be a Funding without the consummation of a Delivery Date if Lessees have postponed the Delivery Date pursuant to Section 2.4, so long as the Delivery Date occurs not later than January 29, 1998; and

(ii) in no event shall the aggregate amount advanced by the Certificate Purchasers exceed the total Commitment, nor shall the aggregate amount advanced by any Certificate Purchaser exceed such Certificate Purchaser's Commitment.

Section 2.4. Postponement of Delivery Date. In the event that the Certificate Purchasers shall make the Funding requested pursuant to the Delivery Date Notice and the Delivery Date shall not have been consummated on the date specified in such Delivery Date Notice, Lessees shall pay to Lessor, for the benefit of the Certificate Purchasers, interest on the amount funded by each Certificate Purchaser at the Interest Rate, less any interest earned by investing such funded amounts, which interest shall be for the ratable benefit of the Certificate Purchasers; provided that this provision shall not be construed to require Lessor to invest such funds in interest-bearing accounts. Such interest shall be due and payable by Lessees upon the consummation of the Delivery Date and such payment shall be an additional condition precedent to such Delivery Date; provided, however, that no additional Delivery Date Notice shall be required to be given if such Delivery Date is postponed and thereafter consummated; and provided, further, that if such Delivery Date shall not have

occurred by the first to occur of (a) the fifth (5th) Business Day following the Funding in respect thereof and (b) January 29, 1998, then all such interest shall be due and payable on such date, and Lessor shall refund to each Certificate Purchaser all amounts funded by such Certificate Purchaser, plus any amounts due pursuant to Section 7.7.

Section 2.5. Nature of Transaction. It is the intent of the parties that: (a) the transaction contemplated hereby constitutes an operating lease from Lessor to Lessees for purposes of each Lessee's financial reporting, (b) the transaction contemplated hereby preserves ownership in the Units to Lessees for all other purposes including Federal and state income tax, bankruptcy and UCC and state commercial law purposes, (c) this Lease grants a Lien in the Units and the other Collateral to Lessor, for the benefit of the Certificate Purchasers, and (d) the obligations of Lessees to pay Capital Rent and Accrual Rent shall be treated as payments of principal and interest, respectively. Except as specifically provided for herein, Lessor, for the benefit of the Certificate Purchasers, shall retain title to the Units, free and clear of all Liens other than Permitted Liens, as security for the obligations of Lessees under the Operative Documents. Lessees shall not have any right, title or interest in the Units except as expressly set forth in this Lease. Each of the parties to this Lease agrees that it will not, nor will any Person controlled by it, or under common control with it, directly or indirectly, at any time take any action or fail to take any action with respect to the filing of any income tax return, including an amended income tax return, inconsistent with the intention of the parties expressed in this Section 2.5.

Section 2.6. Replacements. Certificate Purchasers hereby agree that they shall instruct Lessor to release a Part or Unit from this Lease and evidence such release by the execution and delivery of a termination statement release and such other documents as may be required to release the replaced Part or Unit from this Lease and which are in form and substance satisfactory to Lessor subject to the satisfaction of the conditions set forth herein with respect to the release of such Part or Unit.

Section 2.7. No Warranty. The Units are leased by Lessees "as is" in their present or then condition, as the case may be, subject to (i) any rights of any parties in possession thereof, (ii) the state of title thereto existing at the time Certificate Purchasers acquire their respective interest in the Units, (iii) any state of fact which an accurate physical inspection might show, and each Lessee confirms that its execution and delivery of the Acceptance Certificate shall constitute its certification that it has inspected and accepts, as between Lessor and such Lessee, each Unit which is the subject matter thereof, (iv) all Applicable Laws and Regulations, and (v) any violations of Applicable Laws and Regulations which may exist at the commencement of the related Lease Term. Each Lessee acknowledges and agrees that (a) each Unit leased by such Lessee is of a size, design, capacity and manufacture selected by such Lessee, (b) such Lessee is satisfied that the same is suitable for its purposes, (c) neither any Certificate Purchaser nor Lessor is a manufacturer thereof or a dealer in property of such kind, (d) neither any Certificate Purchaser nor Lessor shall be liable for any latent, hidden or patent defect in any Unit, or the failure of any Unit to comply with Applicable Laws and Regulations and (e) neither any Certificate Purchaser nor Lessor has made, or does or will make, (i) any representation or warranty or covenant, with respect to the title, merchantability, fitness for a particular purpose, condition, quality, description, durability or suitability of any such Unit in any respect or in connection with or for the purposes and uses of such Lessee or (ii) any other representation or warranty whatsoever, express or implied, with respect to any Unit, it being agreed that all risks, as between Certificate Purchasers and Lessor, on the one hand, and Lessees, on the other hand, shall be borne by Lessees. Each Lessee hereby assigns to Lessor as further security for such Lessee's obligations under this Lease, to the extent assignable, all of its interest, if any, in any warranties, covenants and representations of any vendor of any Unit and Lessor hereby assigns to such Lessee, to the extent assignable, all of Lessor's interest in such warranties, covenants and representations; provided that (x) such assignment by Lessor to such Lessee shall be effective only when no Event of Default has occurred and is continuing and (y) any action taken by such Lessee by reason thereof shall be at the expense of such Lessee and shall be consistent with such Lessee's obligations pursuant to this Lease.

Section 2.8. Legal and Tax Representation. Each Lessee acknowledges and agrees that neither any Certificate Purchaser nor Lessor has made any representations or warranties concerning the tax, accounting or legal characteristics of this Lease and that such Lessee has obtained and relied on such tax, accounting and legal advice regarding this Lease and the other Operative Documents as it deems appropriate.

#### Section 2.9. Computations; Conclusive Determinations.

(a) All computations of accrued amounts pursuant to the Operative Documents shall be made on the basis of actual number of days elapsed in (i) a 360-day year with respect to any determination of LIBO Rate and (ii) a 365/366-day year with respect to any determination of Base Rate. Lessor shall, as soon as practicable but in no event later than 11:00 a.m Chicago time, one Business Day prior to the effectiveness of each Interest Rate, calculate such Interest Rate and notify Lessees' Agent and each Certificate Purchaser thereof; provided that the failure to give or receive any such notice shall not limit any Lessee's obligations under this Lease.

(b) Each determination of the Interest Rate pursuant to any provisions of this Lease or any of the other Operative Documents shall be conclusive and binding on Lessees and Certificate Purchasers in the absence of manifest error.

(c) Notwithstanding anything in this Lease to the contrary, the Base Rate shall be in effect for purposes of calculating the Interest Rate for each day from and including the Delivery Date to but excluding the third Business Day occurring thereafter and shall be determined on the Delivery Date.

Article III

Conditions to Delivery Date

The obligation of each Certificate Purchaser to make its Funding hereunder and of Lessor to purchase from, and lease to, each Lessee the Units to be purchased from and leased to such Lessee on the Delivery Date, shall be subject to the fulfillment to the satisfaction of (including, with respect to writings, such writings being in form and substance reasonably satisfactory to Lessor and each Certificate Purchaser), or the waiver in writing by Lessor and each Certificate Purchaser, of the conditions precedent set forth in this Article III on or prior to the Delivery Date (except that the obligation of any party hereto shall not be subject to the performance or compliance of such party or of any of such party's Affiliates).

Section 3.1. Delivery Date Notice. Lessees' Agent shall have delivered to Lessor and each Certificate Purchaser, not later than 12:00 noon, Chicago time, not earlier than the tenth (10th) and not later than the third (3rd) Business Day prior to the proposed Delivery Date, an irrevocable notice substantially in the form of Exhibit D (a "Delivery Date Notice"), setting forth (i) the proposed Delivery Date, (ii) a description (including model, make and serial number) of each Unit to be purchased on the Delivery Date, (iii) the respective Purchase Prices of such Units, and (iv) wire transfer instructions for the disbursement of funds.

Section 3.2. Appraisal. At least 3 Business Days prior to the Delivery Date, Lessor and each Certificate Purchaser shall have received an Appraisal to their satisfaction opining (by use of appraisal methods satisfactory to Certificate Purchasers):

(a) that the Appraised Value of the Units is reasonably expected to be as follows:

Date	Value
Appraised Value on the Delivery Date	\$74,169,632
End of Base Term	\$51,119,193
End of First Renewal Term	\$44,956,733
End of Second Renewal Term	\$40,217,422

(b) that the remaining economic useful life of each Unit is not less than seven (7) years.

Section 3.3. Lease. On or prior to the Delivery Date, Lessor and each Certificate Purchaser shall have received a fully executed counterpart of this Lease; provided, however, only Lessor shall receive the original counterpart marked "Counterpart No. 1 - Lessor's Original Copy".

Section 3.4. Trust Agreement. On or prior to the Delivery Date, Lessor and each Certificate Purchaser shall have received a fully executed counterpart of the Trust Agreement.

Section 3.5. Bills of Sale. On or prior to the Delivery Date, each Lessee shall have executed and delivered to Lessor a bill of sale (each a "Bill of Sale") with respect to each Unit to be sold by it to Lessor on the Delivery Date in the form of Exhibit A-1 hereto.

Section 3.6. Acceptance Certificate. On or prior to the Delivery Date, each Lessee shall inspect to its satisfaction and accept the Units to be purchased from and leased to such Lessee by delivering to Lessor and the Certificate Purchasers an acceptance certificate (the "Acceptance Certificate") in the form of Exhibit B hereto whereupon (i) the Units shall immediately become subject to and be governed by all the provisions of this Lease and (ii) each Lessee shall be deemed by delivering such Acceptance Certificate to have reaffirmed each of its representations and warranties set forth in Section 12.1 hereof.

Section 3.7. Search Reports. Prior to the Delivery Date, Lessor shall have received reports acceptable to Lessor and counsel to the Certificate Purchasers as to each Lessee and the Units from each appropriate state and county filing or recording office, each dated as close to the Delivery Date as practicable, in respect of a search of the applicable files and any indices of Liens maintained by such offices (including, if applicable, indices of judgment, revenue and tax liens), which search reports shall evidence Lessee's ownership of the Units to be delivered on the Delivery Date free and clear of all Liens (other than Liens arising under or relating to the Dal-Tex Lease or the Dal-Tex Security Agreement which will be released pursuant to Section 3.20), including, but not limited to any Lien as a result of any right, claim or interest in favor of any party owning or holding any interest in the real estate on which such Unit is then, or is to be, located.

Section 3.8. Financing Statements. On or prior to the Delivery Date, Lessor shall have received from each Lessee (and each Certificate Purchaser shall have received a copy of) duly executed UCC financing statements identifying such Lessee as debtor and Lessor as secured party for the benefit of the Certificate Purchasers, and describing this Lease as a secured transaction, and such financing statements shall have been filed in each applicable jurisdiction.

Section 3.9. Transaction Costs; Fees. On or prior to the Delivery Date, Lessees or Lessees' Agent shall have paid to Lessor, for the benefit of Lessor and the Certificate Purchasers, any Transaction Costs invoiced and not previously paid. Such payment shall be made by wire transfer of immediately available funds to the account specified for the person to whom payment is due. On or prior to the Delivery Date, Lessees or Lessees' Agent shall also have paid to BA Leasing & Capital Corporation (in its individual capacity, "BALCAP") the arrangement fee provided for in that certain letter agreement dated November 6,

Section 3.10. Opinions of Counsel. On or prior to the Delivery Date, each Certificate Purchaser, Lessor and their respective counsel shall have received the opinions of (a) Jeffry N. Quinn, General Counsel of Lessees, Parent Guarantor and Subsidiary Guarantors, substantially to the effect of the matters set forth in Exhibit C-1, and (b) Jackson & Kelly, special local counsel to Lessees, substantially to the effect of the matters set forth in Exhibit C-2. On or prior to the Delivery Date, each Certificate Purchaser shall have received the opinion of Ray, Quinney & Nebeker, special counsel to Lessor, substantially to the effect of the matters set forth in Exhibit C-3. On or prior to the Delivery Date, each Certificate Purchaser shall have received the opinion of Chapman and Cutler, special counsel to the Certificate Purchasers, substantially to the effect of the matters set forth in Exhibit C-4. By its execution hereof, Lessees expressly instruct each such counsel to execute and deliver such opinions to the Persons designated in the preceding sentences.

Section 3.11. Corporate Status and Proceedings. Lessor (except with respect to clauses (f), (g) and (h) below) and each Certificate Purchaser shall have received:

(a) on or prior to the Delivery Date, certificates of existence and good standing with respect to each Lessee, Parent Guarantor and each Subsidiary Guarantor from the Secretary of State of the State of its incorporation, and, with respect to (i) Apogee, West Virginia and Illinois, (ii) Catenary, West Virginia, and (iii) Parent Guarantor, Missouri, dated no earlier than the 15th day prior to such Delivery Date;

(b) on or prior to the Delivery Date, an Officer's Certificate of each Lessee substantially in the form of Exhibit E-1, dated the Delivery Date, with respect to representations and warranties and absence of defaults;

(c) on or prior to the Delivery Date, a Certificate of the Secretary or Assistant Secretary of each Lessee substantially in the form of Exhibit E-2, dated the Delivery Date, with respect to such Lessee's governing documents, resolutions and incumbent officers;

(d) on or prior to the Delivery Date, an Officer's Certificate of Parent Guarantor and each Subsidiary Guarantor substantially in the form of Exhibit E-3, dated the Delivery Date, with respect to representations and warranties and absence of defaults;

(e) on or prior to the Delivery Date, a Certificate of the Secretary or Assistant Secretary of Parent Guarantor and each Subsidiary Guarantor substantially in the form of Exhibit E-4, dated the Delivery Date, with respect to Parent Guarantor's or such Subsidiary Guarantor's, as the case may be, governing documents, resolutions and incumbent officers;

(f) on or prior to the Delivery Date, a certificate of the Comptroller of Currency dated as of a recent date with respect to the good standing of Certificate Trustee as a national banking association;

(g) on or prior to the Delivery Date, an Officer's Certificate of Certificate Trustee substantially in the form of Exhibit E-5, dated the Delivery Date, with respect to representations and warranties and absence of defaults; and

(h) on or prior to the Delivery Date, a Certificate of Certificate Trustee with respect to Certificate Trustee's governing documents, resolutions and incumbent officers.

Section 3.12. Consents and Approvals. On or prior to the Delivery Date, all necessary consents, approvals and authorizations of, and declarations, registrations and filings with, Authorities and nongovernmental Persons required to consummate the transactions contemplated by this Lease shall have been obtained or made by Lessees, Parent Guarantor and Subsidiary Guarantors and shall be in full force and effect.

Section 3.13. Payment of Impositions. All Taxes payable on or prior to the Delivery Date in connection with the execution, delivery, recording or filing of any of the Operative Documents, in connection with the filing of any of the financing statements and any other documents, in connection with the consummation of any other transactions contemplated hereby or by any of the other Operative Documents, shall have been paid in full by Lessees.

Section 3.14. Insurance. On or prior to the Delivery Date, Lessor shall have received (and each Certificate Purchaser shall have received a copy of) a current certificate to the effect that insurance complying with Section 6.2 of this Lease is in full force and effect, and there shall be no past due premiums in respect of any such insurance.

Section 3.15. Absence of Material Adverse Effect. Since December 31, 1996, no Material Adverse Effect shall have occurred.

Section 3.16. No Casualty. No Casualty shall have occurred with respect to any Unit being delivered on the Delivery Date.

Section 3.17. Representations and Warranties True; Absence of Defaults. Each of the representations and warranties made by or on behalf of Lessees, Parent Guarantor or Subsidiary Guarantors under the Operative Documents shall be true on and as of the Delivery Date, and there shall exist no Incipient Default or Event of Default.

Section 3.18. Certificates. Each Certificate Purchaser shall have received from Certificate Trustee a Certificate duly executed by Certificate Trustee and registered in such Certificate Purchaser's name evidencing such Certificate Purchaser's right to receive in the aggregate such Certificate Purchaser's

Investment Percentage of the payments (i) in respect of the Lease Balance and (ii) in respect of the Rent hereunder, in each case as provided in this Lease and the Trust Agreement.

Section 3.19. Guaranty Agreements. On or prior to the Delivery Date, Lessor and each Certificate Purchaser shall have received a fully executed counterpart of each of the Parent Guaranty and the Subsidiary Guaranty.

Section 3.20. Terminations and Releases. On or prior to the Delivery Date, Lessor shall have received (i) a copy of UCC termination statements with respect to the Liens arising under or related to the Dal-Tex Lease or the Dal-Tex Security Agreement executed by the appropriate secured party thereunder and (ii) copies of releases by such secured party releasing all right, title and interest acquired by such secured party under either the Dal-Tex Lease or the Dal-Tex Security Agreement.

Section 3.21. Dal-Tex Bill of Sale. On or prior to the Delivery Date, Lessor shall have received a copy of a bill of sale executed by the lessor under the Dal-Tex Lease conveying all right, title and interest of such lessor in the Equipment leased under the Dal-Tex Lease.

Section 3.22. Proceedings Satisfactory, Etc. All proceedings taken in connection with the Delivery Date and all documents relating thereto shall be reasonably satisfactory to Lessor, each Certificate Purchaser and their respective counsel, and each such Person shall have received copies of such documents as they may reasonably request in connection therewith, all in form and substance reasonably satisfactory to each such Person.

#### Article IV

##### Lease Term, Rent and Payment

Section 4.1. Lease Term. Unless earlier terminated, the term of this Lease shall consist of (a) a base period commencing on and including the Delivery Date and ending on but not including the third anniversary thereof (the "Base Term") and (b) any exercised Renewal Terms (collectively, the "Lease Term").

Section 4.2. Lease Renewal. Lessees may elect to renew this Lease for up to two (2) successive one-year renewal terms with respect to all, but not less than all, of the Units then subject to this Lease (each, a "Renewal Term") as provided in Article XI.

Section 4.3. Rent Payments. On each Payment Date during the Lease Term, Lessees shall, on a joint and several basis, pay to Lessor, for the benefit of the Certificate Purchasers, a payment of rent consisting of (a) Capital Rent as set forth opposite the applicable Payment Date on Schedule II hereto and (b) Accrual Rent for the applicable Rent Period on the outstanding Lease Balance (collectively, "Basic Rent"). Scheduled installments of Basic Rent may be adjusted pursuant to Section 6.1 and Section 11.5.

Section 4.4. Place and Manner of Payment. Rent and all other sums due to Lessor or any Certificate Purchaser hereunder shall be paid in immediately available funds and if payable to Lessor or to a Certificate Purchaser, at the office of Lessor or such Certificate Purchaser specified on Schedule I, or at such other office of Lessor or any Certificate Purchaser as such Person may from time to time specify to Lessees' Agent in a notice pursuant to this Lease. All such payments shall be received by Lessor or Certificate Purchaser, as applicable, not later than 10:00 a.m., Salt Lake City, Utah time, on the date due; funds received after such time shall for all purposes under the Operative Documents be deemed to have been received by Lessor on the next succeeding Business Day. Any payments received by Lessor not later than 10:00 a.m., Salt Lake City, Utah time, shall be paid by Lessor to the Certificate Purchasers in immediately available funds no later than Noon, Salt Lake City, Utah time, on the same day and any payments received by Lessor from or on behalf of Lessees after 10:00 a.m., Salt Lake City, Utah time, shall be paid to Certificate Purchasers as soon after receipt as practicable, but not later than Noon, Salt Lake City, Utah time, on the next succeeding Business Day.

Section 4.5. Net Lease. This Lease is a net lease and Lessees' obligation to pay all Rent, Administrative Charges, indemnities and other amounts payable hereunder shall be joint and several, absolute and unconditional under any and all circumstances and, without limiting the generality of the foregoing, Lessees shall not be entitled to any abatement or reduction of Rent or any setoff against Rent, Administrative Charge, indemnity or other amount, whether arising by reason of any past, present or future claims of any nature by any Lessee against Lessor or any Certificate Purchaser, or otherwise. Except as otherwise expressly provided herein, this Lease shall not terminate, nor shall the obligations of Lessees be otherwise affected: (a) by reason of any defect in the condition, merchantability, design, construction, quality or fitness for use of, damage to, or loss of possession or use, obsolescence or destruction, of any or all of the Units, however caused; or (b) by the taking or requisitioning of any or all of the Units by condemnation or otherwise; or (c) by the invalidity or unenforceability or lack of due authorization by Lessor, any Certificate Purchaser or any Lessee or other infirmity of this Lease or any other Operative Document; or (d) by the attachment of any Lien of any third party to any Unit; or (e) by any prohibition or restriction of or interference any Lessees' use of any or all of the Units by any Person; or (f) by the insolvency of or the commencement by or against Lessor or any Certificate Purchaser of any bankruptcy, reorganization or similar proceeding; or (g) by any other cause, whether similar or dissimilar to the foregoing, any present or future law to the contrary notwithstanding. It is the intention of the parties that all Rent, Administrative Charges, indemnities and other amounts payable by Lessees hereunder shall be payable in all events in the manner and at the times herein provided unless Lessees' obligations in respect thereof have been terminated or modified pursuant to the express provisions of this Lease. To the extent permitted by Applicable Laws and Regulations, each Lessee hereby waives any and

all rights which it may now have or which may at any time be conferred upon it, by statute or otherwise, to terminate, cancel, quit or surrender this Lease, in whole or in part, except strictly in accordance with the express terms hereof. Each rental, indemnity or other payment made by Lessees hereunder shall be final, and no Lessee shall seek to recover (except as expressly provided in this Lease) all or any part of such payment from Lessor for any reason whatsoever. Without affecting Lessees' obligation to pay Rent, Administrative Charges or other amounts payable hereunder, Lessees may seek damages for a breach by Lessor or any Certificate Purchaser of its obligations under this Lease.

Section 4.6. Overdue Amounts. Lessees shall pay, on a joint and several basis, to Lessor, on demand, interest at the rate per annum which is 2% above the Interest Rate in effect from time to time on any overdue amount of Rent, Lease Balance, Administrative Charge, Casualty Amount or any other payment due under this Lease and (to the extent permitted by Applicable Laws and Regulations) interest from the date due (not taking into account any grace period) until payment is made.

Section 4.7. No Termination or Abatement. Lessees shall remain jointly and severally obligated under this Lease in accordance with its terms and, consistent with the intention of the parties expressed in Sections 2.5 and 15.1, shall not take any action to terminate, rescind or avoid this Lease, notwithstanding any action for bankruptcy, insolvency, reorganization, liquidation, dissolution, or other proceeding affecting Lessor or any Certificate Purchaser, or any action with respect to this Lease which may be taken by any custodian, receiver, liquidator, assignee, trustee or sequestrator (or other similar official) of such Person. Each Lessee hereby waives all right (i) to terminate or surrender this Lease (except as provided herein) or (ii) to avail itself of any abatement, suspension, deferment, reduction, setoff, counterclaim or defense with respect to any Rent. Each Lessee hereby waives any and all rights now or hereafter conferred by statute or otherwise to modify or to avoid strict compliance with its obligations under this Lease. Notwithstanding any such statute or otherwise, Lessees shall be bound by all of the terms and conditions contained in this Lease.

Section 4.8. Joint and Several Liability of Lessees. (a) Each Lessee is accepting joint and several liability hereunder in consideration of the financial accommodation to be provided by Certificate Purchasers under this Lease, for the mutual benefit, directly and indirectly, of each Lessee and in consideration of the undertakings of each Lessee to accept joint and several liability for the obligations of each of them.

(b) Each Lessee jointly and severally hereby irrevocably and unconditionally accepts, not merely as a surety but also as a co-debtor, joint and several liability with the other Lessees with respect to the payment and performance of all of the Obligations arising under this Lease and the other Operative Documents, it being the intention of the parties hereto that all the Obligations shall be the joint and several obligations of each Lessee without preferences or distinction among them.

(c) If and to the extent that any Lessee shall fail to make any payment with respect to any of the obligations hereunder as and when due then in each such event, the other Lessees will make such payment with respect to such obligation.

(d) The obligations of each Lessee under the provisions of this Section 4.8 constitute full recourse obligations of such Lessee, enforceable against it to the full extent of its properties and assets, irrespective of the validity, regularity or enforceability of this Lease or any other circumstances whatsoever.

(e) Except as otherwise expressly provided herein, each Lessee hereby waives notice of acceptance of its joint and several liability, notice of occurrence of any Incipient Default or Event of Default (except to the extent notice is expressly required to be given pursuant to the terms of this Lease), or of any demand for any payment under this Lease, notice of any action at any time taken or omitted by Lessor or any Certificate Purchaser under or in respect of any of the Obligations hereunder, any requirement of diligence and, generally, all demands, notices and other formalities of every kind in connection with this Lease. Each Lessee hereby assents to, and waives notice of, any extension or postponement of the time for the payment of any of the Obligations hereunder, the acceptance of any partial payment thereon, any waiver, consent or other action or acquiescence by Lessor or any Certificate Purchaser at any time or times in respect of any default by any Lessee in the performance or satisfaction of any term, covenant, condition or provision of this Lease, any and all other indulgences whatsoever by Lessor or any Certificate Purchaser in respect of any of the Obligations hereunder, and the taking, addition, substitution or release, in whole or in part, at any time or times, of any security for any of such Obligations or the addition, substitution or release, in whole or in part, of any Lessee. Without limiting the generality of the foregoing, each Lessee assents to any other action or delay in acting or any failure to act on the part of Lessor or any Certificate Purchaser, including, without limitation, any failure strictly or diligently to assert any right or to pursue any remedy or to comply fully with applicable laws or regulations hereunder which might, but for the provisions of this Section 4.8, afford grounds for terminating, discharging or relieving such Lessee, in whole or in part, from any of its obligations under this Section 4.8, it being the intention of each Lessee that, so long as any of the Obligations hereunder remain unsatisfied, the obligations of such Lessee under this Section 4.8 shall not be discharged except by performance and then only to the extent of such performance. The obligations of each Lessee under this Section 4.8 shall not be diminished or rendered unenforceable by any winding up, reorganization, arrangement, liquidation, reconstruction or similar proceeding with respect to any Lessee or Lessor or any Certificate Purchaser. The joint and several liability of Lessees hereunder shall continue in full force and effect notwithstanding any absorption, merger, amalgamation or any other change whatsoever in the name, membership, constitution or place of formation of any

Lessee or Lessor or any Certificate Purchaser.

(f) The provisions of this Section 4.8 are made for the benefit of Lessor and Certificate Purchasers and their respective successors and assigns, and may be enforced in accordance with the terms hereof from time to time against any Lessee as often as occasion therefor may arise and without requirement on the part of Lessor or any Certificate Purchaser first to marshal any of its claims or to exercise any of its rights against any of the other Lessees or to exhaust any remedies available to it against any of the other Lessees or to resort to any other source or means of obtaining payment of any of the Obligations or to elect any other remedy. The provisions of this Section 4.8 shall remain in effect until all the Obligations hereunder shall have been paid in full or otherwise fully satisfied. If at any time, any payment, or any part thereof, made in respect of any of the Obligations, is rescinded or must otherwise be restored or returned by Lessor or any Certificate Purchasers upon the insolvency, bankruptcy or reorganization of any Lessee, or otherwise, the provisions of this Section 4.8 will forthwith be reinstated and in effect as though such payment had not been made.

(g) Notwithstanding any provision to the contrary contained herein or in any other of the Operative Documents, the obligations of each Lessee hereunder shall be limited to an aggregate amount equal to the largest amount that would not render its obligations hereunder subject to avoidance under Section 548 of the Bankruptcy Code or any comparable provisions of any applicable state law.

Section 4.9. Appointment of Parent Guarantor as Lessees' Agent for Lessees. Each Lessee hereby appoints Parent Guarantor to act as its agent for all purposes under this Lease and the other Operative Documents. Each Lessee acknowledges and agrees that (a) Parent Guarantor may execute such documents on behalf of all Lessees as Parent Guarantor deems appropriate in its sole discretion and each Lessee shall be bound by and obligated by all of the terms of any such document executed by Parent Guarantor on its behalf, (b) any notice or other communication delivered by Lessor or any Certificate Purchaser hereunder to Parent Guarantor shall be deemed to have been delivered to each Lessee and (c) Lessor and each Certificate Purchaser shall accept (and shall be permitted to rely on) any document or agreement executed by Parent Guarantor on behalf of Lessees (or any of them).

## Article V

### Possession, Assignment, Use and Maintenance of Units

Section 5.1. Possession and Use of Units; Compliance with Laws. (a) Each Lessee agrees that the Units will be used and operated in compliance with any and all Applicable Laws and Regulations. Each Lessee shall procure and maintain in effect all licenses, registrations, certificates, permits, approvals and consents required by Applicable Laws and Regulations or by any Authority in connection with the ownership, delivery, installation, use and operation of each Unit leased by such Lessee. No Lessee shall (a) use, operate, maintain or store any Unit or any portion thereof in violation of Section 5.3 or any Insurance Requirement; (b) sublease, assign or otherwise permit the use of any Unit except as may be permitted by Section 5.1(b), Section 5.2 and Article IV of the Parent Guaranty; (c) except as set forth in Section 5.1(b), Section 5.2 and Article IV of the Parent Guaranty, sell, assign or transfer any of its rights hereunder or in any Unit, or directly or indirectly create, incur or suffer to exist any Lien on any of its rights hereunder or in any Unit, except for Permitted Liens; or (d) except in connection with any maintenance or repair thereof, permit any Unit or any Part relating to such Unit to be located at any location other than on real property owned by such Lessee or on which such Lessee has the right to place such Unit in West Virginia, Virginia or Kentucky; provided that if such Lessee wishes to move any such Unit after the Closing Date, such Lessee agrees to comply with the provisions of Section 13.1(h) and provided further that if the new location is in Virginia or Kentucky, such Lessee agrees to provide an opinion of local counsel in Virginia or Kentucky, as the case may be, in form and substance satisfactory to Lessor and Certificate Purchasers. Lessees will, for the benefit of the Certificate Purchasers, defend Lessor's title to all the Units.

(b) So long as no Incipient Default or Event of Default shall have occurred and be continuing, any Lessee may, upon prior written notice to Lessor and compliance with the provisions of Section 13.1(h), use and lease any Unit or Units leased by any other Lessee hereunder.

Section 5.2. Subleases and Assignments. No Lessee shall, without the prior written consent of Lessor and the Required Certificate Purchasers, sublease or otherwise relinquish possession of any Unit, or assign, transfer or encumber its rights, interests or obligations hereunder and any attempted sublease, relinquishment, assignment, transfer or encumbering by any lessee shall be null and void, except as provided in this Section 5.2 or pursuant to a transaction permitted under clause (e) of Article IV of the Parent Guaranty. Each sublease entered into in accordance with this Section 5.2 shall be referred to as a "Sublease". So long as no Incipient Default or Event of Default shall have occurred and be continuing, any Lessee may (i) sublease any Unit or Units to a, direct or indirect, wholly-owned Subsidiary of Parent Guarantor without the prior written consent of Lessor or (ii) sublease all but not less than all of the Units leased by such Lessee to any corporation organized under the laws of the United States or any State thereof with the prior written consent of Lessor, which consent shall not be unreasonably withheld, if the Sublessee is not the subject of any case or proceeding under any bankruptcy, insolvency or similar law; provided, that any Sublease entered into pursuant to this Section 5.2 must satisfy each of the following conditions:

(a) such Sublease shall (i) automatically expire upon the termination of this Lease, (ii) be expressly subordinate and subject to this Lease and the Liens created hereunder and (iii) expressly require the Units to be returned as directed by Lessor or the Required Certificate Purchasers upon

notice to the sublessee that an Event of Default shall have occurred and be continuing;

(b) such Sublease shall be in writing and shall expressly prohibit any further assignment, sublease or transfer;

(c) such Sublease shall not contain a purchase option in favor of the Sublessee or any other provision pursuant to which the Sublessee may obtain record or beneficial title to any Unit leased thereunder from such Lessee;

(d) such Sublease shall prohibit the Sublessee from making any alterations or modifications to any Unit that would violate this Lease;

(e) such Sublease shall require the Sublessee to maintain each Unit subleased thereunder in accordance with Section 5.3;

(f) all of such Lessee's rights, title and interest in, to and under such Sublease shall be pledged by such Lessee to Lessor, for the benefit of Certificate Purchasers, as collateral for Lessees' obligations under the Operative Documents, by delivery of an executed original counterpart upon the execution and delivery thereof, marked as the sole original execution counterpart for Uniform Commercial Code purposes, to Lessor, and such Lessee shall, at its own cost and expense, do any further act and execute, acknowledge, deliver, file, register and record any further documents which Lessor or Certificate Purchasers may reasonably request in order to create, perfect, preserve and protect Lessor's and Certificate Purchasers' Lien in such Sublease;

(g) such Lessee shall not, without Lessor's prior written consent, permit or consent to any renewal or extension of a Sublease at any time when an Incipient Default or Event of Default has occurred and is continuing; and

(h) such Lessee shall notify Lessor and each Certificate Purchaser in writing not less than 30 days prior to entering into any Sublease, which notice shall include (i) a description of the Unit or Units to be leased thereunder, and (ii) the street address, city, county and State where such Unit or Units will be located during the term of such Sublease.

The liability of each Lessee with respect to this Lease and each of the other Operative Documents to which it is a party shall not be altered or affected in any way by the existence of any Sublease.

Section 5.3. Maintenance. At all times during the term of this Lease, each Lessee shall, at its own cost and expense:

(a) keep, repair, maintain and preserve each of the Units leased by such Lessee in at least as good order and operating condition, repair and appearance as when originally delivered, ordinary wear and tear excepted, and in conformance with (i) such maintenance and repair standards and procedures as are set forth in the manufacturer's manuals pertaining to such Units, (ii) such standards or procedures as may be required to enforce warranty claims against each vendor and manufacturer of each such Unit, (iii) such maintenance and repair standards used by such Lessee or any of its Affiliates for similar equipment owned or leased by it, and (iv) all Applicable Laws and Regulations and Insurance Requirements, and in the event that Applicable Laws and Regulations require any alteration, replacement or addition of or to any Part on any Unit, such Lessee will conform therewith at its own expense;

(b) (i) conduct all scheduled maintenance of each Unit leased by such Lessee in conformity with such Lessee's and its Affiliates' past practices, and manufacturer's maintenance and repair guidelines, for similar equipment (including, without limitation, such Lessee's and its Affiliates' maintenance program for such equipment) and (ii) maintain each such Unit so as to preserve its remaining economic useful life, utility and residual value;

(c) cause each Unit leased by such Lessee to continue to have at all times the capacity and functional ability to perform, on a continuing basis (subject to normal interruption in the ordinary course of business for maintenance, inspection, service, repair and testing) and in commercial operation, the functions for which it was specifically designed.

Each Lessee shall prepare and deliver to Lessor and the Certificate Purchasers within a reasonable time prior to the required date of filing (or, to the extent permissible, file on behalf of Lessor and the Certificate Purchasers) any and all reports to be filed by Lessor or any Certificate Purchaser with any Authority by reason of the ownership by Lessor or any Certificate Purchaser of the Units or the leasing thereof to such Lessee. Lessor and each Certificate Purchaser agrees to inform such Lessee of any request for such reports received by it. Each Lessee shall maintain or cause to be maintained, all records, logs and other materials required by any Authority having jurisdiction over the Units leased by such Lessee or such Lessee. Each Lessee shall permit Lessor and each Certificate Purchaser to inspect any and all records, logs and other materials maintained by such Lessee or any of its Affiliates in respect of each Unit. Each Lessee hereby waives any right now or hereafter conferred by law to make repairs on the Units at the expense of Lessor or any Certificate Purchaser.

Section 5.4. Alterations, Modifications, etc. In case any Unit, or any item of equipment, part or appliance therein (each, a "Part") is required to be altered, added to, replaced or modified in order to comply with any Applicable Laws and Regulations (a "Required Alteration") pursuant to Sections 5.1 or 5.3 hereof, the Lessee of such Unit agrees to make such Required Alteration at its own expense. The Lessee of any Unit shall have the right to make any modification, alteration or improvement to such Unit (herein referred to as a "Permitted Modification"), or to remove any Part which has become worn out,

broken or obsolete, provided in each case that such Lessee continues to be in compliance with Sections 5.1 and 5.3 hereof and that such action (a) will not decrease the economic value of the applicable Unit or impair its originally intended use or function or decrease its economic useful life and (b) will not cause such Unit to become suitable for use only by such Lessee or only in the business in which such Lessee is engaged. In the event any Permitted Modification (i) is readily removable without impairing the value or use which the Unit would have had at such time had such Part not been affixed or placed to or on such Unit (a "Removable Part"), (ii) is not a Required Alteration and (iii) is not a Part which replaces any Part originally incorporated or installed in or attached to such Unit on the date on which such Unit became subject to this Lease, or any Part in replacement of or substitution for any such original Part (each an "Original Part"), any such Permitted Modification, if no Event of Default is continuing, shall be and remain the property of the Lessee of such Unit. To the extent such Permitted Modification is not a Removable Part, or is a Required Alteration or an Original Part, and, to the extent a Removable Part is not the property of the Lessee of any Unit because of the continuance of an Event of Default, the same shall immediately and automatically be and become the property of Lessor, for the benefit of Certificate Purchasers, and subject to the terms of this Lease. Any Required Alterations, and any Parts installed or replacements made by any Lessee upon any Unit pursuant to its obligation to maintain and keep the Units in good order, operating condition and repair under Section 5.3 (collectively, "Replacement Parts") and all other Parts which become the property of Lessor shall be considered, in each case, accessions to such Unit and title thereto or security interest therein shall be immediately and automatically vested in Lessor, for the benefit of Certificate Purchasers. All Replacement Parts shall be free and clear of all Liens (other than Permitted Liens) and shall be in as good an operating condition as, and shall have a value and utility at least equal to, the Parts replaced, assuming such replaced Parts and the relevant Units were immediately prior to such replacement or the event or events necessitating such replacement in the condition and repair required to be maintained by the terms hereof. Any Part at any time removed from any Unit shall remain subject to the interests of Lessor and Certificate Purchasers under the Operative Documents, no matter where located, until such time as such Part shall be replaced by a Part which has been incorporated or installed in or attached to such Unit and which meets the requirements for a Replacement Part specified above. No later than 45 days after the end of each fiscal quarter of any Lessee, such Lessee shall deliver to Lessor, for the benefit of Certificate Purchasers, a Bill of Sale evidencing the conveyance by such Lessee to Lessor, for the benefit of Certificate Purchasers, of each Replacement Part not previously evidenced by a Bill of Sale (provided that any Replacement Part with a Fair Market Value of less than \$250,000 need not be specifically described in such Bill of Sale) and such other documents in respect of such Part or Parts as Lessor may reasonably request in order to confirm that title to such Part or Parts has passed to Lessor, for the benefit of Certificate Purchasers, as hereinabove provided. Any such Replacement Part, regardless of whether evidenced by a Bill of Sale, shall become subject to this Lease and shall be deemed part of such Unit, for all purposes hereof to the same extent as the Parts originally incorporated or installed in such Unit, and title to such Replacement Part shall thereupon vest in Lessor. All replacements pursuant to this Section 5.4 shall be purchased by Lessees with their own funds. There shall be no obligation on the part of Lessor or any Certificate Purchaser to pay for or otherwise finance any such replacement.

Section 5.5. Liens. No Lessee will directly or indirectly create, incur, assume or suffer to exist any Lien (other than Permitted Liens) on or with respect to (i) any Unit or any Part thereof or any other Collateral, Lessor's or any Certificate Purchaser's title thereto, or any interest therein or (ii) this Lease or any of Lessor's or any Certificate Purchaser's interests hereunder. Each Lessee, at its own expense, will promptly pay, satisfy and otherwise take such actions as may be necessary to keep this Lease and the Units free and clear of, and to duly discharge or eliminate or bond in a manner satisfactory to Lessor, any such Lien not excepted above if the same shall arise at any time. Each Lessee will notify Lessor or each Certificate Purchaser and each assignee in writing promptly upon becoming aware of any Tax or other Lien (other than any Lien excepted above) that shall attach to the Units or any Unit leased by such Lessee, and of the full particulars thereof. Without limiting the foregoing, no Lessee shall assign or pledge any of its rights under any Sublease to any Person other than Lessor, for the benefit of Certificate Purchasers.

Section 5.6. Identifying Numbers; Legend; Changes; Inspection. Within 60 days after the Delivery Date, each Lessee will cause each Unit leased by such Lessee to be kept numbered with the identification number as shall be set forth on Schedule II, and each Lessee will at all times keep and maintain, plainly, distinctly, permanently and conspicuously marked on each side of each Unit leased by such Lessee that is a Major Unit, in letters not less than one inch in height, the words "subject to a security interest in favor of First Security Bank, National Association, as Trustee for others under a Trust Agreement and a Lease Intended as Security each dated as of January 15, 1998" or other appropriate words designated by Lessor or the Required Certificate Purchasers, with appropriate changes thereof and additions thereto as from time to time may be required by law in order to protect Lessor's right, title and interest, for the benefit of the Certificate Purchasers, in such Unit. Each Lessee will replace promptly any such words on any Unit leased by such Lessee which may be removed, defaced, obliterated or destroyed. No Lessee will change the identification number of any Unit unless and until (i) a statement of new number or numbers to be substituted therefor shall have been delivered to Lessor and the Certificate Purchasers and filed, recorded and deposited by such Lessee in all public offices where this Lease shall have been filed, recorded and deposited or any financing statement has been filed in respect thereof and (ii) such Lessee shall have furnished Lessor and the Certificate Purchasers an opinion of counsel in form and substance reasonably satisfactory to Lessor to the effect that such statement has been so filed, recorded and deposited, such filing, recordation and deposit will protect the right, title and interest of Lessor, on behalf of the Certificate Purchasers in such Units and that no other filing, recording, deposit or giving of notice with or to any other Federal, state or local government or agency thereof is necessary to protect such right,

title and interest. The Units leased by any Lessee may be lettered with the names or initials or other insignia customarily used by such Lessee or its permitted sublessees but such Lessee will not allow the name of any other Person to be placed on any Unit as designation that might be interpreted as a claim of ownership. Upon the request of Lessor or the Required Certificate Purchasers, each Lessee shall make the Units leased by such Lessee available to Lessor or any Certificate Purchaser, its agents, or its Assignees for inspection at reasonable times and at reasonable locations and upon reasonable notice and shall also make such Lessee's records pertaining to the Units available for inspection, provided that from and after the occurrence of an Event of Default, all costs and expenses of Lessor or any Certificate Purchaser in connection with such inspection shall be borne, jointly and severally, by Lessees.

## Article VI

### Risk of Loss; Insurance

Section 6.1. Casualty. Upon the occurrence of a Casualty prior to or during the term of this Lease, the Lessee of the Unit or Units suffering such Casualty or Lessee's Agent shall give Certificate Purchasers and Lessor prompt notice thereof (a "Casualty Notice"). The Casualty Notice shall specify whether:

(a) Lessees will, on a joint and several basis, pay to Lessor, for the benefit of the Certificate Purchasers, the Casualty Amount of the Unit suffering such Casualty, which payment shall be made no later than the next scheduled Payment Date occurring after such Casualty or, if such Casualty occurs during the last 5 Business Days prior to a Payment Date, then no later than the second Payment Date (the "Casualty Settlement Date"), provided that in any event the Casualty Settlement Date shall be no later than the last day of the Lease Term; or

(b) such Lessee will replace the Unit with respect to which the Casualty has occurred pursuant to the following provisions of this Section 6.1, provided that upon the occurrence and during the continuance of an Event of Default or an Incipient Default, Lessees shall be jointly and severally obligated, at the option of Lessor, to make the payments referred to in clause (a) above and shall not be entitled to exercise any right or election of replacement pursuant to this clause (b).

If such Lessee has elected, or is required, to pay the Casualty Amount pursuant to clause (a) above, Lessees, on a joint and several basis, shall continue to make all payments of Rent due under this Lease until and including the Casualty Settlement Date. Upon payment of the Casualty Amount in respect of any Unit suffering a Casualty on such Casualty Settlement Date, the remaining scheduled payments of Capital Rent, if any, as well as the amount of the Lease Balance remaining following the payment of the final installment of Capital Rent at the end of the Lease Term (assuming the exercise of all possible Renewal Terms) shall each be reduced by an amount equal to the product of the scheduled amount of such Capital Rent payment or such remaining Lease Balance, as the case may be (determined in each case prior to the receipt of such Casualty Amount), multiplied by the Unit Value Fraction of the Unit suffering such Casualty.

If such Lessee or Lessees' Agent has given notice that such Lessee intends to replace the Unit suffering such Casualty, and such replacement is permitted under the foregoing clause (b), such Lessee may make subject to this Lease, not more than 60 days after the date of such Casualty Notice, a replacement for such Unit meeting the suitability standards hereinafter set forth. To be suitable as a replacement Unit, an item must be of the same general type, year of construction (or a later year of construction), function, utility, state of repair and operating condition (immediately preceding the Casualty assuming that such Unit had been maintained in accordance with the terms of Section 5.3) as the Unit suffering the Casualty, must have a Fair Market Value of not less than the Fair Market Value (immediately preceding the Casualty assuming that such Unit had been maintained in accordance with the terms of Section 5.3) of the Unit suffering the Casualty and be free and clear of any Liens other than Permitted Liens. Such Lessee shall cause a Bill of Sale and Acceptance Certificate to be executed and delivered to Lessor and the Certificate Purchasers in order to subject such replacement item to this Lease, and upon such execution and delivery and the receipt by Lessor and the Certificate Purchasers of (i) evidence reasonably satisfactory to Lessor of such Lessee's compliance with the insurance provisions of Section 6.2 with respect to such replacement item, and (ii) an opinion of counsel to such Lessee in form and substance reasonably satisfactory to Lessor opining, among other things, to the effect that all appropriate filings, recordings and other acts have been taken to protect the right, title and interest of Lessor, on behalf of the Certificate Purchasers, in such replacement item and that no other filing, recording, deposit, or giving of notice with or to any Authority is necessary to protect such right, title and interest in such replacement item, such replacement item shall be deemed a "Unit" for all purposes hereof.

If Lessor has received the amount payable with respect to the Casualty and all other amounts due hereunder and no Event of Default or Incipient Default exists, the applicable Lessee shall be entitled to receive from Lessor the proceeds of any recovery in respect of the Unit from insurance or otherwise ("Casualty Recoveries"), and Lessor, subject to the rights of any insurer insuring the Units as provided herein, shall execute and deliver to such Lessee, or to its assignee or nominee, a quitclaim bill of sale (without representations or warranties except that the Unit is free and clear of Lessor Liens) for the Unit, and such other documents as may be required to release the Unit from the terms of this Lease, in such form as may reasonably be requested by such Lessee. All fees, costs and expenses relating to a substitution as described herein shall be borne by Lessees. Except as otherwise provided in this Section 6.1, Lessees shall not be released from their obligations hereunder in the event of, and shall bear the risk of, any Casualty to any Unit prior to or during the term of this Lease and thereafter until all Lessees' obligations hereunder are fully performed.

All Casualty Recoveries (or other payments (including, without limitation, insurance proceeds) received at any time by Lessor or any Lessee from any Authority or other party with respect to any loss or damage to any Unit or Units not constituting a Casualty) (collectively, "Casualty Proceeds") shall be deposited into a deposit account established by Lessor for the benefit of the Certificate Purchasers (the "Deposit Account"). Any Casualty Proceeds in the Deposit Account shall be remitted promptly to the Lessee of the damaged Unit or Units after either (i) with respect to a Casualty, Lessees' compliance with the requirements of clause (a) or clause (b), as applicable, of this Section 6.1 or (ii) with respect to any other loss or damage, Lessees' full compliance with Section 5.3.

Lessees hereby assume all risk of loss, damage, theft, taking, destruction, confiscation, requisition, commandeering, taking by eminent domain or condemnation, partial or complete, of or to each Unit, however caused or occasioned, such risk to be borne by Lessees with respect to each Unit from the date of this Lease, and continuing until such Unit has been returned to Lessor in accordance with the provisions of Article XVI. Lessees agree that no occurrence specified in the preceding sentence shall impair, in whole or in part, any obligation of Lessees under this Lease, including, without limitation, the obligation to pay Rent.

Section 6.2. Insurance Coverages. Each Lessee shall at all times, at its expense, cause to be carried and maintained with financially sound and reputable insurers, insurance against loss or damage to the Units leased by such Lessee, of the kinds and in the amounts customarily maintained by prudent corporations in similar circumstances carrying on similar businesses, provided that in any event each Lessee will maintain:

(a) Property Insurance -- insurance against risks of physical loss or damage with respect to the Units (including, without limitation, earthquake insurance) with deductibles customarily maintained by prudent corporations in similar circumstances carrying on similar businesses and in such minimum amounts as are consistent with industry standards; provided, however, that at no time shall the amount of coverage be less than the sum of (x) the outstanding Lease Balance and (y) an amount equal to the aggregate amount of Accrual Rent to be accrued under this Lease for 90 days following the date of determination;

(b) Public Liability Insurance -- combined single limit insurance against claims for bodily injury, death or property damage in amounts at least equal to \$35,000,000 single limit per occurrence and with deductibles not to exceed \$1,000,000 per occurrence; and

(c) Other Insurance -- such other insurance, including comprehensive motor vehicle, worker's compensation and business interruption insurance, in each case of the kinds and, in such amounts and against such risks as are customarily maintained by prudent corporations in similar circumstances carrying on similar businesses, including, with respect to worker's compensation insurance, self-insurance to the extent customarily maintained by prudent corporations in similar circumstances carrying on similar businesses.

Such insurance shall be written by reputable insurance companies that are financially sound and solvent, rated in Best's Insurance Guide or any successor thereto (or if there be none, an organization having a similar national reputation) with a general policyholder rating of "A" and a financial rating of at least "X" or otherwise acceptable to Lessor. All such insurance shall name Lessor and the Certificate Purchasers as additional insureds or as loss-payees, as their respective interests may appear, and, as sole loss payees to the extent such claims relate to the Units subject to this Lease. Each policy referred to in this Section 6.2 shall provide that (i) it will not be cancelled or its limits reduced, or allowed to lapse without renewal or changed in any material manner, except after not less than 30 days' written notice to Lessor and the Certificate Purchasers; (ii) the interests of Lessor and the Certificate Purchasers shall not be invalidated by any act or negligence of, or breach of representation or warranty by, any Lessee or any Person having an interest in any Unit; (iii) such insurance is primary with respect to any other insurance carried by or available to Lessor and/or any Certificate Purchaser; (iv) the insurer shall waive any right of subrogation, setoff, counterclaim, or other deduction, whether by attachment or otherwise, against Lessor and the Certificate Purchasers; (v) the insurer shall waive any right to claim any premiums or commission against Lessor or any Certificate Purchaser; and (vi) such policy shall contain a cross-liability clause providing for coverage of Lessor and each Certificate Purchaser as if separate policies had been issued to each of them. Lessees or Lessees' Agent will notify Lessor and Certificate Purchasers promptly of any policy cancellation, reduction in policy limits, or of any modification or amendment which could adversely affect Lessor or Certificate Purchasers.

Section 6.3. Insurance Certificates. Prior to the initial Delivery Date, and thereafter not less than 15 days prior to the expiration dates of the expiring policies theretofore delivered pursuant to Section 6.2, Lessees shall deliver to Lessor and the Certificate Purchasers certificates issued by the insurer(s) for the insurance maintained pursuant to Section 6.2; provided, however, that if the delivery of any certificate is delayed, Lessees shall not be deemed to be in violation of the obligation to deliver such certificate if, within such 15 day period, Lessees deliver an executed binder with respect thereto and thereafter delivers the certificate upon receipt thereof. Upon the request of Lessor or the Required Certificate Purchasers, Lessees will furnish to Lessor and the Certificate Purchasers a certificate of an independent insurance broker of recognized standing evidencing the maintenance of all insurance required hereunder.

## Indemnification

Section 7.1. General Indemnification. Whether or not the transactions contemplated hereby are consummated, to the fullest extent permitted by Applicable Laws and Regulations, Lessees hereby, jointly and severally

(x) waive and release any Claims now or hereafter existing against any Indemnitee on account of, and

(y) assume liability for and agree to indemnify, protect, defend, save and keep harmless each Indemnitee on an after-tax basis (in accordance with Section 7.4) from and against,

any and all Claims of every kind and nature whatsoever that may be imposed on, incurred by, or asserted against any Indemnitee, which are not directly and primarily caused by the gross negligence or willful misconduct of the Indemnitee (provided that the indemnification provided under this Section 7.1 shall specifically include matters based on or arising from the negligence of any Indemnitee), whether or not such Indemnitee shall also be indemnified as to any such Claim by any other Person and whether or not such Claim arises or accrues prior to the Delivery Date or after the Termination Date, and which relates in any way to or arises in any way out of:

(a) any of the Operative Documents or any of the transactions contemplated thereby, or any investigation, litigation or proceeding in connection therewith, and any amendment, modification or waiver in respect thereof;

(b) the Units or any Part thereof or interest therein;

(c) the acquisition, mortgaging, design, manufacture, re-manufacture, construction, preparation, installation, inspection, delivery, non-delivery, acceptance, rejection, purchase, ownership, possession, rental, lease, sublease, repossession, maintenance, repair, alteration, modification, addition or substitution, storage, titling or retitling, transfer of title, registration or re-registration, redelivery, use, operation, condition, financing, refinancing, sale (including, without limitation, any sale pursuant to Section 11.1 of this Lease), return or other application or disposition of the Units or any Unit or Part thereof or the imposition of any Lien (or incurring of any liability to refund or pay over any amount as a result of any Lien) on any of the Units, including, without limitation, (i) Claims or penalties arising from any violation of Applicable Laws and Regulations or in tort (strict liability or otherwise), (ii) loss of or damage to the environment (including, without limitation, investigation costs, cleanup costs, response costs, remediation and removal costs, costs of corrective action, costs of financial assurance, and all other damages, costs, fees and expenses, fines and penalties, including natural resource damages), or death or injury to any Person, and any mitigative action required by or under Environmental Laws, (iii) latent or other defects, whether or not discoverable, and (iv) any Claim for patent, trademark or copyright infringement;

(d) the sale or other disposition of any of the Units, including, without limitation, any disposition pursuant to the Sale Option, Purchase Option or as a result of the exercise of remedies;

(e) the offer, issuance, sale or delivery of the Certificates;

(f) the breach or alleged breach by any Lessee, Parent Guarantor or any Subsidiary Guarantor of any representation or warranty made by it or deemed made by it in any Operative Document;

(g) the transactions contemplated hereby or by any other Operative Document in respect of the application of Parts 4 and 5 of Subtitle B of Title I of ERISA and any prohibited transaction described in Section 4975(c) of the Code;

(h) any Claims related to the Release from any Unit of any substance into the environment, including (without limitation) Claims arising out of the use of any Unit for the transportation or storage of any Hazardous Material;

(i) any failure on the part of any Lessee, Parent Guarantor or any Subsidiary Guarantor to perform or comply with any of the terms of any Operative Document to which it is a party; or

(j) any other agreement entered into or assumed by any Lessee in connection with any Unit.

It is expressly understood and agreed that this Section 7.1 shall not apply to Claims in respect of:

(A) Taxes (such Claims being subject to Section 7.2), except with respect to (1) taxes or penalties included in Claims described in clause (g) above, and (2) any payment necessary to make payments under this Section 7.1 in accordance with Section 7.4;

(B) as to an Indemnitee, Lessor Liens which such Indemnitee is responsible for discharging under the Operative Documents; and

(C) the gross negligence or willful misconduct of such Indemnitee or any Affiliate, agents, officers directors, servants or employees thereof.

Section 7.2. General Tax Indemnity. (a) Lessees shall, jointly and severally, pay, defend and indemnify and hold each Indemnitee harmless on an after-tax basis (in accordance with Section 7.4) from any and all Federal,

state, local and foreign Taxes imposed on or with respect to or in connection with any Indemnitee, the Units or any portion thereof, any Operative Document, any Lessee or any sublessee or user of any Unit, howsoever imposed, whether levied or imposed upon or asserted against any Indemnitee, any Unit, or any Part thereof, by any taxing Authority (including any Federal, state or local government or taxing Authority in the United States and any taxing Authority or governmental subdivision of a foreign country), upon or with respect to:

(i) the acquisition, mortgaging, design, manufacture, re-manufacture, construction, preparation, installation, inspection, delivery, non-delivery, acceptance, rejection, purchase, ownership, possession, rental, lease, sublease, repossession, maintenance, repair, alteration, modification, addition or substitution, storage, titling or retitling, transfer of title, registration or re-registration, redelivery, use, operation, condition, financing, refinancing, sale, return or other application or disposition of the Units or any Unit or Part thereof or the imposition of any Lien (or incurrence of any liability to refund or pay over any amount as a result of any Lien) thereon,

(ii) Basic Rent or Supplemental Rent or the receipts or earnings arising from or received with respect to the Units or any Unit or any Part thereof, or any interest therein or any applications or dispositions thereof,

(iii) any other amount paid or payable pursuant to this Lease, the Certificates or any other Operative Documents,

(iv) the Units or any Unit or any Part thereof or any interest therein,

(v) all or any of the Operative Documents, any other documents contemplated thereby and any amendments and supplements thereto, and

(vi) otherwise with respect to or in connection with the transactions contemplated by the Operative Documents;

provided, however, that the indemnification obligation of this Section 7.2(a) shall not apply to (1) Taxes which are based upon or measured by the Indemnitee's net income or which are expressly in substitution for, or relieve Indemnitee from, any actual Tax based upon or measured by Indemnitee's net income (other than any such Taxes imposed by means of withholding); (2) Taxes characterized under local law as franchise, net worth, or shareholder's capital (excluding, however, any value-added, license, property or similar Taxes); and (3) if no Event of Default exists, Taxes based upon the voluntary transfer, assignment or disposition by Lessor or any Certificate Purchaser of any interest in any of the Units (other than transfers pursuant to the exercise of the Sale Option or the Purchase Option, or any other transfer to any Lessee or otherwise pursuant to this Lease). Notwithstanding the proviso of the preceding sentence of this Section 7.2(a), Lessees shall, jointly and severally, pay or reimburse, and indemnify and hold harmless,

(A) any Indemnitee against any Tax based on, or measured by the net income of, such Indemnitee imposed by any Federal, state or local taxing Authority in the United States (or any taxing Authority in any other jurisdiction in which such Indemnitee maintains its principal place of business) to the extent such Tax would not have been imposed if on the Delivery Date the Certificate Purchasers had advanced funds directly to Lessees in the form of a loan secured by the Units in an amount equal to the aggregate amount funded by the Certificate Purchasers on the Delivery Date, with the debt service for such loan equal to the rents provided under this Lease and a principal balance due at the end of such term in an amount equal to the Lease Balance remaining at the end of the Lease Term, or

(B) any Indemnitee which is not incorporated under the laws of the United States or a state thereof and which has complied with Section 7.2(c), from any deduction or withholding of any United States Federal income tax.

All of the indemnities contained in this Section 7.2 shall continue in full force and effect notwithstanding the expiration or earlier termination of this Lease in whole or in part, including the termination of this Lease with respect to any Unit or all of the Units, and are expressly made for the benefit of, and shall be enforceable by, each Indemnitee.

(b) Lessees or Lessees' Agent will promptly notify Lessor or the Certificate Purchasers of all reports or returns required to be made with respect to any Tax with respect to which Lessees are required to indemnify hereunder, and will, if permitted by Applicable Laws and Regulations, file the same. If Lessees are not permitted to so file, Lessees shall prepare such reports or returns for signature by Lessor or the applicable Certificate Purchaser and shall forward the same, together with immediately available funds for payment of any Tax due, to Lessor or such Certificate Purchaser, at least ten (10) days in advance of the date such payment is to be made. Upon written request, Lessees shall furnish Lessor or any Certificate Purchaser with copies of all paid receipts or other appropriate evidence of payment for all Taxes paid by Lessees pursuant to this Section 7.2.

(c) At least five (5) Business Days prior to the first date on which any payment is due under this Lease for the account of any Certificate Purchaser not incorporated under the laws of the United States or a state thereof, such Certificate Purchaser agrees that it will have delivered to Lessees' Agent and Lessor two duly completed copies of United States Internal Revenue Service Form 1001 or 4224, certifying in either case that such Certificate Purchaser is entitled to receive payments under the Operative Documents without deduction or withholding of any United States Federal income taxes, or at a reduced rate, if applicable. Each Certificate Purchaser which so delivers a Form 1001 or 4224 further undertakes to deliver to Lessees' Agent and Lessor two additional copies

of such form (or a successor form) on or before the date that such form expires (currently, three successive calendar years for Form 1001 and one calendar year for Form 4224) or becomes obsolete or after the occurrence of any event requiring a change in the most recent forms so delivered by it, and such amendments thereto or extensions or renewals thereof as may be reasonably requested by Lessees' Agent or Lessor, in each case certifying that such Certificate Purchaser is entitled to receive payments under the Operative Documents without deduction or withholding of any United States Federal income taxes, unless an event (including any change in treaty, law or regulation) has occurred prior to the date on which any such delivery would otherwise be required which renders all such forms inapplicable or which would prevent such Certificate Purchaser from duly completing and delivering any such form with respect to it and such Certificate Purchaser advises Lessees' Agent and Lessor that it is not capable of receiving payments without any withholding of United States Federal income tax.

Section 7.3. Excessive Use Indemnity. In the event that at the end of the Lease Term: (a) Lessees elects the Sale Option; and (b) after paying to Lessor, for the benefit of the Certificate Purchasers, any amounts due under Section 11.1(c), Proceeds and the Sale Recourse Amount, the Lease Balance shall not have been reduced to zero, then Lessees shall promptly pay over to Certificate Purchasers the shortfall unless Lessees deliver a report from an independent appraiser in form and substance satisfactory to Lessor which establishes that the decline in value in the Units from the aggregate amount anticipated for such date in the Appraiser's report delivered with respect to each Unit on the Delivery Date was not due to the excessive use of any Unit, failure to maintain any Unit, modifications or alteration which reduce the value of any Unit, any adverse change in the environmental condition of any Unit, any defect or exception to title of any Unit or any other cause or condition within the power of Lessees to control or affect, differing from ordinary wear and tear.

Section 7.4. Gross Up. If an Indemnitee shall not be entitled to a corresponding and equal deduction with respect to any payment or Tax which Lessees are required to pay or reimburse under any other provision of this Article VII (each such payment or reimbursement under this Article VII, an "original payment") and which original payment constitutes income to such Indemnitee, then Lessees shall pay to such Indemnitee on a joint and several basis on demand the amount of such original payment on a gross-up basis such that, after subtracting all Taxes imposed on such Indemnitee with respect to such original payment by Lessees (including any Taxes otherwise excluded from the indemnification provided under Section 7.2 and assuming for this purpose that such Indemnitee was subject to taxation at the highest Federal, state or local marginal rates applicable to widely held corporations for the year in which such income is taxable), such payments shall be equal to the original payment to be received (net of any credits, deductions or other tax benefits then actually recognized that arise from the payment by such Indemnitee of any amount, including taxes, for which the payment to be received is made).

Section 7.5. Increased Capital Costs. If any change in, or the introduction, adoption, effectiveness, interpretation, reinterpretation or phase-in of, any law or regulation, directive, guideline, decision or request (whether or not having the force of law) of any court, central bank regulator or other Authority ("Change in Law") affects or would affect the amount of capital required or expected to be maintained by any Certificate Purchaser directly or by its parent company (including, without limitation, any reserve requirements specified under regulations issued from time to time by the Board of Governors of the Federal Reserve System and then applicable to assets or liabilities consisting of and including "Eurocurrency Liabilities" as defined in Regulation D of such Board of Governors) and such Certificate Purchaser determines (in its sole and absolute discretion) that the rate of return on it or its parent's capital as a consequence of any Funding made by such Certificate Purchaser hereunder to pay its share of the Purchase Price is reduced to a level below that which such Certificate Purchaser or its parent could have achieved but for the occurrence of any such circumstances, then, in any such case, upon written notification from time to time by such Certificate Purchaser to Lessees' Agent, Lessees shall, within five (5) Business Days following receipt of the statement referred to in the next sentence, pay on a joint and several basis directly to such Certificate Purchaser, as Supplemental Rent, additional amounts sufficient to compensate Certificate Purchaser or its parent for such reduction in rate of return (subject to Section 7.4). A statement of a Certificate Purchaser as to any such additional amount or amounts (including calculations thereof in reasonable detail) shall, in the absence of manifest error, be conclusive and binding on Lessees. In determining such amount, each Certificate Purchaser shall use any method of averaging or attribution that it (in its reasonable discretion) shall deem applicable.

Section 7.6. LIBO Rate Illegal, Unavailable or Impracticable. If any Certificate Purchaser shall determine in good faith (which determination shall, upon notice thereof to Lessees' Agent, be conclusive and binding on Lessees) that

(a) a change in law makes it unlawful, or the central bank or other Authority asserts that it is unlawful, for such Certificate Purchaser to make, continue or maintain any amount of such Certificate Purchaser's investment hereunder on a LIBO Rate basis,

(b) deposits in Dollars (in the applicable amounts) are not being offered to such Certificate Purchaser in the relevant market for the applicable Rent Period, or that by reason of circumstances affecting the interbank eurodollar market adequate and reasonable means do not exist for ascertaining the applicable LIBO Rate, or

(c) the LIBO Rate, as determined by Lessor, will not adequately and fairly reflect the cost to such Certificate Purchaser of maintaining or funding its investments for the applicable Rent Period, or that the making or funding of such Certificate Purchaser's investment hereunder on a LIBO Rate basis has become impracticable as a result of an event occurring after

the date of this Lease which in the opinion of such Certificate Purchaser materially changes such investment,

then the obligations of such Certificate Purchaser to make, continue or maintain any such investment shall, upon such determination, forthwith be suspended until such Certificate Purchaser shall notify Lessees' Agent that such circumstances no longer exist, and all Accrual Rent allocable to such Certificate Purchaser shall automatically be determined on a Base Rate basis beginning on the next immediately succeeding Payment Date with respect thereto or sooner, if required by such law, assertion or determination.

Section 7.7. Funding Losses. Lessees agree, on a joint and several basis, to reimburse any Certificate Purchaser for any loss or expense incurred (including any loss or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by such Certificate Purchaser to make, continue or maintain any portion of its investment hereunder on a LIBO Rate basis) as a result of (i) the failure of the transaction contemplated by Article II to occur on or before the Delivery Date specified in the Delivery Date Notice or (ii) any payment of all or any portion of the Lease Balance for any reason on a date other than a Payment Date. Certificate Purchaser shall promptly notify Lessees' Agent in writing of the amount of any claim under this Section 7.7, the reason or reasons therefor and the additional amount required fully to compensate such Certificate Purchaser for such loss or expense. Such written notice (which shall include calculations in reasonable detail) shall, in the absence of manifest error, be conclusive and binding on Lessees.

Section 7.8. Actions of Affected Certificate Purchasers. Each Certificate Purchaser shall use reasonable efforts (including reasonable efforts to change the booking office for this transaction) to avoid or minimize any amounts which might otherwise be payable pursuant to Section 7.5; provided, however, that such efforts shall not be deemed by such Certificate Purchaser, in its sole discretion, to be disadvantageous to it. In the event that such reasonable efforts are insufficient to avoid or minimize such amounts that might be payable pursuant to Section 7.5, then such Certificate Purchaser (the "Affected Certificate Purchaser") shall use its reasonable efforts to transfer to any other Certificate Purchaser approved by Lessees' Agent (which itself is not then an Affected Certificate Purchaser) its rights and obligations hereunder; provided, however, that such transfer shall not be deemed by such Affected Certificate Purchaser, in its sole discretion, to be disadvantageous to it (other than the economic disadvantage of ceasing to be a Certificate Purchaser). In the event that the Affected Certificate Purchaser is unable, or otherwise is unwilling, so to transfer its rights and obligations, Lessees' Agent may designate an alternate financial institution to purchase the Affected Certificate Purchaser's rights and obligations hereunder, at the amount of the portion of the then outstanding Lease Balance allocable to such Certificate Purchaser plus accrued Accrual Rent on such portion of the Lease Balance, indemnities, and other amounts owing to such Certificate Purchaser and, subject to the provisions of Section 7.7 and Article XIV, the Affected Certificate Purchaser shall transfer its rights and obligations to such alternate financial institution and such alternate financial institution shall become a Certificate Purchaser hereunder.

## Article VIII

### Events of Default; Remedies

Section 8.1. Events of Default. The following shall constitute events of default (each an "Event of Default") hereunder:

(a) any payment of Rent, Lease Balance, Administrative Charge or any other payment payable by any Lessee hereunder or under any other Operative Document (including without limitation, any amount payable pursuant to Article VII) or any amounts payable by Parent Guarantor under the Parent Guaranty or any Subsidiary Guarantor under the Subsidiary Guaranty shall not be paid when due, and such payment shall be overdue for a period of 3 Business Days;

(b) Any representation or warranty of any Lessee, Parent Guarantor or any Subsidiary Guarantor contained herein, in any other Operative Document or in any document furnished to any Certificate Purchaser or Lessor in connection herewith is incorrect, incomplete or misleading in any material respect when made, deemed made or reaffirmed, as the case may be;

(c) Any Lessee shall default in the performance or observance of any term, covenant, condition or agreement on its part to be performed or observed under Section 5.2, Section 5.5, Section 6.2 or Article XI or Section 13.1(d);

(d) Parent Guarantor shall default in the performance or observance of any term, covenant, condition or agreement on its part to be performed or observed under clauses (c) through (n) of Article IV of the Parent Guaranty;

(e) Any Lessee, Parent Guarantor or any Subsidiary Guarantor shall default in the performance or observance of any other term, covenant, condition or agreement on its part to be performed or observed hereunder or under any other Operative Document (and not constituting an Event of Default under any other clause of this Section 8.1), and such default shall continue unremedied for a period of 30 days after the earlier to occur of (i) written notice thereof by Lessor or any Certificate Purchaser to Lessees' Agent, Parent Guarantor or such Subsidiary Guarantor, as the case may be, or (ii) a Responsible Officer of any Lessee or Lessee's Agent, Parent Guarantor or such Subsidiary Guarantor, as the case may be, has knowledge thereof;

(f) (i) Any Lessee, Parent Guarantor or any of its Subsidiaries shall

generally fail to pay, or admit in writing its inability to pay, its debts as they become due, or shall voluntarily commence any case or proceeding or file any petition under any bankruptcy, insolvency or similar law or seeking dissolution, liquidation or reorganization or the appointment of a receiver, agent, custodian, liquidator or similar Person for itself or a substantial portion of its property, assets or business or to effect a plan or other arrangement with its creditors, or shall file any answer admitting the jurisdiction of the court and the material allegations of any involuntary petition filed against it in any bankruptcy, insolvency or similar case or proceeding, or shall be adjudicated bankrupt, or shall make a general assignment for the benefit of creditors, or shall consent to, or acquiesce in the appointment of, a receiver, agent, custodian, liquidator or similar Person for itself or a substantial portion of its property, assets or business, or (ii) action shall be taken by any Lessee, Parent Guarantor or any of its Subsidiaries for the purpose of effectuating, authorizing or furthering any of the foregoing;

(g) involuntary proceedings or an involuntary petition shall be commenced or filed against any Lessee, Parent Guarantor or any of its Subsidiaries under any bankruptcy, insolvency or similar law or seeking the dissolution, liquidation or reorganization of such Lessee, Parent Guarantor or such Subsidiary or the appointment of a receiver, agent, custodian, liquidator or similar Person for any Lessee, Parent Guarantor or any of its Subsidiaries or of a substantial part of the property, assets or business of such Lessee, Parent Guarantor or such Subsidiary, or any writ, judgment, warrant of attachment, execution or similar process shall be issued or levied against a substantial part of the property, assets or business of such Lessee, Parent Guarantor or such Subsidiary, and such proceedings or petition shall not be dismissed or stayed, or such writ, judgment, warrant of attachment, execution or similar process shall not be released, vacated or fully bonded, within 60 days after commencement, filing or levy, as the case may be;

(h) there shall have occurred any event of default in the performance or observance of any obligation or condition with respect to any amount or amounts of Indebtedness or other amounts under a synthetic lease owing by or guaranteed by any Lessee, Parent Guarantor or any of its Subsidiaries the effect of which is to cause or permit the acceleration of the maturity of Indebtedness having a principal amount or other amounts under a synthetic lease in excess of \$10,000,000 (individually or in the aggregate) prior to its expressed or stated maturity or to permit the beneficiary of any such guarantee of indebtedness having a principal amount or other amounts under a synthetic lease in excess of \$10,000,000 (individually or in the aggregate) to make a demand for payment or performance thereunder;

(i) any of the following occurs: (A) any Reportable Event, which Lessor determines in good faith constitutes grounds for the termination of any Plan by the PBGC or the appointment of a trustee to administer or liquidate any Plan, shall have occurred and be continuing; (B) proceedings shall have been instituted or other action taken to terminate any Plan, or a termination notice shall have been filed with respect to any Plan; (C) a trustee shall be appointed to administer or liquidate any Plan; (D) the PBGC shall give notice of its intent to institute proceedings to terminate any Plan or Plans or to appoint a trustee to administer or liquidate any Plan; and, in the case of the occurrence of (A), (B), (C) or (D) above, Lessor determines in good faith that the amount of Parent Guarantor's liability is likely to exceed 10% of its Consolidated Tangible Net Worth; (E) Parent Guarantor or any of its ERISA Affiliates shall fail to make any contributions when due to a Plan or a Multiemployer Plan; (F) Parent Guarantor or any of its ERISA Affiliates shall make any amendment to a Plan with respect to which security is required under Section 307 of ERISA; (G) Parent Guarantor or any of its ERISA Affiliates shall withdraw completely or partially from a Multiemployer Plan; (H) Parent Guarantor or any of its ERISA Affiliates shall withdraw (or shall be deemed under Section 4062(e) of ERISA to withdraw) from a Multiple Employer Plan; or (I) any applicable laws are adopted, changed or interpreted by any Authority with respect to or otherwise affecting one or more Plans, Multiemployer Plans or Benefit Arrangements and, with respect to any of the events specified in (E), (F), (G), (H) or (I), Lessor determines in good faith that any such occurrence would be reasonably likely to materially and adversely affect the total enterprise represented by Parent Guarantor and its ERISA Affiliates;

(j) any Operative Document or the Lien granted under this Lease shall (except in accordance with its terms), in whole or in part, terminate, cease to be effective or cease to be the legally valid, binding and enforceable obligation of any Lessee, Parent Guarantor or any Subsidiary Guarantor, as the case may be, or any Lessee, Parent Guarantor, any Subsidiary Guarantor or any of their Affiliates shall, directly or indirectly, contest in any manner the effectiveness, validity, binding nature or enforceability thereof; or the Lien securing Lessees' obligations under the Operative Documents shall, in whole or in part, cease to be a perfected first priority security interest;

(k) a final judgment or final judgments for the payment of money are entered by a court or courts of competent jurisdiction against any Lessee, Parent Guarantor or any of its Subsidiaries and such judgment or judgments remain undischarged, unbonded or unstayed for a period (during which execution shall not be effectively stayed) of 30 days; provided, that the aggregate of all such judgments exceeds \$10,000,000; or

(l) any Event of Default (as defined in the Revolving Credit Facility) shall have occurred under the Revolving Credit Facility.

Section 8.2. Remedies. If any Event of Default exists, Lessor shall have the rights, options and remedies of a secured party under the UCC (regardless of whether the UCC or a law similar thereto has been enacted in a jurisdiction wherein the rights or remedies are asserted), and, without limiting the

foregoing, Lessor also may exercise, at the direction of the Required Certificate Purchasers, in any order one or more or all of the following remedies (it being understood that no remedy herein conferred is intended to be exclusive of any other remedy or remedies, but each and every remedy shall be cumulative and shall be in addition to every other remedy given herein or now or hereafter existing at law or in equity or by statute): (i) terminate this Lease by notice in writing to Lessees' Agent, but Lessees shall remain liable as hereinafter provided; (ii) declare the entire outstanding Lease Balance to be due and payable, together with accrued unpaid Rent, any Applicable Administrative Charge, and any other amounts payable under the Operative Documents (and the payment of such amounts shall be the joint and several obligations of Lessees); (iii) enforce the Lien given hereunder pursuant to the UCC or any other law; (iv) enter upon the premises where any of the Collateral may be and take possession of all or any of such Collateral; (v) proceed by appropriate court action or actions either at law or in equity, to enforce performance by Lessees of the applicable covenants of this Lease or to recover damages for the breach thereof; and (vi) require Lessees to assemble and return the Units as provided below.

If Lessor exercises the option set forth in clause (vi) above, Lessees shall, at their own expense, forthwith deliver exclusive possession of the Units to Lessor for the benefit of the Certificate Purchasers, at a location or locations designated by Lessor in the 48 contiguous United States, together with a copy of an inventory list of the Units then subject to this Lease, all then current plans, specifications and operating, maintenance and repair manuals relating to the Units that have been received or prepared by Lessees and their Affiliates, appropriately protected and in the condition required by Article V hereof (and in any event in condition to be placed in immediate revenue service) and free and clear of all Liens (other than the Liens described in clauses (i) through (iv) of the definition of Permitted Liens). In addition, Lessees shall, for 180 days after redelivery of the Units, maintain (or cause to be maintained) the Units in the condition required by Article V and free and clear of all Liens (other than the Liens described in clauses (i) through (iv) of the definition of Permitted Liens), store the Units without cost to Lessor or any Certificate Purchaser and keep all of the Units insured in accordance with Section 6.2. This paragraph shall survive termination of this Lease.

Notwithstanding the foregoing,

(a) if any Event of Default described in Section 8.1(a) shall have occurred and be continuing Lessor may, by notice to Lessees' Agent, declare the then outstanding Lease Balance to be due and payable together with all accrued Accrual Rent, any Applicable Administrative Charge, any amounts payable pursuant to Section 7.7, and any other amounts accrued and payable under the Operative Documents (and the payment of such amounts shall be the joint and several obligations of Lessees); and

(b) if any Event of Default described in Section 8.1(f) or 8.1(g) shall have occurred and be continuing, then the entire outstanding Lease Balance, any Applicable Administrative Charge, and all accrued Accrual Rent and other amounts payable under the Operative Documents shall automatically and immediately become due and payable, without presentment, demand, notice, declaration, protest or other requirements of any kind, all of which are hereby expressly waived.

Section 8.3. Sale of Collateral. In addition to the remedies set forth in Section 8.2, if any Event of Default shall occur, Lessor may, but is not required to, sell the Collateral in one or more sales. Any Certificate Purchaser and Lessor may purchase all or any part of the Collateral at such sale. Each Lessee acknowledges that sales for cash or on credit to a wholesaler, retailer or user of such Collateral, or at public or private auction, are all commercially reasonable. Any notice required by law of intended disposition by Lessor shall be deemed reasonably and properly given if given at least 10 days before such disposition.

Section 8.4. Application of Proceeds. The proceeds of such sale or exercise of other remedies shall be applied in the following order:

(a) First, to the payment of costs and expenses of each Certificate Purchaser and Lessor in exercising remedies, including expenses of foreclosure or suit, if any, and of any sale, and of all other proper fees, expenses, liabilities and advances (including reasonable legal expenses and attorneys' fees) of each Certificate Purchaser and Lessor and of all taxes, assessments or liens superior to the lien of these presents, except any taxes, assessments or superior lien subject to which any sale of Collateral may have been made;

(b) Second, to the other amounts, except those specified in clause (c) below, which under the terms of this Lease have accrued;

(c) Third, to the aggregate outstanding Lease Balance, plus any due but unpaid Administrative Charge or Rent, plus any unpaid interest accruing because of the late payment of the Lease Balance or any Administrative Charge to the date of distribution, in each case, in accordance with Section 3.2 of the Trust Agreement; and

(d) Fourth, to the payment of the surplus, if any, to whomsoever may be lawfully entitled to receive the same (including Lessees), or, if no other Person is lawfully entitled to such surplus, to Lessees.

If there is a deficiency in any amounts due hereunder after Lessor has exercised remedies, Lessees will promptly pay the same to Lessor.

Section 8.5. Right to Perform Obligations. If any Lessee fails to perform any of its agreements contained herein, whether or not an Event of Default exists, Lessor may perform such agreement, and the fees and expenses incurred by Lessor in connection with such performance together with interest thereon shall

be payable by Lessees upon demand. Interest on fees and expenses so incurred by Lessor shall accrue as provided in Section 4.6 from the date such expense is incurred until paid in full.

Section 8.6. Power of Attorney. Each Lessee unconditionally and irrevocably appoints Lessor as its true and lawful attorney-in-fact, with full power of substitution, to the extent permitted by Applicable Laws and Regulations, in its name and stead and on its behalf, for the purpose of effectuating any sale, assignment, transfer or delivery hereunder, if an Event of Default occurs, whether pursuant to foreclosure or power of sale or otherwise, and in connection therewith to execute and deliver all such deeds, bills of sale, assignments, releases (including releases of this Lease on the records of any Authority) and other proper instruments as Lessor may reasonably consider necessary or appropriate. Each Lessee ratifies and confirms all that such attorney or any substitute shall lawfully do by virtue hereof. If requested by Lessor or any purchaser, Lessees shall ratify and confirm any such lawful sale, assignment, transfer or delivery by executing and delivering to Lessor or such purchaser, all deeds, bills of sale, assignments, releases and other proper instruments to effect such ratification and confirmation as may be designated in any such request.

Section 8.7. Remedies Cumulative; Consents. To the extent permitted by, and subject to the mandatory requirements of, Applicable Laws and Regulations, each and every right, power and remedy herein specifically given to Lessor or any Certificate Purchaser or otherwise in this Lease shall be cumulative and shall be in addition to every other right, power and remedy herein specifically given or now or hereafter existing at law, in equity or by statute, and each and every right, power and remedy whether specifically herein given or otherwise existing may be exercised from time to time and as often and in such order as may be deemed expedient by Lessor or the Certificate Purchasers, and the exercise or the beginning of the exercise of any power or remedy shall not be construed to be a waiver of the right to exercise at the same time or thereafter any right, power or remedy. Lessor's or the Certificate Purchasers' consent to any request made by Lessees shall not be deemed to constitute or preclude the necessity for obtaining Lessor's or the Certificate Purchasers' consent, in the future, to all similar requests. To the extent permitted by Applicable Laws and Regulations, each Lessee hereby waives any rights now or hereafter conferred by statute or otherwise that may require Lessor or the Certificate Purchasers to sell, lease or otherwise use the Units, any Unit or any Part thereof in mitigation of Lessor's or the Certificate Purchasers' damages upon the occurrence of an Event of Default or that may otherwise limit or modify any of Lessor's or the Certificate Purchasers' rights or remedies under this Section 8.

#### Article IX

##### Lessor

Section 9.1. Compensation of Lessor. Lessees shall, on a joint and several basis, pay Lessor its reasonable fees, costs and expenses for the performance of Lessor's obligations hereunder.

Section 9.2. Limitations. It is expressly understood and agreed by and among the parties hereto that, except as otherwise provided herein or in the other Operative Documents: (a) this Lease and the other Operative Documents to which Lessor is a party are executed by Lessor, not in its individual capacity (except with respect to the representations and covenants of Lessor in Sections 12.3 and 13.2), but solely as Lessor under the Trust Agreement in the exercise of the power and authority conferred and vested in it as such Lessor; (b) each and all of the undertakings and agreements herein made on the part of Lessor are each and every one of them made and intended not as personal undertakings and agreements by Lessor, or for the purpose or with the intention of binding Lessor personally, but are made and intended for the purpose of binding only the Collateral unless expressly provided otherwise; (c) actions to be taken by Lessor pursuant to its obligations under the Operative Documents may, in certain circumstances, be taken by Lessor only upon specific authority of the Certificate Purchasers; (d) nothing contained in the Operative Documents shall be construed as creating any liability on Lessor, individually or personally, or any incorporator or any past, present or future subscriber to the capital stock of, or stockholder, officer or director, employee or agent of, Lessor to perform any covenants either express or implied contained herein, all such liability, if any, being expressly waived by the other parties hereto and by any Person claiming by, through or under them; and (e) so far as Lessor, individually or personally, is concerned, the other parties hereto and any Person claiming by, through or under them shall look solely to the Collateral and Lessees for the performance of any obligation under any of the instruments referred to herein; provided, however, that nothing in this Section 9.2 shall be construed to limit in scope or substance the general corporate liability of Lessor in respect of its gross negligence or willful misconduct or those representations, warranties and covenants of Lessor in its individual capacity set forth herein or in any of the other agreements contemplated hereby.

#### Article X

##### Distributions to Certificate Purchasers

All amounts of money received or realized by Lessor pursuant to this Lease which are to be distributed to any Certificate Purchaser (as distinguished from Lessees or any other Person) shall be distributed in accordance with Section 3.2 of the Trust Agreement.

#### Article XI

##### Lease Termination

Section 11.1. Lessees' Options. Not later than 360 days prior to the last day of the Base Term or any Renewal Term then in effect, Lessees shall, by delivery of written notice from Lessees' Agent to Lessor and the Certificate Purchasers, exercise one of the following options (provided that Lessees may not exercise the Renewal Option if such exercise would result in more than two Renewal Terms):

(a) renew this Lease with respect to all, but not less than all, (except with respect to Units for which there has been an early termination pursuant to Section 11.5) of the Units then subject hereto for an additional one year Renewal Term (the "Renewal Option") on the terms and conditions set forth herein and the other Operative Documents; or

(b) purchase for cash for the Purchase Option Exercise Amount all, but not less than all, of the Units then subject to this Lease on the last day of the Base Term or Renewal Term with respect to which such option is exercised (the "Purchase Option"); or

(c) sell on behalf of the Certificate Purchasers for cash to a purchaser or purchasers not in any way affiliated with any Lessee all, but not less than all, of the Units then subject to this Lease on the last day of the Base Term or of any Renewal Term then in effect with respect to which such option is exercised (the "Sale Option"). Simultaneously with a sale pursuant to the Sale Option, Lessees shall, on a joint and several basis, pay to Lessor, as Supplemental Rent for the benefit of the Certificate Purchasers, from the gross proceeds of the sale of the Units, without deductions or expense reimbursements (the "Proceeds"), the aggregate outstanding Lease Balance as of the Termination Date (as determined after any payment of Rent on such date). If the Proceeds exceed the aggregate outstanding Lease Balance, Lessees will retain the portion of the Proceeds in excess thereof. If the Proceeds are less than the aggregate outstanding Lease Balance, Lessees will, on a joint and several basis, pay or will cause to be paid to Lessor, as Supplemental Rent for the benefit of the Certificate Purchasers, on the Termination Date, in addition to the Proceeds, the Sale Recourse Amount, it being understood, however, that the amount payable pursuant to this Section 11.1(c) shall in no event be construed to limit any other obligation of any Lessee under the Operative Documents, including, without limitation, pursuant to Article VII and Sections 11.3, 11.4, 11.5 and 17.1. The "Sale Recourse Amount" shall be, at the option of Lessor, (x) the Applicable Percentage Amount or (y) the Recourse Deficiency Amount; provided, however, that in no event shall the Sale Recourse Amount exceed the Lease Balance (after taking into account all payments of Rent and Proceeds applied against the Lease Balance on the Termination Date). Lessor, on behalf of the Certificate Purchasers, shall notify Lessees' Agent in writing not later than five Business Days prior to the Termination Date whether the Sale Recourse Amount shall be determined pursuant to clause (x) or clause (y) of the preceding sentence. In addition to the amount determined to be payable by Lessees pursuant to the foregoing provisions of this Section 11.1(c), Lessees shall, on a joint and several basis, pay to Lessor, for the benefit of the Certificate Purchasers, the Applicable Administrative Charge, if any, on the sum of the Proceeds, the Sale Recourse Amount and any amount payable pursuant to the last sentence of Section 11.4. The obligation of any Lessee to pay the amounts determined pursuant to this Section 11.1(c) shall be a recourse obligation of such Lessee and shall be payable on the Termination Date. All amounts paid to Lessor pursuant to this Section 11.1(c) shall be distributed in accordance with Section 3.2 of the Trust Agreement.

Section 11.2. Election of Options. Lessees' election of the Purchase Option will be irrevocable at the time made, but if Lessees fail to make a timely election, Lessees will be deemed, in the case of the Base Term and each Renewal Term then in effect (other than the last Renewal Term) to have irrevocably elected the Renewal Option and, in the case of the last Renewal Term, Lessees will be deemed to have irrevocably elected the Purchase Option. In addition, the Sale Option shall automatically be revoked if there exists an Incipient Default or Event of Default at any time after the Sale Option is properly elected and Lessor shall be entitled to exercise all rights and remedies provided in Article VIII. Lessees may not elect the Sale Option or the Renewal Option if there exists on the date the election is made an Event of Default or an Incipient Default.

Section 11.3. Sale Option Procedures. If Lessees elect the Sale Option, Lessees shall use their best commercial efforts to obtain the highest all cash purchase price for the Units. All costs reasonably related to such sale and delivery, including, without limitation, the cost of sales agents, removal of the Units, delivery of documents and Units to any location designated by a buyer within the continental United States, certification and testing of the Units in any location chosen by the buyer or prospective buyer, legal costs, costs of notices, any advertisement or other similar costs, or other information and of any parts, configurations, repairs or modifications desired by a buyer or prospective buyer shall be borne entirely by Lessees, without regard to whether such costs were incurred by Lessor, Lessees or any potentially qualified buyer, and shall in no event be paid from any of the Proceeds. Neither Lessor nor any Certificate Purchaser shall have any responsibility for procuring any purchaser. If, nevertheless, Lessor at the direction of any Certificate Purchaser, undertakes any sales efforts, Lessees shall, on a joint and several basis, promptly reimburse Lessor and/or any such Certificate Purchaser for any charges, costs and expenses incurred in such effort, including any allocated time charges, costs and expenses of internal counsel or other attorneys' fees. Upon a sale pursuant to the Sale Option, the Units shall be (i) in the condition required by Article V (and, in any event, in condition to be placed in immediate revenue service), (ii) free and clear of any Liens (other than Liens described in clauses (i) through (iv) of the definition of Permitted Liens) and (iii) accompanied by all then current plans, specifications and operating maintenance and repair manuals relating to such Units. Lessor shall determine whether to accept the highest all cash offer for the Units. Any purchaser or purchasers of the Units shall not in any way be affiliated with any Lessee or have any

understanding or arrangement with any Lessee regarding the future use of the Units. On the Termination Date, so long as no Event of Default or Incipient Default exists: (i) Lessees shall transfer all of Lessees' right, title and interest in the Units, or cause the Units to be so transferred, to such purchaser or purchasers, if any, in accordance with all of the terms of this Lease; (ii) subject to the simultaneous payment by Lessees of all amounts due under clause (iii) of this sentence, Lessor shall, without recourse or warranty, except as to the absence of Lessor Liens, transfer by quitclaim Lessors' right, title and interest in and to the Units to such purchaser or purchasers; and (iii) Lessees shall, on a joint and several basis, simultaneously pay to Lessor all of the amounts contemplated in Section 11.1(c).

Section 11.4. Appraisals. If Lessees exercise the Sale Option and the sum of the Proceeds from the sale of all Units subject to this Lease plus the Applicable Percentage Amount are less than the outstanding Lease Balance, Lessor (upon direction from any Certificate Purchaser) shall engage an appraiser of nationally recognized standing, at Lessees' expense, to determine (by appraisal methods satisfactory to the Certificate Purchasers) the Fair Market Value of the Units then subject to this Lease as of (a) the first day of any Renewal Term in which the Sale Option was elected, and (b) the Termination Date. The Appraiser's conclusion relating to the first day of the Renewal Term shall be used in calculating the "Recourse Deficiency Amount". If the Sale Option is elected, Lessees will indemnify and hold harmless Lessor and each Certificate Purchaser, to the extent the Lease Balance remains outstanding, after application of all Proceeds and the Applicable Percentage Amount or the Recourse Deficiency Amount, as applicable, against any Claims resulting from Lessees' sale of the Units for less than their Fair Market Value, as of the last day of the Lease Term, without prior written consent of Lessor.

#### Section 11.5. Early Termination.

(a) Early Termination for Operational Reasons. If no Incipient Default or Event of Default shall exist, on any scheduled Payment Date (the "Early Termination Date"), if any Lessee has made a good faith determination that any Unit leased by such Lessee should be replaced or removed from this Lease for operational reasons (as evidenced by a resolution of the Board of Directors of such Lessee), upon at least 30 days' advance written notice to Lessor and the Certificate Purchasers, such Lessee may either:

(i) purchase such Unit for a purchase price equal to the Casualty Amount of such Unit; or

(ii) replace such Unit pursuant to the following provisions of this Section 11.5.

If such Lessee has elected to pay the Casualty Amount pursuant to clause (i) above, Lessees shall continue to make all payments of Rent with respect to such Unit due under this Lease until and including the Early Termination Date. Upon payment of the Casualty Amount in respect of such Unit on such Early Termination Date, (x) the remaining scheduled payments of Capital Rent shall be proportionately reduced by an amount equal to the product of the scheduled amount of such Capital Rent payment (determined in each case prior to the receipt of such Casualty Amount), multiplied by the Unit Value Fraction of such Unit and the Lease Balance shall be appropriately adjusted to reflect such reduction in the remaining scheduled payments of Capital Rent.

If any Lessee has given notice that it intends to replace such Unit on or before the Early Termination Date, then such Lessee shall make subject to this Lease, a replacement for such Unit meeting the suitability standards hereinafter set forth. To be suitable as a replacement Unit, an item must be of the same general type, year of construction (or a later year of construction), function, utility, state of repair and operating condition (immediately preceding such termination assuming that such Unit had been maintained in accordance with the terms of Section 5.3) as the Unit being replaced, must have a Fair Market Value of not less than the Fair Market Value (immediately preceding such replacement assuming that such Unit had been maintained in accordance with the terms of Section 5.3) of the Unit being replaced and be free and clear of any Liens other than Permitted Liens. Such Lessee shall cause a Bill of Sale and an Acceptance Certificate to be executed and delivered to Lessor and the Certificate Purchasers in order to subject such replacement item to this Lease, and upon such execution and delivery and the receipt by Lessor and the Certificate Purchasers of (i) evidence reasonably satisfactory to them of such Lessee's compliance with the insurance provisions of Section 6.2 with respect to such replacement item, and (ii) an opinion of counsel to such Lessee in form and substance reasonably satisfactory to Lessor and the Certificate Purchasers opining, among other things, to the effect that all appropriate filings, recordings and other acts have been taken to protect the right, title and interest of Lessor, on behalf of the Certificate Purchasers, in such replacement item and that no other filing, recording, deposit, or giving of notice with or to any Authority is necessary to protect such right, title and interest in such replacement item, such replacement item shall be deemed a "Unit" for all purposes hereof.

Notwithstanding anything contained herein to the contrary, Lessees' right to exercise the option set forth in clause (i) of the first paragraph of this Section 11.5 is limited in the aggregate to Units having a Purchase Price equal to or less than 10% of the Purchase Price for all Units.

(b) Early Purchase Option. If no Incipient Default or Event of Default shall exist on any Payment Date (the "Early Purchase Date"), upon at least 30 days' advance written notice from Lessees' Agent to Lessor and the Certificate Purchasers, Lessees may purchase all but not less than all of the Units subject to this Lease for a purchase price equal to the entire outstanding Lease Balance, plus all Accrual Rent accrued on the Lease Balance, plus the Applicable Administrative Charge on the Lease Balance, plus all other sums then due and payable under the Operative Documents by Lessees, Parent Guarantor or any Subsidiary Guarantor.

## Article XII

### Representations and Warranties

Section 12.1. Representations and Warranties of Lessees. As of the date hereof and the Delivery Date, each Lessee makes the representations and warranties set forth in this Section 12.1 to each of the other parties hereto.

(a) Due Organization, etc. Such Lessee is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of organization. Such Lessee has the lawful power to own or lease its properties and to engage in the business it presently conducts or proposes to conduct. Such Lessee is duly licensed or qualified and in good standing in each jurisdiction where the property owned or leased by it or the nature of the business transacted by it or both makes such licensing or qualification necessary or which its failure to be so qualified would have a Material Adverse Effect (including each state or other jurisdiction in which the Units or any thereof will be located).

(b) Authorization; No Conflict. Such Lessee has full power to enter into, execute, deliver and carry out this Lease and the other Operative Documents to which it is a party, to lease the Units to be leased by such Lessee as contemplated by this Lease and to perform its obligations under the Operative Documents to which it is a party, and all such actions have been duly authorized by all necessary proceedings on its part. Neither the execution and delivery of this Lease or the other Operative Documents by such Lessee, nor the consummation of the transactions herein or therein contemplated or compliance with the terms and provisions hereof or thereof by such Lessee will (i) conflict with, constitute a default under or result in any breach of (A) the terms and conditions of the certificate of incorporation, bylaws or other organizational documents of such Lessee or (B) any Applicable Laws and Regulations or any material agreement or instrument or order, writ, judgment, injunction or decree to which such Lessee is a party or by which such Lessee is bound or to which such Lessee is subject, (ii) result in the creation or enforcement of any Lien, charge or encumbrance whatsoever upon any property (now or hereafter acquired) of such Lessee (other than Liens granted under the Operative Documents) or (iii) require any Governmental Action by any Authority or any consent or approval of any non-governmental Person (including any action necessary to rebut the presumption of fraud discussed in subsection (f) below), except for (A) the filings and recordings listed on Schedule III to perfect the rights of Lessor (for the benefit of the Certificate Purchasers) intended to be created by the Operative Documents, and (B) those Governmental Actions required with respect to such Lessee or any of its Affiliates listed on Schedule IV, each of which have been duly effected and are, or on the Delivery Date will be, in full force and effect.

(c) Enforceability, etc. This Lease has been duly and validly executed and delivered by such Lessee, and each other Operative Document which such Lessee is required to execute and deliver on or after the date hereof will have been duly executed and delivered by such Lessee on the required date of delivery of such Operative Document. This Lease and each other Operative Document constitutes, or will constitute, legal, valid and binding obligations of such Lessee which is or will be a party thereto on and after its date of delivery thereof, enforceable against such Lessee in accordance with its terms, except to the extent that enforceability of any of such Operative Document may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforceability of creditors' rights generally or limiting the right of specific performance.

(d) Litigation. There are no actions, suits, proceedings or investigations pending or, to the knowledge of such Lessee, threatened against such Lessee at law or equity before any Authority which individually or in the aggregate could reasonably be expected to result in any Material Adverse Effect. Lessee is not in violation of any order, writ, injunction or any decree of any Authority which could reasonably be expected to result in any Material Adverse Effect.

(e) Title; Liens. As of the Delivery Date, such Lessee has good and marketable title to each Unit to be sold by such Lessee and delivered to Lessor on the Delivery Date, free and clear of all Liens (including, but not limited to, any Lien as a result of any right, claim or interest in favor of any party owning or holding any interest in the real estate on which such Unit is then, or is to be, located) other than Permitted Liens. Such Lessee has not granted, nor will it grant, any Lien on any Unit, any other Collateral or this Lease, to any Person other than Lessor or the Certificate Purchasers or any Permitted Lien; and no Lien, other than the Lien granted to Lessor and the Certificate Purchasers hereunder (and any Lien hereafter granted by Lessor and the Certificate Purchasers) (including, but not limited to, any Lien as a result of any right, claim or interest in favor of any party owning or holding any interest in the real estate on which such Unit is then, or is to be, located) and any Permitted Lien, has attached to the Unit, any other Collateral or this Lease, or in any manner has affected adversely Lessor's and the Certificate Purchasers' rights and Lien herein.

(f) Title to Subject Items. On the Delivery Date, Lessor, on behalf of the Certificate Purchasers, will have good and marketable title to all of the Units to be sold by such Lessee, free and clear of all Liens other than Permitted Liens. Without limiting the generality of the foregoing, the transactions contemplated hereby shall not be deemed fraudulent or void as against any present or future creditor of such Lessee under the laws of the states where such Units will, on the Delivery Date, be located, nor would any subsequent bona fide purchaser from such Lessee of such Units, in the

event of any attempted subsequent sale thereof by such Lessee, acquire any title to or rights therein superior to Lessor's title thereto and rights therein.

(g) Perfection of Security Interest. Upon the filing of appropriate UCC financing statements with the offices listed on Schedule III hereto, the payment of any applicable fees and taxes relating to any of the foregoing, and the payment of the aggregate Purchase Price for the Units by Lessor, Lessor will have an enforceable, perfected first priority security interest of record in the Collateral as against all Persons including such Lessee and its creditors.

(h) The Units. The Purchase Price for each Unit does not exceed the Appraised Value of such Unit at the time of the sale to Lessor hereunder and the aggregate Purchase Price for all of the Units does not exceed the Appraised Value of all of the Units at the time of the sale to Lessor hereunder.

(i) Assuming the accuracy of the representations of each Certificate Purchaser and Lessor contained in Sections 12.2 and 12.3, respectively, the consummation of the transactions provided for in this Lease and compliance by such Lessee with the provisions hereof and the Certificates issued hereunder will not involve any Prohibited Transaction.

(j) No Transfer Taxes. No sales, use, excise, transfer or other tax, fee or imposition shall result from the sale, transfer or purchase of any Unit or any Certificate pursuant to Article II, except such taxes, fees or impositions that have been paid in full on or prior to the Delivery Date.

(k) Rights in Respect of the Units. Such Lessee is not a party to any contract or agreement with respect to the sale by such Lessee of any interest in the Units or any part thereof other than pursuant to this Lease and the other Operative Documents to which it is a party.

(l) Patents, Trademarks. Such Lessee has all patents, patent rights, trademarks, service marks, trade names, copyrights, licenses or other intellectual property rights with respect to the Units to be leased by it that are necessary for such operation of the Units.

(m) Defaults, Casualties, etc. As of the Delivery Date, no Incipient Default, Event of Default or Casualty has occurred and is continuing and there is no action pending or, to the best of such Lessee's knowledge, threatened by any Authority to initiate a Casualty. As of the Delivery Date, no condition exists that constitutes, or with the giving of notice or lapse of time or both would constitute an event of default by such Lessee under any material indenture, mortgage, chattel mortgage, deed of trust, lease, conditional sales contract, loan or credit arrangement or other material agreement or instrument to which such Lessee is a party or by which it or any of its properties may be bound which individually or in the aggregate with all such events of default could reasonably be expected to have a Material Adverse Effect.

(n) Chief Executive Office of Lessees. The principal place of business and chief executive office, as such terms are used in Section 9-103(3) of the UCC, of such Lessee are each located at such Lessee's address set forth in the introductory paragraph of this Lease.

(o) Compliance With Law. The Units and the current use and operation thereof and thereon do not violate any Applicable Laws and Regulations, including, without limitation, any thereof relating to occupational safety and health or Environmental Laws.

(p) Subjection to Government Regulation. Neither Lessor nor any Certificate Purchaser will, solely by reason of entering into the Operative Documents or consummating the transactions contemplated thereby, (i) become subject to ongoing regulation of its operations by any Authority (other than upon exercise of remedies under this Lease or upon the expiration hereof if Lessees do not consummate the Purchase Option); or (ii) become subject to ongoing regulation of its operations by any Authority upon exercise of remedies under this Lease or upon the expiration hereof (except for regulation the applicability of which depends upon the existence of facts in addition to the ownership of, or the holding the Units or any interest therein); or (iii) be required to qualify to do business in any jurisdiction.

(q) Investment Company Act. Such Lessee is not an "investment company" or a company "controlled" by an "investment company", within the meaning of the Investment Company Act of 1940, as amended.

(r) Public Utility Holding Company. Such Lessee is not subject to regulation as a "holding company", an "affiliate" of a "holding company", or a "subsidiary company" of a "holding company", within the meaning of the Public Utility Holding Company Act of 1935, as amended.

(s) Licenses, Registrations and Permits. All material licenses, approvals, authorizations, consents and permits required for the use and operation of each Unit have been irrevocably obtained from the appropriate Authorities having jurisdiction or from private parties, as the case may be.

(t) Use of Proceeds; Federal Reserve Regulations. The proceeds of the sale of the Units and the Certificates will be used by Lessees to (i) repay a portion of debt outstanding pursuant to an existing synthetic lease, (ii) loan to Parent Guarantor in order for Parent Guarantor to repay a portion of debt outstanding under the Revolving Credit Facility and (iii) for other general corporate purposes. Neither such Lessee nor any Affiliate of such Lessee will, directly or indirectly, use any of the proceeds of the sale of

the Units or the Certificates for the purpose of purchasing or carrying any "margin security" or "margin stock" within the meaning of Regulation G, T, U or X of the Board of Governors of the Federal Reserve System, respectively, or for the purpose of reducing or retiring any indebtedness which was originally incurred to purchase or carry a margin security or margin stock or for any other purpose which might cause any of the transactions contemplated by this Lease or any other Operative Document to constitute a "purpose credit" within the meaning of Regulation G, T, U or X of the Board of Governors of the Federal Reserve System, or for the purpose of purchasing or carrying any security, and neither such Lessee nor any Affiliate of such Lessee has taken or will otherwise take or permit any action by such Lessee or any of its Affiliates in connection with any of the transactions contemplated by any of the Operative Documents which would involve a violation of Regulation G, T, U, or X, or any other regulation of the Board of Governors of the Federal Reserve System.

(u) Disclosure. The information disclosed in writing by such Lessee or any of its Affiliates (or any Person authorized or employed by any such Person as agent or otherwise) to Lessor and the Certificate Purchasers in connection with the negotiation of the Operative Documents and the transactions contemplated thereby, when taken as a whole with all other written disclosures to such parties, do not contain an untrue statement of a material fact or omit to state a material fact necessary to make the statements herein or therein not misleading. There is no particular fact of which such Lessee or any of its Affiliates has knowledge that has not been disclosed by such Lessee or any of its Affiliates (or by any Person authorized or employed by such Lessee or any of its Affiliates as agent or otherwise) in writing to the Certificate Purchasers that, as far as such Lessee or any of its Affiliates can reasonably foresee, could reasonably be expected to have a Material Adverse Effect.

(v) Appraisal Data. The written information provided by such Lessee and its Affiliates to the Appraiser and forming the basis for the conclusions set forth in each Appraisal, taken as a whole, was true and correct in all material respects on the date so given and did not omit any information known and available to such Lessee necessary to make the information provided not misleading.

(w) Solvency. The consummation by such Lessee of the transactions contemplated by the Operative Documents did not and will not render such Lessee insolvent, nor was it made in contemplation of such Lessee's insolvency; the value of the assets and properties of such Lessee at fair valuation and at their then present fair salable value is and, after such transactions, will be greater than such Lessee's total liabilities, including contingent liabilities, as they become due; and the property remaining in the hands of such Lessee was not and will not be an unreasonably small amount of capital.

(x) Private Offering. Neither such Lessee nor anyone on its behalf has offered any interest in this Lease, the Rent, the Certificates or the Units or any similar security for sale to, or solicited offers to buy any thereof from, or otherwise directly or indirectly approached or negotiated with respect thereto with, any prospective purchaser other than Lessor, the Certificate Purchasers and not more than thirty-five (35) other institutional investors, each of which was offered such interest at a private sale for investment and each of which such Lessee had reasonable grounds to believe, and did believe, as to Lessor and the Certificate Purchasers, after reasonable inquiry does believe, has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risks of such an investment; and, assuming the truth and accuracy of the representations set forth in Section 12.2(b), the issuance, sale and delivery of the Certificates and the interests in this Lease represented thereby under the circumstances contemplated by this Lease do not require the registration of such Certificates or interests under the Securities Act or the qualification of any of the Operative Documents under the Trust Indenture Act of 1939, as amended.

(y) Brokers, etc. Such Lessee has not engaged or authorized any broker, finder, investment banker or other third party to act on its behalf, directly or indirectly, as a broker, finder, investment banker, agent or in any other like capacity in connection with any of the Operative Documents or the transactions contemplated thereby, other than BALCAP. Such Lessee shall be responsible for, and shall indemnify, defend and hold such Lessor and each Certificate Purchaser harmless from and against any and all claims, liabilities or demands by any Person for broker's, finder's, investment banker's or agent's fees, commissions or other entitlements with respect to the Operative Documents and the transactions contemplated thereby.

(z) Real Property. Lessee has and will maintain the right to locate each Unit leased by such Lessee on, and to enter onto the property and disassemble and remove each such Unit from each parcel of real property where the Units leased by such Lessee will be located; and no such Unit will be or become subject to any Liens (other than the Lien described in clause (v) of the definition of Permitted Liens), as a result of such Unit being located upon such real property. The Units constitute and will constitute personal property and no Liens or other claims exist in respect of any Unit as a result of any right, claim or interest in favor of any party owning or holding any interest in the real estate on which such Unit is, or is to be, located (other than the Lien described in clause (v) of the definition of Permitted Liens). Any lease of land on which any Unit is located is in full force and effect and is for a term that exceeds the Lease Term.

(aa) Representations. The representations and warranties with respect to such Lessee by Parent Guarantor in the Parent Guaranty are true and correct.

(bb) Interdependent Business. Such Lessee's business and investments are interdependent with those of the other Lessees, the Subsidiary Guarantors and Parent Guarantor and such Lessee has received a direct and substantial benefit from the transactions contemplated by this Lease and the other Operative Documents.

Section 12.2. Representations and Warranties of Certificate Purchasers. Each Certificate Purchaser represents and warrants, severally and only as to itself, to each of the other parties hereto as follows:

(a) ERISA. Either (i) it is not and will not be purchasing any of its interest in the Units or the Certificates with the assets of an "employee benefit plan" (as defined in Section 3(3) of ERISA) which is subject to Title I of ERISA, or a "plan" (as defined in Section 4975(e)(1) of the Code or (ii) the acquisition and holding of any Certificate will not result in a Prohibited Transaction, or (iii) it (A) is an insurance company, (B) is acquiring its Certificate with funds held in an insurance company general account (as defined in Section V(e) of the proposed Prohibited Transaction Class Exemption published on August 22, 1994 at 59 Federal Register 43134 (the "Proposed PTCE") and (C) is acquiring its Certificate in reliance on the availability of, and its qualification for, the exemptive relief contemplated in the Proposed PTCE.

(b) Investment in Units and Certificates. (i) It is acquiring its interest in the Units (as represented by the Certificates) for its own account for investment, and if in the future it should decide to dispose of its interest in the Units, it understands that it may do so only in compliance with the Securities Act and the rules and regulations of the SEC thereunder and any applicable state securities laws. Neither it nor anyone authorized to act on its behalf has taken or will take any action which would subject the issuance or sale of any Certificate or any interest in the Units, the Collateral or this Lease to the registration requirements of Section 5 of the Securities Act. No representation or warranty contained in this Section 12.2(b) shall include or cover any action or inaction of any Lessee or any Affiliate thereof whether or not purportedly on behalf of any Certificate Purchaser or any of their Affiliates. Subject to the foregoing, and subject to the provisions of Article XIV hereof, it is understood among the parties that the disposition of each Certificate Purchaser's property shall be at all times within its control.

(ii) It has not and will not borrow (other than pursuant to a transaction permitted by Article XIV) in excess of 97% of its interest in the Lease Balance in order to purchase its Certificate pursuant to a transaction in which the lender or lenders have recourse solely to its Certificate.

Section 12.3. Representations and Warranties of Certificate Trustee. Certificate Trustee, in its individual capacity, hereby represents and warrants to the other parties as set forth in this Section 12.3.

(a) Due Organization, etc. Certificate Trustee is a national banking association duly organized, validly existing and in good standing under the laws of the United States of America; Certificate Trustee has full power and authority to enter into and perform its obligations under the Operative Documents to which it is or is to be a party and each other agreement, instrument and document to be executed and delivered by it on or before the Delivery Date in connection with or as contemplated by each such Operative Document to which it is or is to be a party; and the Operative Documents to which Certificate Trustee is a party, have been or will be duly executed and delivered by Certificate Trustee.

(b) Authorization; No Conflict. The execution and delivery by Certificate Trustee of the Operative Documents to which it is or is to be a party, and the performance by Certificate Trustee of its obligations under such Operative Documents, have been duly authorized by all necessary action on its part, and do not and will not: (i) contravene any Federal laws or laws of the State of Utah governing the banking or trust powers of First Security; (ii) violate any provision of its charter or by-laws; (iii) result in a breach of or constitute a default under any indenture, loan or credit agreement, or any other agreement or instrument to which Certificate Trustee, either in its individual capacity, as Certificate Trustee, or both, is a party or by which it or its properties may be bound or affected, which breaches or default would be reasonably likely to materially and adversely affect the ability of Certificate Trustee, either in its individual capacity, as Certificate Trustee, or both, to perform its obligations under any Operative Documents to which it is or will be a party; or (iv) require any authorizations, consents, approvals, licenses or formal exemptions from, nor any filings, declarations or registrations with, any Federal Authority or Authority of the State of Utah governing the banking or trust powers of First Security or any consent or approval of any non-governmental Person.

(c) Enforceability, etc. Each Operative Document to which Certificate Trustee, either in its individual capacity, as Certificate Trustee, or both, is a party constitutes the legal, valid and binding obligation of Certificate Trustee, either in its individual capacity, as Certificate Trustee, or both, enforceable against it in accordance with the terms thereof, except as such enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium and similar laws affecting the enforcement of creditors' rights generally and by general equitable principles.

(d) Litigation. There is no action, proceeding or investigation pending or threatened which questions the validity of the Operative Documents to which Lessor or Certificate Trustee, in its individual capacity, as Certificate Trustee, or both, is a party or any action taken

or to be taken pursuant to the Operative Documents to which Certificate Trustee, in its individual capacity, as Certificate Trustee, or both, is a party.

(e) Lessor Liens. The Units and the other Collateral are free and clear of all Lessor Liens attributable to Lessor or to Certificate Trustee, in its individual capacity or as Certificate Trustee, or both.

(f) Securities Act. None of Lessor or Certificate Trustee, in its individual capacity or as Certificate Trustee, or both, nor anyone authorized to act on behalf of any such Person has, directly or indirectly, in violation of Section 5 of the Securities Act or any state securities laws, offered or sold any interest in the Certificates, any of the Units or this Lease, or any interest therein, or in any security or lease the offering of which, for purposes of the Securities Act or any state securities laws, would be deemed to be part of the same offering as the offering of the aforementioned securities or leases, or solicited any offer to acquire any of the aforementioned securities or leases.

### Article XIII

#### Covenants

Section 13.1. Covenants of Lessees. Each Lessee covenants with each of the other parties hereto as follows:

(a) Corporate Existence, etc. Subject to clause (e) of Article IV of the Parent Guaranty and any transaction permitted thereby pursuant to which such Lessee ceases to exist (in which case this subsection (a) shall apply to the surviving entity of such transaction), such Lessee shall preserve and keep in full force and effect its corporate existence, rights and powers and franchises and its power and authority to perform its obligations under the Operative Documents, including, without limitation, any necessary qualification or licensing in any foreign jurisdiction where a Unit is located and in any other foreign jurisdiction where the failure to be so qualified would have a Material Adverse Effect.

(b) Compliance with Laws. Such Lessee shall comply with all Applicable Laws and Regulations (including, without limitation, Environmental Laws), except for such instances of non-compliance which would not have, individually or in the aggregate, a Material Adverse Effect.

(c) Change of Name or Location. Such Lessee shall furnish to Lessor notice on or before the 30th day prior to any relocation of its chief executive office or principal place of business, or change of its name and shall comply with Section 13.1(h) prior to any such relocation or name change.

(d) Notice of Defaults. Promptly after any Responsible Officer of such Lessee has learned of the occurrence of an Incipient Default or Event of Default, such Lessee shall deliver to Lessor and each Certificate Purchaser a certificate signed by the Chief Executive Officer, President or Chief Financial Officer of such Lessee setting forth the details of such Incipient Default or Event of Default and the action which such Lessee proposes to take with respect thereto.

(e) Inspection. Lessor or any Certificate Purchaser may visit and inspect the properties (including, without limitation, the Units) of such Lessee, examine and make abstracts from its books of record and accounts (including, without limitation, such Lessee's records pertaining to the Units), and discuss its affairs, finances and accounts with the officers and accountants of such Lessee (including but not limited to, its independent public accountants), all at such times as Lessor or the requesting Certificate Purchaser, as the case may be, may reasonably request; provided that, so long as no Incipient Default or Event of Default shall have occurred and be continuing, such inspections shall be limited to two per year. Upon such request, such Lessee shall make such properties and such books of record and accounts available to such Lessor or the requesting Certificate Purchaser, as the case may be, for inspection. Such Lessee will pay the reasonable expenses of Lessor and the Certificate Purchasers incurred in the exercise of the rights granted pursuant to this Section 13.1(e).

(f) Notice of Litigation. Promptly after the commencement thereof or promptly after the determination thereof, notice of all actions, suits, proceedings or investigations before or by any Authority or any other Person against such Lessee with respect to the Units, which (x) involve or could be reasonably expected to involve assessments against such Lessee in excess of \$10,000,000, individually or in the aggregate, or (y) involve a claim or series of claims which if adversely determined would constitute a Material Adverse Effect.

(g) Reports to Certificate Purchasers. Such Lessee shall, concurrently with any notice, delivery or other communication to Lessor pursuant to any Operative Document, deliver a copy of such notice, delivery or other communication to each Certificate Purchaser at such Certificate Purchaser's current address.

(h) Further Assurances. Such Lessee will, at its expense, promptly and duly do any further reasonable act and execute, acknowledge, deliver, file, register and record any further documents (including, without limitation, amendments to this Lease and Uniform Commercial Code financing statements and continuation statements) as Lessor or the Required Certificate Purchasers may from time to time reasonably request in order to carry out more effectively the intent and purposes of this Lease and to establish and protect the rights and remedies created or intended to be created in favor

of Lessor and the Certificate Purchasers, including the title to the Units and the first priority security interest in the Collateral of Lessor, on behalf of the Certificate Purchasers.

(i) Environmental Matters. Such Lessee shall: (i) use and operate the Units in compliance with all Environmental Laws, keep all necessary permits, approvals, certificates, licenses and other authorizations relating to environmental matters in effect and remain in material compliance therewith, and handle all Hazardous Material in compliance with all applicable Environmental Laws; (ii) promptly notify Lessor and the Certificate Purchasers and provide copies upon receipt, of all written claims, complaints, notices or inquiries relating to the condition or compliance of the Units in so far as they relate to Environmental Laws, and promptly cure and have dismissed with prejudice to the satisfaction of the Required Certificate Purchasers any actions and proceedings relating to compliance with Environmental Laws with respect to the Units, provided, however, that such Lessee may contest in good faith by Permitted Contest any such actions or proceedings, provided further that Lessor, in its individual capacity and as Lessor, and the Certificate Purchasers have received reasonably sufficient security from such Lessee prior to the institution of any such Permitted Contest by such Lessee as any of them shall have reasonably requested; and (iii) provide such information and certifications which Lessor or any Certificate Purchaser may reasonably request from time to time to evidence compliance with this Section 13.1(i).

(j) Securities. Such Lessee shall not, nor shall it permit anyone authorized to act on its behalf to, take any action which would subject the issuance or sale of the Certificates, any of the Units or the Lease, or any security or lease the offering of which, for purposes of the Securities Act or any state securities laws, would be deemed to be part of the same offering as the offering of the aforementioned items, to the registration requirements of Section 5 of the Securities Act or any state securities laws.

(k) No Disposition of the Units. Except as permitted by Section 5.2 and Section 11.5, such Lessee shall not sell, contract to sell, assign, lease, transfer, convey or otherwise dispose of, or permit to be sold, assigned, leased, transferred, conveyed or otherwise disposed of, the Units or any part thereof.

(l) Agreement to be bound by Parent Guaranty. Such Lessee acknowledges the covenants and agreements of the Parent Guaranty and agrees to conduct its business and operations in accordance with the covenants and agreements contained in the Parent Guaranty, including without limitation, the provisions of Article IV of the Parent Guaranty.

Section 13.2. Covenants of Certificate Trustee. Certificate Trustee, in its individual capacity, covenants with each of the other parties hereto as follows, it being understood that the sole remedies for the breach of these covenants shall be to sue for damages or for specific performance and that any such breach shall not modify or terminate any Lessee's obligations under Section 4.5:

(a) so long as this Lease remains in effect or so long as the obligations of any Lessee arising hereunder have not been fully and finally discharged, Certificate Trustee, in its individual capacity and as Certificate Trustee (including in its capacity as Lessor) (i) will keep this Lease and all Collateral free and clear of all Lessor Liens attributable to Certificate Trustee, in its individual capacity and/or in its capacity as Certificate Trustee (including in its capacity as Lessor), and shall indemnify, reimburse and hold each Certificate Purchaser and each Lessee harmless from any and all claims, losses, damages, obligations, penalties, liabilities, demands, suits, or causes of action and all legal proceedings, and any costs or expenses in connection therewith, including reasonable legal fees and expenses, of whatever kind and nature, imposed on, incurred by or asserted against any Certificate Purchaser or any Lessee in any way relating to, or arising in any manner out of, failure by Certificate Trustee in its individual capacity or as Certificate Trustee (including in its capacity as Lessor) to comply with this Section 13.2(a) and (ii) will not, provided that no Incipient Default or Event of Default exists, through its own actions, interfere with any Lessee's (or any permitted sublessee's or assignee's) rights hereunder with respect to any Unit during the term of this Lease, except as permitted or required by the terms of this Lease; and

(b) Certificate Trustee shall apply funds held by it in its capacity as Certificate Trustee hereunder as required by this Lease and the Trust Agreement.

Section 13.3. Covenants of Certificate Purchasers. Each Certificate Purchaser, severally and not jointly, covenants with each of the other parties hereto as follows, it being understood that the sole remedies for the breach of these covenants shall be to sue for damages or for specific performance and that any such breach shall not modify or terminate any Lessee's obligations under Section 4.5:

(a) provided that no Incipient Default or Event of Default exists, it will not, through its own actions, interfere with any Lessee's (or any permitted sublessee's or assignee's) rights hereunder with respect to any Unit during the term of this Lease; and

(b) it will keep the Units free and clear from all Lessor Liens attributable to it, provided that it may contest any such Lessor Lien pursuant to a Permitted Contest.

Section 14.1. Assignments. (a) All or any of the right, title or interest and obligations of any Certificate Purchaser in and to this Lease and the Trust Agreement and the rights, benefits, advantages and obligations of any Certificate Purchaser hereunder, including the rights to receive payment of rental or any other payment hereunder, and the rights, titles and interests in and to the Units, may be assigned or transferred by such Certificate Purchaser at any time by transfer of the Certificate representing such interest in accordance with the provisions of this Article XIV; provided, however, that (a) such assignee or transferee is a bank or other financial institution that, so long as no Incipient Default or Event of Default has occurred and is continuing, is satisfactory to Lessees' Agent, which consent shall not be unreasonably withheld, (b) the Certificate representing such interest and issued to such assignee or transferee shall be in an amount not less than the lesser of (i) \$5,000,000 or (ii) the then outstanding amount of the Certificate held by such Certificate Purchaser immediately prior to such transfer or assignment, (c) such assignment or transfer shall comply with all applicable securities laws and (d) each assignee or transferee represents to Lessor, the other Certificate Purchasers and Lessees (i) as set forth in Section 12.2 with respect to such transferee and (ii) that, and also covenants to such Persons that, it will not transfer the Certificate unless the proposed transferee makes the foregoing representations and covenants.

(b) Assumptions of Obligations. As a condition precedent to any assignment or transfer pursuant to this Section 14.1, any transferee pursuant to this Section 14.1 shall execute and deliver to Lessees' Agent and Lessor an agreement in substantially the form of the Assumption Agreement attached hereto as Exhibit F and thereupon the obligations of the transferring Certificate Purchaser under the Operative Documents shall be proportionately released and reduced to the extent of such transfer. Upon any such transfer as above provided, the transferee shall be deemed to be bound by all obligations (whether or not yet accrued) under, and to have become a party to, all Operative Documents to which its transferor was a party, shall be deemed the "Certificate Purchaser" for all purposes of the Operative Documents and shall be deemed to have made by the transferor represented by the interest being conveyed; and each reference herein and in the other Operative Documents to the pertinent "Certificate Purchaser" shall thereafter be deemed a reference to the transferee, to the extent of such transfer, for all purposes. Upon any such transfer, Lessor shall deliver to each Certificate Purchaser and Lessees' Agent a new Schedule I to this Lease, revised to reflect the relevant information for such new Certificate Purchaser and the Commitment of such new Certificate Purchaser (and the revised Commitment of the transferor Certificate Purchaser if it shall not have transferred its entire interest).

(c) Evidence of Withholding Tax Exemption. If the transferee is not incorporated under the laws of the United States or any state thereof, such transferee shall deliver to Lessees' Agent a properly completed and executed Internal Revenue Service Form 4224 or 1001 or other applicable form, certificate or document prescribed by the Internal Revenue Service of the United States certifying as to such transferee's compliance with Section 7.2(c).

Section 14.2. Participations. Any Certificate Purchaser may at any time sell to one or more commercial banks or other Persons (each of such commercial banks and other Persons being herein called a "Participant") participating interests in all or a portion of its rights and obligations under this Lease, the other Operative Documents, the Units or its Certificate (including all or any portion of the Rent owing to it); provided, however, that:

(a) no participation contemplated in this Section 14.2 shall relieve such Certificate Purchaser from its obligations hereunder or under any other Operative Document;

(b) such Certificate Purchaser shall remain solely responsible for the performance of its Commitment and other obligations;

(c) Lessees shall continue to deal solely and directly with such Certificate Purchaser in connection with such Certificate Purchaser's rights and obligations under this Lease and the other Operative Documents and such Certificate Purchaser shall have the sole right to enforce its rights under the Operative Documents; and

(d) no Participant shall be entitled to any reimbursement for any Taxes, funding losses, additional costs, capital costs or reserve requirements pursuant to any of Sections 7.5, 7.6 and 7.8 in excess of a proportionate amount which would have been payable to the initial Certificate Purchaser from whom such Person directly or indirectly acquired its participation.

## Article XV

### Ownership and Grant of Security Interest

Section 15.1. Grant of Security Interest. Title to the Units shall remain in Lessor, for the benefit of the Certificate Purchasers, as security for the obligations of each Lessee hereunder and under the other Operative Documents to which it is a party until such Lessee has fulfilled all of its obligations hereunder and thereunder. Each Lessee hereby assigns, hypothecates, transfers and pledges to Lessor for the benefit of Certificate Purchasers and Lessor, and grants to Lessor a security interest for the benefit of Certificate Purchasers and Lessor in each Unit and in each Sublease covering any Unit that may be entered into from time to time in accordance with the provisions of this Lease, and each Lessee hereby grants to Lessor for the benefit of Certificate Purchasers and Lessor a continuing security interest in all of the other Collateral, to secure the payment of all sums due hereunder and under the other Operative Documents to which it is a party and the performance of all other

obligations hereunder and under the other Operative Documents to which it is a party.

Section 15.2. Retention of Proceeds. If any Lessee would be entitled to any amount (including any Casualty Recoveries) or title to any Unit hereunder but for the existence of any Event of Default or Incipient Default, Lessor shall hold such amount or Unit as part of the Collateral and shall be entitled to apply such amounts against any amounts due hereunder; provided, that Lessor shall distribute such amount or transfer such Unit, to the extent not theretofore applied, in accordance with the other terms of this Lease if and when no Event of Default or Incipient Default exists.

Article XVI

[Intentionally Omitted]

Article XVII

Miscellaneous

Section 17.1. Payment of Transaction Costs and Other Costs. If the transactions contemplated hereby are consummated, Lessees shall, jointly and severally, pay all Transaction Costs and the arrangement fee described in Section 3.9 in accordance with Section 3.9, and in the event the transactions contemplated hereby do not close, Lessees shall, jointly and severally, pay such Transaction Costs promptly upon receipt of invoices therefor. In addition, Lessees shall, jointly and severally, pay or reimburse Lessor and the Certificate Purchasers for all other out-of-pocket costs and expenses (including allocated fees of internal counsel) reasonably incurred in connection with: (a) entering into, or the giving or withholding of, any future amendments, supplements, waivers or consents with respect to the Operative Documents (including without limitation any legal services rendered in connection with or arising under Section 13.1); (b) any Casualty or termination of the Lease or any other Operative Document; (c) the negotiation and documentation of any restructuring or "workout", whether or not consummated, of any Operative Document; (d) the enforcement of the rights or remedies under the Operative Documents; (e) further assurances requested pursuant to Section 13.1(h) hereof or any similar provision in other Operative Documents; (f) any transfer by Lessor or a Certificate Purchaser of any interest in the Operative Documents during the continuance of an Event of Default; (g) the ongoing fees and expenses of Lessor under the Operative Documents; and (h) the Delivery Date.

Section 17.2. Effect of Waiver. No delay or omission to exercise any right, power or remedy accruing to Lessor or any Certificate Purchaser upon any breach or default of any Lessee hereunder shall impair any such right, power or remedy nor shall it be construed to be a waiver of any such breach or default, or an acquiescence therein or of or in any similar breach or default thereafter occurring, nor shall any single or partial exercise of any right, power or remedy preclude other or further exercise thereof, or the exercise of any other right, power or remedy, nor shall any waiver of any single breach or default be deemed a waiver of any other breach or default theretofore or thereafter occurring. Any waiver, permit, consent or approval of any kind or character on the part of Certificate Purchasers or Lessor of any breach or default under this Lease must be specifically set forth in writing and must satisfy the requirements set forth in Section 17.5 with respect to approval by Certificate Purchasers and Lessor.

Section 17.3. Survival of Covenants. All representations, warranties and covenants of each Lessee under Article IV, Article V, Article VII, Article XI, Article XV, Sections 9.1, 12.1 and 13.1 shall survive the expiration or termination of this Lease to the extent arising prior to any such expiration or termination.

Section 17.4. Applicable Law. This Lease shall be governed by and construed under the laws of Illinois without regard to conflict of law principles.

Section 17.5. Effect and Modification. This Lease exclusively and completely states the rights of Lessor, Certificate Purchasers and Lessees with respect to the leasing of the Units and supersedes all prior agreements, oral or written, with respect thereto. No variation, modification amendment or waiver of this Lease or any other Operative Document shall be valid unless in writing and signed by Lessor and by Lessees.

Section 17.6. Notices. All demands, notices and other communications hereunder shall be in writing and shall be deemed to have been duly given when personally delivered or one Business Day after being sent by overnight delivery service or three days after being deposited in the mail, certified mail postage prepaid, or when sent by facsimile transmission, if confirmed by mechanical confirmation and if a copy thereof is promptly thereafter personally delivered, sent by overnight delivery service or so deposited in the mail, addressed to: (A) Lessor or each Lessee at the address set forth below the signature of such party on the signature page hereof, or at such other address as may hereafter be furnished in accordance with this Section 17.6 by either party to the other and Lessees' Agent, (B) if to Lessees' Agent at Arch Coal, Inc., Cityplace One, Suite 300, St. Louis, Missouri 63141 or such other address as may hereafter be furnished in accordance with this Section 17.6 by Lessees' Agent to the parties hereto, and (C) each Certificate Purchaser at its address set forth in Schedule I hereto or in the register maintained pursuant to Section 2.8 of the Trust Agreement.

Section 17.7. Consideration for Consents to Waivers and Amendments. Each Lessee hereby agrees that it will not, and that it will not permit any of its Affiliates to, offer or give any consideration or benefit of any kind whatsoever

to any Certificate Purchaser in connection with, in exchange for, or as an inducement to, such Certificate Purchaser's consent to any waiver in respect of, any modification or amendment of, any supplement to, or any other consent or approval under, any Operative Document unless such consideration or benefit is offered ratably to all Certificate Purchasers.

Section 17.8. Counterparts. This Lease has been executed in several numbered counterparts. Only the counterpart designated as counterpart "No. 1" shall evidence a monetary obligation of Lessees or shall be deemed to be an original or to be chattel paper for purposes of the Uniform Commercial Code, and such copy shall be held by Lessor.

Section 17.9. Severability. Whenever possible, each provision of this Lease shall be interpreted in such manner as to be effective and valid under Applicable Laws and Regulations; but if any provision of this Lease shall be prohibited by or invalid under Applicable Laws and Regulations, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Lease.

Section 17.10. Successors and Assigns. This Lease shall be binding upon the parties hereto and their respective successors and assigns and shall inure to the benefit of the parties hereto and their respective successors and permitted assigns.

Section 17.11. No Third-Party Beneficiaries. Nothing in this Lease or the other Operative Documents shall be deemed to create any right in any Person not a party hereto or thereto (other than the permitted successors and assigns of Certificate Purchasers, Lessor and Lessees), and such agreements shall not be construed in any respect to be a contract in whole or in part for the benefit of any third party except as aforesaid.

Section 17.12. Brokers. None of the parties has engaged or authorized any broker, finder, investment banker or other third party to act on its behalf, directly or indirectly, as a broker, finder, investment banker, agent or any other like capacity in connection with this Lease or the transactions contemplated hereby, except that Lessees have, through Parent Guarantor, engaged BALCAP pursuant to the letter agreement referred to in Section 3.9 hereof.

Section 17.13. Captions; Table of Contents. Section captions and the table of contents used in this Lease (including the Schedules, Exhibits and Annexes hereto) are for convenience of reference only and shall not affect the construction of this Lease.

Section 17.14. Schedules and Exhibits. The Schedules, Annexes and Exhibits hereto, along with all attachments referenced in any of such items are incorporated herein by reference and made a part hereof.

Section 17.15. Submission to Jurisdiction. Any suit by Lessor or any Certificate Purchaser to enforce any claim arising out of the Operative Documents may be brought in any state or Federal court located in Illinois having subject matter jurisdiction, and with respect to any such claim, each party to this Lease hereby irrevocably: (a) submits to the jurisdiction of such courts; and (b) consents to the service of process out of said courts by mailing a copy thereof, by registered mail, postage prepaid, to such party at its address specified in this Lease, and agrees that such service, to the fullest extent permitted by law: (i) shall be deemed in every respect effective service of process upon it in any such suit, action or proceeding; and (ii) shall be taken and held to be valid personal service upon and personal delivery to it. Each Lessee irrevocably waives, to the fullest extent permitted by law: (A) any claim, or any objection, that it now or hereafter may have, that venue is not proper with respect to any such suit, action or proceeding brought in such a court located in Illinois including, without limitation, any claim that any such suit, action or proceeding brought in such court has been brought in an inconvenient forum; and (B) any claim that such Lessee is not subject to personal jurisdiction or service of process in such forum. Such Lessee agrees that any suit to enforce any claim arising out of the Operative Documents or any course of conduct or dealing of Lessor or any Certificate Purchaser shall be brought and maintained exclusively in any state or Federal court located in Illinois. Nothing in this Section 17.15 shall affect the right of Lessor or any Certificate Purchaser to bring any action or proceeding against such Lessee or any Unit or other Collateral in the courts of any other jurisdiction. Such Lessee agrees that a final judgment in any action or proceeding in a state or Federal court within the United States may be enforced in any other jurisdiction by suit on the judgment or in any other manner provided by law.

Section 17.16. Jury Trial. Each Lessee, each Certificate Purchaser and Lessor waives any right to a trial by jury in any action or proceeding to enforce or defend any rights under this Lease or any other Operative Document or under any amendment, instrument, document or agreement delivered or which may in the future be delivered in connection herewith or therewith or arising from any relationship existing in connection with this Lease or any other Operative Document and agrees that any such action or proceeding shall be tried before a court and not before a jury.

Section 17.17. License to Enter Land. Each Lessee hereby grants to Lessor (or such other Person as Lessor may designate) an irrevocable license to enter upon the land where any Unit is located; except that Lessor shall not be entitled to exercise such license unless an Event of Default exists and this Lease or such Lessee's rights of possession hereunder are terminated.

[remainder of page intentionally left blank]

In Witness Whereof, the parties hereto have executed this Lease as of the day and year first above written.

Apogee Coal Company  
as Lessee

Hobet Mining, Inc.  
as Lessee

By: /s/ Mark A. Luzecky  
Name: Mark A. Luzecky  
Title: Attorney-In-Fact

By: /s/ Mark A. Luzecky  
Name: Mark A. Luzecky  
Title: VP

Address:  
c/o Arch Coal, Inc.  
Cityplace One, Suite 300  
St. Louis, Missouri 63141  
Attention: Patrick A. Kriegshauser  
314-994-2930  
Facsimile: 314-994-2739

Address:  
c/o Arch Coal, Inc.  
Cityplace One, Suite 300  
St. Louis, Missouri 63141  
Attention: Patrick A. Kriegshauser  
314-994-2930  
Facsimile: 314-994-2739

Catenary Coal Company  
as Lessee

First Security Bank, National  
Association, not in its  
individual capacity except  
as expressly provided  
herein, but solely as  
Certificate Trustee, as  
Lessor

By: /s/ Mark A. Luzecky  
Name: Mark A. Luzecky  
Title: VP

By: /s/ Nancy M. Dahl  
Name: Nancy M. Dahl  
Title: Vice President

Address:  
c/o Arch Coal, Inc.  
Cityplace One, Suite 300  
St. Louis, Missouri 63141  
Attention: Patrick A. Kriegshauser  
314-994-2930  
Facsimile: 314-994-2739

Address:  
First Security Bank, National Association  
Corporate Trust Department  
79 South Main Street  
Salt Lake City, Utah 84111  
Attention: Corporate Trust Services  
801-246-5630  
Facsimile: 801-246-5053

BA Leasing & Capital Corporation  
as Certificate Purchaser

First Union National Bank  
as Certificate Purchaser

By: /s/ Mark A. Erickson  
Name: Mark A. Erickson  
Title: Vice President

By: /s/ Laurence M. Levy  
Name: Laurence M. Levy  
Title: Vice President

Barclays Bank PLC  
as Certificate Purchaser

Bank of Montreal  
as Certificate Purchaser

By: /s/ Thomas S. Olzenski  
Name: Thomas S. Olzenski  
Title: Director

By: /s/ Michael P. Sassos  
Name: Michael P. Sassos  
Title: Director

Great-West Life & Annuity Insurance  
Company  
as Certificate Purchaser

By: /s/ James G. Lowery  
Name: James G. Lowery  
Title: Assistant Vice President Investments

Schedule I to Lease Intended as Security  
Dated as of January 15, 1998

1. Lessor

First Security Bank, National Association

Address for all communications (except wire transfers):

First Security Bank, National Association

Corporate Trust Department

79 South Main Street

Salt Lake City, Utah 84111

Attention: Corporate Trust Services

Phone: 801-246-5630

Facsimile: 801-246-5053

Address for wire transfers:

see above address, Attention: DeAnn Madsen (801-246-5809)

Bank: First Security Bank, National Association

ABA Routing #: 124-0000-12

Account #: 051-0922115

Payee: First Security Bank, N.A.

Notify: DeAnn Madsen (801-246-5809)

Reference: Arch Coal Acct. No. 33833

Notices Relating to Payments: see above address

2. Certificate Purchaser	Commitment
GREAT-WEST LIFE & ANNUITY INSURANCE COMPANY	\$19,778,568.53

Address for all communications (other than payment notices):  
(except wire transfers):

Great-West Life & Annuity Insurance Company  
8515 East Orchard Road  
3rd Floor, Tower 2  
Englewood, Colorado 80111  
Attention: Corporate Finance Investments  
Facsimile: 303-689-6193  
Tax I.D. #84-0467907

Address for wire transfers:

ABA #091-000-019 NW MPLS/TRUST CLEARING  
ACCT #08-40-245 ATTN: Acct. #12468800  
Special Instructions: 1) security description (PPN: 33632\* SU 2)  
2) allocation of payment between principal and  
interest, and  
3) confirmation of principal balance

Address for payment notices:

Norwest Bank Minnesota, N.A.  
733 Marquette Avenue, Investors Bldg., 5th Floor  
Minneapolis, Minnesota 55479-0047  
Facsimile: 612-667-3331  
Attention: Income Collections

3. Certificate Purchaser

Commitment

BANK OF MONTREAL

\$14,833,926.40

Address for all communications:  
except wire transfers):

Mr. Ian Plester, Director  
Bank of Montreal  
430 Park Avenue, 14th Floor  
New York, New York 10022  
Phone: 212-605-1417  
Facsimile: 212-605-1451  
Tax I.D. #13-4941092

Address for wire transfers and payment notices:

Bank of Montreal  
115 South LaSalle Street  
Chicago, Illinois 60603  
Attention: Client Services, Ms. Neelam Dass  
Phone: 312-750-3852  
Facsimile: 312-750-6061

Address for wire transfers:

Bank: Harris Bank  
ABA Routing #: 071 000 288  
Account Name: Bank of Montreal  
Account #: 1248566  
Reference: Arch Coal Lease Agr. [Int./Prin/Fee \$\$]  
PPN: 33632\* SU 2

4. Certificate Purchaser

Commitment

BARCLAYS BANK PLC

\$14,833,926.40

Address for all communications:  
except wire transfers):

Barclays Bank PLC  
222 Broadway, 11th Floor  
New York, New York 10038  
Attention: Tom Olzenski  
Phone: 212-412-2981  
Tax I.D. #134942190

Address for wire transfers:

Bank: Barclays Bank  
ABA Routing #: 026002574  
Clad Control Account 050019104  
Reference: Arch Coal  
PPN 3362\* SU 2

Address for payment notices:

Barclays Bank PLC  
75 Wall Street, 12th Floor  
New York, New York 10265  
Attention: Christine Francese  
Phone: 212-412-3721  
Facsimile: 212-412-5306/5307/5308

5. Certificate Purchaser

Commitment

FIRST UNION NATIONAL BANK

\$14,833,926.40

Address for all communications:  
except wire transfers):

First Union National Bank  
201 South Jefferson Street  
VA-7406  
Roanoke, Virginia 24011  
Credit Contact: Larry Levy, Vice President  
Phone: 540-563-7609  
Facsimile: 540-563-6320  
and

First Union National Bank  
10 South Jefferson Street  
VA-7628  
Roanoke, Virginia 24011  
Administrative Contact: Lisa Hodgdon, Participation Clerk  
Phone: 540-857-4628  
Facsimile: 540-857-4633  
Tax I.D. #56-0900030

Address for wire transfers:

Bank: First Union National Bank  
ABA Routing #: 051400549  
Account #: 145916 0000005

Attention: Lisa Hodgdon  
Reference: Arch Coal Inc.  
PPN: 33632\* SU 2

6. Certificate Purchaser

Commitment

BA Leasing & Capital Corporation

\$9,889,284.27

Address for all communications:  
(except wire transfers):

BA Leasing & Capital Corporation  
555 California Street, 4th Floor  
San Francisco, CA 94104  
Attn: Contract Administration  
Facsimile: 415-765-7373  
Tax I.D. #94-1627057

Address for wire transfers:

Bank: Bank of America NT&SA  
San Francisco Main Branch  
San Francisco, California  
ABA Routing #: 121 000 358  
Account #: 06568-57503

Payee: BA Leasing & Capital Corporation  
Notify: Richard Walter (415) 765-7476  
Reference: Arch Coal Inc.  
PPN: 33632\* SU 2

Schedule II to Lease Intended as Security  
Dated as of January 15, 1998

A. Description of Units.

Leased by Apogee Coal Company

RUFFNER MINE

Item	Mfr	Model	Mfr. Serial No.	Co. ID. No.
Truck	Dresser	685E	GF31999	2430800
Truck	Dresser	685E	GF32000	2430900
Truck	Dresser	685E	GF32003	2431000
Truck	Dresser	830E	GF32195	2450600
Truck	Dresser	830E	GF32217	2450700
Truck	Dresser	830E	GF32218	2450800
Truck	Dresser	830E	GF32219	2450900
Truck	Dresser	830E	GF32340	2451000
Truck	Dresser	830E	23252	2451100
Truck	Dresser	830E	23260	2451200
Truck	Dresser	830E	32378	2451300
Truck	Dresser	830E	32379	2451400
Truck	Dresser	830E	32380	2451500

Leased by Apogee Coal Company

WYLO MINE

Item	Mfr	Model	Mfr. Serial No.	Co. ID. No.
Shovel	P&H	4100	55273	2240100
Truck	Dresser	830E	GF31970	2450100
Truck	Dresser	830E	GF31971	2450200
Truck	Dresser	830E	GF32071	2450300
Truck	Dresser	830E	GF32072	2450400
Truck	Dresser	830E	GF32073	2450500

Leased by Catenary Coal Company

SAMPLES MINE

Item	Mfr	Model	Mfr. Serial No.	Co. ID. No.
Loader	LeToumeau	L1400	CR-2024	2140200
Shovel	B.E.*	495B	140964-6A	2240100
Truck	Dresser	830E	GF32119	2450100
Truck	Dresser	830E	GF32120	2450200
Truck	Dresser	830E	GF32121	2450300
Truck	Dresser	830E	GF32178	2450400
Truck	Dresser	830E	GF32179	2450500
Truck	Dresser	830E	GF32180	2450600
Truck	Dresser	830E	GF32181	2450700
Truck	Dresser	830E	GF32191	2450800
Truck	Dresser	830E	GF32192	2450900
Truck	Dresser	830E	GF32193	2451000
Truck	Dresser	830E	GF32194	2451100
Truck	Dresser	830E	GF32252	2451200

Leased by Hobet Mining, Inc.

HOBET 21 MINE

Item	Mfr	Model	Mfr. Serial No.	Co. ID. No.
Truck	Dresser	830E	GF31859	12411700
Shovel	B.E.*	495B	140931	12414100
Truck	Dresser	830E	GF31904	12801500
Truck	Dresser	830E	GF31905	12921600
Truck	Dresser	830E	GF31906	13019200
Truck	Dresser	830E	GF31907	13105900
Truck	Dresser	830E	GF31974	13263200

Leased by Hobet Mining, Inc.

DAL-TEX MINE

Item	Mfr	Model	Mfr. Serial No.	Co. ID. No.
Dragline	Marion	8200	23231	11341700
Shovel	B.E.*	295B	140838	72229500
Shovel	B.E.*	495B	140900	72274900
Shovel	B.E.*	495B	14901	72275100
Truck	Cat**	785	8GB0429	72289600
Truck	Cat**	785	8GB0443	72289700
Truck	Cat**	789	9CZ00540	76111000
Truck	Cat**	789	9CZ00539	76111200
Truck	Cat**	789	9CZ00541	76111800
Truck	Cat**	793	3SJ00012	76114500
Truck	Cat**	793	3SJ00013	76114600
Truck	Cat**	793	3SJ00014	76114700
Truck	Cat**	994	9YF00034	76119100
Truck	Cat**	793	3SJ00041	76119200
Truck	Cat**	793	3SJ00042	76119300
Truck	Cat**	793	3SJ00045	76119400

\*Bucyrus-Erie

\*\*Caterpillar

Schedule II to Lease Intended as Security  
Dated as of January 15, 1998

B. Rental Schedule:

YEAR	RENT NUMBER	CAPITAL RENT	APPLICABLE PERCENTAGE
1	1	1,920,858	
	2	1,920,858	
	3	1,920,858	
	4	1,920,858	
2	5	1,920,875	
	6	1,920,875	
	7	1,920,875	
	8	1,920,875	
3	9	1,920,877	
	10	1,920,877	
	11	1,920,877	
	12	1,920,877	53.92%
4	13	1,540,615	
	14	1,540,615	
	15	1,540,615	
	16	1,540,615	50.28%
5	17	1,184,828	
	18	1,184,828	
	19	1,184,828	
	20	41,402,250	45.13%

Filings and Recordings

JURISDICTION	TYPE OF FILING	DEBTOR	SECURED PARTY
IL-Secretary of State	UCC-1	Apogee Coal Company	First Security Bank, National Association
WV-Secretary of State	UCC-1	Apogee Coal Company	First Security Bank, National Association
Boone County, WV	UCC-1	Apogee Coal Company	First Security Bank, National Association
Lincoln County, WV	UCC-1	Apogee Coal Company	First Security Bank, National Association
Logan County, WV	UCC-1	Apogee Coal Company	First Security Bank, National Association
Mingo County, WV	UCC-1	Apogee Coal Company	First Security Bank, National Association
WV-Secretary of State	UCC-1	Hobet Mining, Inc.	First Security Bank, National Association
Boone County, WV	UCC-1	Hobet Mining, Inc.	First Security Bank, National Association
Lincoln County, WV	UCC-1	Hobet Mining, Inc.	First Security Bank, National Association
Logan County, WV	UCC-1	Hobet Mining, Inc.	First Security Bank, National Association
Mingo County, WV	UCC-1	Hobet Mining, Inc.	First Security Bank, National Association
WV-Secretary of State	UCC-1	Catenary Coal Company	First Security Bank, National Association
Boone County, WV	UCC-1	Catenary Coal Company	First Security Bank, National Association
Lincoln County, WV	UCC-1	Catenary Coal Company	First Security Bank, National Association
Logan County, WV	UCC-1	Catenary Coal Company	First Security Bank, National Association
Mingo County, WV	UCC-1	Catenary Coal Company	First Security Bank, National Association

Schedule III  
(to Lease Intended as Security)

Schedule IV to Lease Intended as Security  
Dated as of January 15, 1998

Governmental Actions

None.

EXHIBIT A TO LEASE INTENDED AS SECURITY  
DATED AS OF JANUARY 15, 1998

FORM OF BILL OF SALE

[\_\_\_\_\_], a [\_\_\_\_\_] corporation ("Seller"), is the owner of the items (together with all repairs, parts, supplies, accessories, equipment and devices affixed thereto or installed thereon, and all warranties, covenants and representations of any manufacturer or vendor thereof, the "Units") of personal property described on Annex A hereto;

Seller sells, grants, conveys, transfers and assigns title to the Units to First Security Bank, National Association, not individually but solely as Certificate Trustee ("Buyer") under that certain Lease Intended as Security dated as of January 15, 1998 (the "Lease") among Seller, Buyer, and the several Certificate Purchasers listed on Schedule I thereto; and; and

Seller warrants to Buyer, its successors and assigns, that there is conveyed to Buyer good and marketable title to the Units, free and clear of all liens, claims, rights or encumbrances of others (except the rights of Seller pursuant to the Lease), and Seller will warrant and defend such title forever against all claims and demands whatsoever.

Seller hereby assigns to Buyer, to the extent assignable, all of its interest, if any, in any warranties, covenants and representations of any vendor of any Unit.

THIS BILL OF SALE shall be governed by the laws of the State of Illinois, without regard to conflict of law principles.

IN WITNESS WHEREOF, Seller has caused this Bill of Sale to be executed and delivered by one of its duly authorized officers this \_\_\_\_\_ day of January, 1998.

[-----]

By: \_\_\_\_\_  
Name Printed:  
Title:

-----

ANNEX A  
TO BILL OF SALE

DESCRIPTION OF UNITS:

- 1.
- 2.
- 3.

EXHIBIT B TO LEASE INTENDED AS SECURITY  
DATED AS OF JANUARY 15, 1998

FORM OF ACCEPTANCE CERTIFICATE

to: First Security Bank, National Association, not in its individual capacity, but solely as Certificate Trustee (together with its successors, assigns and transferees, "Certificate Trustee") under that certain Trust Agreement, dated as of January 15, 1998, among Certificate Trustee and the several Certificate Purchasers named therein.

Reference is hereby made to their certain Lease Intended as Security dated as of January 15, 1998 (the "Lease") among [\_\_\_\_\_] ("Lessee"), the other Lessees named therein, Certificate Trustee, as lessor ("Lessor") and the several Certificate Purchasers named therein. Unless otherwise defined herein, or the context hereof otherwise requires, terms which are defined or defined by reference in the Lease shall have the same meanings when used herein.

Lessee certifies to Lessor, and for the benefit of Certificate Purchasers (and their respective successors, assigns and transferees), as follows:

1. That it has inspected, received, approved and accepted delivery of the Units listed under its name on Schedule II to the Lease which are all of the Units to be leased by it under the Lease.

2. That the Units listed under its name on Schedule II to the Lease are subject to and governed by all of the provisions of the Lease.

3. That the Units listed under its name on Schedule II to the Lease are in good operating order, repair, condition and appearance and that Lessee has no knowledge of any defect therein with respect to design, manufacture, condition (reasonable wear and tear excepted) or in any other respect.

IN WITNESS WHEREOF, Lessee has caused this Acceptance Certificate to be duly executed and delivered by one of its officers thereunto duly authorized this \_\_\_\_ day of January, 1998.

[-----]

By: \_\_\_\_\_  
Name Printed: \_\_\_\_\_  
Title: \_\_\_\_\_

EXHIBIT C-1 TO LEASE INTENDED AS SECURITY  
DATED AS OF JANUARY 15, 1998

FORM OF OPINION OF LESSEES' COUNSEL

January\_, 1998

The Parties Named on Schedule I  
Attached Hereto

Re: Arch Coal, Inc. Lease Intended As Security

Ladies and Gentlemen:

I am General Counsel of Apogee Coal Company, a Delaware corporation, Catenary Coal Company, a Delaware corporation, and Hobet Mining, Inc., a West Virginia corporation (collectively, "Lessees"), Arch Coal, Inc., a Delaware corporation ("Parent Guarantor"), Allegheny Land Company, a Delaware corporation, Arch Coal Sales Company, Inc., a Delaware corporation, Ark Land Company, a Delaware corporation, Cumberland River Coal Company, a Delaware corporation, and Mingo Logan Coal Company, a Delaware corporation (collectively, "Subsidiary Guarantors"). I have examined and am familiar with originals of or copies identified to my satisfaction of the Lease Intended as Security, dated as of January 15, 1998 (the "Lease"), among Lessees, First Security Bank, National Association, a national banking association, not in its individual capacity except as specifically set forth in the Trust Agreement, but solely in its capacity as Certificate Trustee ("Lessor"), and the Persons listed in Schedule I thereto, as Certificate Purchasers (each a "Certificate Purchaser" and collectively the "Certificate Purchasers"; provided that no such reference shall be deemed to refer to any Person who is not a holder of a Certificate at the date of determination, other than for purposes of Article VII of the Lease), each of the other Operative Documents, the original or certified certificate or articles of incorporation, as the case may be, and the by-laws of the Lessees, Subsidiary Guarantors and Parent Guarantor, and such other documents and proceedings as I have considered necessary for the purpose of rendering this opinion. In addition, I have examined and am familiar with such other legal and factual matters as I have deemed necessary for the purpose of rendering this opinion. Capitalized terms used in this opinion and not otherwise defined herein shall have the respective meanings specified in Article I of the Lease. This opinion is being furnished to you at the request of Lessees, the Parent Guarantor and the Subsidiary Guarantors pursuant to the Operative Documents.

Reference in this opinion to "knowledge" means the knowledge of attorneys in my office which have devoted substantive attention to matters directly related to the Operative Documents.

In rendering this opinion I have assumed: (a) the genuineness of the signatures on all documents and instruments (other than the signatures of officers of Lessees, Parent Guarantor and Subsidiary Guarantors on the Operative Documents to which any Lessee, Parent Guarantor or any Subsidiary Guarantor, as the case may be, is a party), the authenticity of all documents submitted as originals, and the conformity to originals of all documents submitted as photostatic or certified copies; and (b) that the Operative Documents constitute the legal, valid and binding obligations of the respective parties thereto, if any, other than Lessees, Parent Guarantor and Subsidiary Guarantors.

Based upon and subject to the foregoing and the further limitations, qualifications and exceptions set forth below, I am of the opinion that:

1. Each Lessee is a corporation duly organized, validly existing and in good standing under the laws of the state of its incorporation and has all requisite corporate power and authority to conduct its business as presently conducted, to own or hold under lease or subleases its properties, to enter into, execute, deliver, and perform its obligations under the Operative Documents to which it is a party, and is duly qualified as a foreign corporation authorized to do business and is in good standing in every other jurisdiction in which its failure to be so qualified would have a Material Adverse Effect or prevent the enforcement of contracts to which such Lessee is a party.

2. Parent Guarantor is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has all requisite corporate power and authority to conduct its business as presently conducted, to own, lease, license or use its assets and carry on its business, to enter into, execute, deliver and perform its obligations under the Parent Guaranty and is duly qualified as a foreign corporation authorized to do business and is in good standing in every other jurisdiction in which its failure to be so qualified would have a Material Adverse Effect or prevent the enforcement of contracts to which Parent Guarantor is a party.

3. Each Subsidiary Guarantor is a corporation duly organized, validly existing and in good standing under the laws of the state of its incorporation and has all requisite corporate power and authority to conduct its business as presently conducted, to own or hold under lease or sublease its properties, to enter into, execute, deliver and perform its obligations under the Subsidiary Guaranty and is duly qualified as a foreign corporation authorized to do business and is in good standing in every other jurisdiction in which its failure to be so qualified would have a Material Adverse Effect or prevent the enforcement of contracts to which such Subsidiary Guarantor is a party.

4. The execution and delivery by each Lessee of, the consummation by such Lessee of the transactions provided for in, and the compliance by such Lessee with all of the provisions of, each Operative Document to which it is a party have been duly authorized by all necessary corporate action on its part; and neither the execution and delivery thereof, nor the consummation of the transactions contemplated thereby (including, without limitation, the operation of the Units), nor compliance by such Lessee with any of the terms and

provisions thereof (i) requires any approval of the stockholders of such Lessee, or approval or consent of any trustee or holder of any of such Lessee's indebtedness or obligations; (ii) contravenes or will contravene any applicable laws currently in effect applicable to or binding upon such Lessee or the Units; (iii) conflicts with, results in any breach of or constitutes any default under, or results in the creation of any Lien (other than the respective rights and interest of such Lessee, Certificate Purchasers or Lessor as provided in the Operative Documents) upon any of such Lessee's property under, (A) any indenture, mortgage, chattel mortgage, deed of trust, lease, conditional sales contract, loan or credit arrangement or other material agreement or instrument by which such Lessee or any of its properties may be bound or by which the Units may be materially adversely affected, (B) such Lessee's corporate charter or (C) such Lessee's by-laws; or (iv) requires or will require any Governmental Action, including, but not limited to, any Governmental Action to perfect the right of Certificate Purchasers and Lessor intended to be created by the Operative Documents other than as set forth in Paragraph 21 hereof.

5. The execution and delivery by Parent Guarantor of, the consummation by Parent Guarantor of the transactions provided for in, and the compliance by Parent Guarantor with all of the provisions of, the Parent Guaranty have been duly authorized by all necessary corporate action on its part; and neither the execution and delivery thereof, nor the consummation of the transactions contemplated thereby, nor compliance by Parent Guarantor with any of the terms and provisions thereof (i) requires any approval of the stockholders of Parent Guarantor, or approval or consent of any trustee or holder of any of Parent Guarantor's indebtedness or obligations (other than that which has been obtained by Parent Guarantor); (ii) contravenes or will contravene any applicable laws currently in effect applicable to or binding upon Parent Guarantor; (iii) conflicts with, results in any breach of or constitutes any default under, or results in the creation of any Lien upon any of Parent Guarantor's property under, (A) any indenture, mortgage, chattel mortgage, deed of trust, lease, conditional sales contract, loan or credit arrangement or other material agreement or instrument by which Parent Guarantor or any of its properties may be bound, (B) Parent Guarantor's Certificate of Incorporation or (C) Parent Guarantor's by-laws; or (iv) requires or will require any Governmental Action to perfect the right of Certificate Purchasers and Lessor intended to be created by the Operative Documents.

6. The execution and delivery by each Subsidiary Guarantor of, the consummation by such Subsidiary Guarantor of the transactions provided for in, and the compliance by such Subsidiary Guarantor with all of the provisions of, the Subsidiary Guaranty have been duly authorized by all necessary corporate action on its part; and neither the execution and delivery thereof, nor the consummation of the transactions contemplated thereby, nor compliance by such Subsidiary Guarantor with any of the terms and provisions thereof (i) requires any approval of the stockholders of such Subsidiary Guarantor, or approval or consent of any trustee or holder of any of such Subsidiary Guarantor's indebtedness or obligations; (ii) contravenes or will contravene any applicable laws currently in effect applicable to or binding upon such Subsidiary Guarantor; (iii) conflicts with, results in any breach of or constitutes any default under, or results in the creation of any Lien upon any of such Subsidiary Guarantor's property under, (A) any indenture, mortgage, chattel

mortgage, deed of trust, lease, conditional sales contract, loan or credit arrangement or other material agreement or instrument by which such Subsidiary Guarantor or any of its properties may be bound, (B) such Subsidiary Guarantor's corporate charter or (C) such Subsidiary Guarantor's by-laws; or (iv) requires or will require any Governmental Action to perfect the right of Certificate Purchasers and Lessor intended to be created by the Operative Documents.

7. Each Operative Document to which each Lessee is a party has been duly executed and delivered by such Lessee and constitutes its legal, valid and binding obligation, enforceable against such Lessee in accordance with its terms, except as such enforceability may be limited by applicable bankruptcy, insolvency and similar laws affecting creditors' rights generally and by general equitable principles.

8. The Subsidiary Guaranty has been duly executed and delivered by each Subsidiary Guarantor and constitutes its legal, valid and binding obligation, enforceable against such Subsidiary Guarantor in accordance with its terms, except as such enforceability may be limited by applicable bankruptcy, insolvency and similar laws affecting creditors' rights generally and by general equitable principles.

9. The Parent Guaranty has been duly executed and delivered by Parent Guarantor and constitutes its legal, valid and binding obligation, enforceable against Parent Guarantor in accordance with its terms, except as such enforceability may be limited by applicable bankruptcy, insolvency and similar laws affecting creditors' rights generally and by general equitable principles.

10. There is no action, proceeding or investigation pending or, to the best of my knowledge, threatened which questions the validity of the Operative Documents to which any Lessee is a party or any action taken or to be taken pursuant thereto; nor is any action, proceeding or investigation pending or, to the best of my knowledge, threatened against any Lessee or its property which is reasonably likely to result, either in any case or in the aggregate, in a Material Adverse Effect.

11. There is no action, proceeding or investigation pending or, to the best of my knowledge, threatened which questions the validity of the Parent Guaranty or Subsidiary Guaranty or any action taken or to be taken pursuant thereto; nor is any action, proceeding or investigation pending or, to the best of my knowledge, threatened against any Parent Guarantor or any Subsidiary Guarantor or its respective property which is reasonably likely to result, either in any case or in the aggregate, in a Material Adverse Effect.

12. No authorizations, consent, approval, license or formal exemption from, nor any filing, declaration or registration with, any Authority (other than approval of the Board of Directors of each Lessee which has been obtained prior to the date hereof) is or will be required in connection with the execution and delivery by such Lessee of the Operative Documents, or the performance by such Lessee of its obligations under such Operative Documents or the ownership, operation and maintenance of the Units as contemplated by the

Operative Documents.

13. No authorizations, consent, approval, license or formal exemption from, nor any filing, declaration or registration with, any Authority (other than approval of the Board of Directors of Parent Guarantor or each Subsidiary Guarantor, as the case may be, which has been obtained prior to the date hereof) is or will be required in connection with the execution and delivery by Parent Guarantor or such Subsidiary Guarantor of the Parent Guaranty or Subsidiary Guaranty, as the case may be, or the performance by Parent Guarantor or such Subsidiary Guarantor of its obligations under Parent Guaranty or Subsidiary Guaranty, as the case may be.

14. None of any Lessee, Parent Guarantor nor any Subsidiary Guarantor is an "investment company" or a company "controlled" by an "investment company" within the meaning of the Investment Company Act of 1940, as amended. The proceeds of the sale of the Units and the issuance of the Certificates, if used in accordance with the terms of the Operative Documents, will not result in a violation of Regulations G, T, U or X of the Board of Governors of the Federal Reserve System.

15. None of any Lessee, Parent Guarantor nor any Subsidiary Guarantor is subject to regulation as a "holding company," an "affiliate" of a "holding company," or a "subsidiary company" of a "holding company," within the meaning of the Public Utility Holding Company Act of 1935, as amended.

16. The registration of the Certificates or the interests of Certificate Purchasers under the Securities Act of 1933, as amended, is not required under the circumstances contemplated by the Lease; and no qualification of an indenture in respect of such Certificates or interests under the Trust Indenture Act of 1939, as amended, is required in connection therewith.

17. The Lease is in form sufficient to create a valid security interest under Article 9 of the UCC in favor of Lessor for the benefit of Certificate Purchasers, as security for payment of each Lessee's obligations under the Lease, in those items and types of Collateral which are subject to the provisions of Article 9 of the UCC.

18. Neither Lessor nor any Certificate Purchaser will become solely by reason of entering into the Lease or the consummation of the transactions contemplated thereby (other than upon the exercise of remedies under the Lease or upon the expiration thereof) subject to ongoing regulation of its operations by any Authority.

19. The Bills of Sale are in form sufficient under the laws of the State of Missouri to convey valid title to the property described therein to Lessor.

20. Each UCC financing statement listed on Schedule A hereto is in proper form for filing, and upon the due filing of such financing statements with the offices listed on Schedule A hereto, the security interest of Lessor, on behalf of Certificate Purchasers, in all

the Collateral will be perfected to the extent that a security interest in such Collateral may be perfected under the UCC by so filing, and the description of such Collateral therein is adequate. No other filing, recordation or registration is necessary under the UCC in order to perfect Lessor's security interest in such Collateral.

21. The payment by Lessees and the receipt by Lessor, for the benefit of Certificate Purchasers, of the Basic Rent, Supplemental Rent and all other amounts, fees or interest due and payable under the Lease and the other Operative Documents and any transactions described therein, and any interest rate cap fee paid or payable to Certificate Purchasers or their Affiliates, are not usurious under or otherwise in violation of the laws of the State of Missouri.

22. No state or local recording tax, transfer tax, stamp tax or other similar fee, tax or governmental charge is required to be paid to the State of Missouri or any political subdivision thereof in connection with the execution, delivery, filing or recording of the Operative Documents or the transfer of the Units, other than statutory filing and recording fees that are to be paid upon the filing and recording, as applicable, of the UCC financing statements filed in connection with the transactions contemplated by the Operative Documents and transfer taxes that are to be paid by Lessees upon the transfer of the Units on the Delivery Date.

23. In an action or proceeding arising out of or relating to the Operative Documents in any court in the State of Missouri (including any federal court located in such state), such court will recognize and give effect to the provisions therein wherein the parties agree that such documents shall be governed by and construed in accordance with the laws of the State of Illinois. I advise you that a court sitting in the State of Missouri would look to the conflict of laws principles of the State of Missouri to determine which law governs. Under Missouri law the parties to agreements such as the Operative Documents may agree that such agreements shall be governed by the law of a particular jurisdiction so long as some element of such agreement is property referable to that jurisdiction. Courts applying conflict of laws principles of the State of Missouri have not enforced agreements that the law of a particular jurisdiction governs an agreement when there was no logical basis for the agreement, when the agreement was made to evade otherwise applicable law or when the agreement infringed upon a fundamental policy of the State of Missouri. I have assumed that the basis for the selection of the substantive laws of the State of Illinois as the governing law of the Operative Documents is that the Operative Documents were negotiated and the transactions closed in Illinois and that the parties have not selected Illinois law in an effort to avoid otherwise applicable Missouri law. I am not aware of any fundamental policy of the State of Missouri which would be infringed by the selection of Illinois law as the governing law of the Operative Documents under those circumstances. Accordingly, assuming a court sitting in the State of Missouri would find that there is a logical basis for the parties' choice of Illinois law, I believe such court should give effect thereto.

24. Assuming the due authorization, execution and delivery of the Trust Agreement by the parties thereto, (i) the Trust Agreement constitutes a legal, valid, binding and effective

agreement and declaration of trust by First Security enforceable against First Security in accordance with the terms thereof and (ii) the Certificates constitute the legal, valid and binding obligations of First Security enforceable against First Security in accordance with their terms.

The opinions contained herein are subject to the following limitations, assumptions and qualifications:

A. The scope and enforceability of security interests in the collateral perfected under the UCC are subject to the following: (i) as to dispositions of collateral authorized by a secured party and as to proceeds, the limitations set forth in Section 9306 of the UCC, (ii) the rights of buyers of goods as set forth in Section 9307 of the UCC, (iii) the rights of purchasers of chattel paper and instruments as set forth in Section 9308 of the UCC, (iv) the rights of purchasers of instruments and documents as set forth in Section 9309 of the UCC, (v) as to accessions, the limitations set forth in Section 9314 of the UCC, (vi) as to products, the limitations set forth in Section 9315 of the UCC, (vii) any right, defense or claim of an account debtor to which the rights of an assignee would be subject under Section 9318 of the UCC, and (viii) any right, defense or claim of a bona fide purchaser under Section 8313(b) of the UCC.

B. This opinion is based on the states of law and fact as they exist on the date hereof. This opinion is not rendered with respect to any laws other than the Securities Act, the laws of the State of Missouri, federal laws of the United States of America, the General Corporation Law of the States of Delaware and West Virginia and the UCC of the State of Illinois, it being understood that I am not admitted to the practice of law in the States of Delaware, West Virginia and Illinois. I note that the Operative Documents provide that it is governed by and is to be construed and enforced in accordance with the substantive laws of the State of Illinois without giving effect to conflicts of law principles. However, in rendering the opinions expressed above, I have assumed, with your permission, that the substantive laws of the State of Illinois are identical to the substantive laws of the State of Missouri in all respects relevant to such opinions and, except as set forth in paragraph 23 above, I express no opinion as to which law any court construing any of the said agreements would apply.

I am licensed to practice law in the States of Kentucky and Missouri.

Only you, your successors, your participants in and assigns of, the Operative Documents and your and their counsel may rely upon this opinion letter and only in connection with the Operative Documents and the transactions contemplated hereby.

Very truly yours,

EXHIBIT C-2 TO LEASE INTENDED AS SECURITY  
DATED AS OF JANUARY 15, 1998

FORM OF OPINION OF LOCAL COUNSEL

1. Hobet Mining Inc. is a corporation duly organized, validly existing and in good standing under the laws of the State of West Virginia. Each other Lessee is duly qualified as a foreign corporation authorized to do business and is in good standing in the State of West Virginia.

2. Neither the execution and delivery by each Lessee of, nor the consummation by such Lessee of the transactions provided for in, nor the compliance by such Lessee with all of the provisions of, each Operative Document to which it is a party (including, without limitation, the operation of the Units) (i) contravenes or will contravene any Applicable Laws and Regulations currently in effect applicable to or binding upon such Lessee or the Units; or (ii) requires or will require any Governmental Action, including, but not limited to, any Governmental Action to perfect the right of Certificate Purchasers and Lessor intended to be created by the Operative Documents other than as set forth in Paragraph 9 hereof.

3. The Lease constitutes the legal, valid binding obligation of each Lessee, enforceable against such Lessee in accordance with its terms, except as such enforceability may be limited by applicable bankruptcy, insolvency and similar laws affecting creditors' rights generally and by general equitable principles.

4. No authorizations, consent, approval, license or formal exemption from, nor any filing, declaration or registration with, any Authority of the State of West Virginia or any political subdivision thereof is or will be required in connection with the execution and delivery by Lessees of the Lease and the Bills of Sale, or the performance by Lessees of their obligations under the Lease and the Bills of Sale or the ownership, operation and maintenance of the Units as contemplated by the Lease.

5. The Lease creates a valid security interest under the UCC in favor of Lessor for the benefit of Certificate Purchasers, as security for payment of each Lessee's obligations under the Lease, in all of each Lessee's right, title and interest in and to the Collateral.

6. Neither Lessor nor any Certificate Purchaser will become solely by reason of entering into the Lease or the consummation of transactions contemplated thereby (other than upon the exercise of remedies under the Lease or upon the expiration thereof) subject to ongoing regulation of its operations by any Authority of the State of West Virginia or any political subdivision thereof.

7. Neither First Security Bank, National Association nor any Certificate Purchaser is required under the laws of the State of West Virginia to qualify as a foreign corporation, foreign trust company or otherwise in the State of West Virginia solely as a result of its

execution, delivery and performance of the Lease. First Security Bank, National Association is eligible to act as a fiduciary in the State of West Virginia.

8. The Bills of Sale are in form sufficient under the laws of the State of West Virginia to convey valid title to the property described therein to Lessor.

9. Each UCC financing statement listed on Schedule A hereto is in proper form for filing, and upon the filing of such financing statements with the offices listed on Schedule A hereto, the security interest of Lessor, on behalf of Certificate Purchasers, in all the Collateral will be perfected to the extent that a security interest in such Collateral may be perfected under the UCC by so filing, and the description of such Collateral therein is adequate. No other filing, recordation or registration is necessary in order to perfect Lessor's security interest in such Collateral under the UCC.

10. The payment by Lessees and the receipt by Lessor, for the benefit of Certificate Purchasers, of the Basic Rent, Supplemental Rent and all the amounts, fees or interest due and payable under the Lease and any transactions described therein, and any interest rate cap fee paid or payable to Certificate Purchasers or their Affiliates, are not usurious under or otherwise in violation of the laws of the State of West Virginia.

11. No state or local recording tax, stamp tax or other similar fee, tax or governmental charge is required to be paid to the State of West Virginia or any political subdivision thereof in connection with the execution, delivery, filing or recording of the Operative Documents or the transfer of the Units, other than statutory filing and recording fees that are to be paid upon the filing and recording, as applicable, of the UCC financing statements filed in connection with the transactions contemplated by the Operative Documents and transfer taxes to be paid by Lessees upon the transfer of the Units on the Delivery Date.

12. The express choice of laws of the State of Illinois to govern the Lease is enforceable and will be recognized by West Virginia courts.

13. The Units will be treated as "personal property" and will not be treated as "real property" or "fixtures" constituting a part of or affixed to real estate under the laws of the State of West Virginia, and accordingly, it is not necessary to file any fixture filings under the UCC in order to perfect any right, title or interest of the Lessor or the Certificate Purchasers in the Units.

NOTE: Opinion to cover the laws of the State of West Virginia.

EXHIBIT C 3 TO LEASE INTENDED AS SECURITY  
DATED AS OF JANUARY 15, 1998

FORM OF OPINION OF CERTIFICATE TRUSTEE'S SPECIAL COUNSEL

January \_\_\_\_, 1998

To Each of the Persons  
Listed on Schedule A  
Attached Hereto

Re: ARCH COAL TRUST NO. 1998-1

Dear Sir or Madam:

We have acted as counsel to First Security Bank, National Association, a national banking association, in its individual capacity ("First Security") and in its capacity as Certificate Trustee (the "Certificate Trustee") under Trust Agreement (Arch Coal Trust No. 1998-1) dated as of January 15, 1998 (the "Trust Agreement"), among First Security, the Certificate Trustee and the Persons named on Schedule I thereto as Certificate Purchasers (the "Certificate Purchasers"), in connection with the transaction contemplated by the Lease Intended as Security dated as of January 15, 1998 (the "Lease"), among Apogee Coal Company, Catenary Coal Company and Hobet Mining, Inc., as Lessees, the Certificate Trustee as Lessor and the Certificate Purchasers.

In that connection, we have examined the Trust Agreement and the Lease, Certificates and the other related documents to which First Security or the Certificate Trustee, as applicable, is a party (the "Operative Documents"). We have also examined such other documents, records, matters of law and other matters we have considered necessary in connection with the expression of the opinions hereinafter set forth. Capitalized terms used herein and not otherwise defined herein shall have the meanings specified in the Lease.

Based upon the foregoing, we are of the opinion that:

1. First Security is a national banking association duly organized, validly existing and in good standing under the laws of the United States of America, is authorized to transact the business of banking under the laws of the United States of America and has full power and authority to execute, deliver and perform its obligations under the Trust Agreement and, acting pursuant thereto, the Operative Documents.

2. First Security has duly authorized, executed and delivered the Trust Agreement and, to the extent specifically provided therein, the Operative Documents, and each such document constitutes the legal, valid and binding obligation of First Security, enforceable against it in accordance with the terms thereof.

3. The Certificate Trustee is duly authorized under the Trust Agreement to execute, deliver and perform each of the Operative Documents, has duly executed and delivered each of the Operative Documents and each such Operative Document constitutes a legal, valid and binding obligation of the Certificate Trustee, enforceable against the Certificate Trustee in accordance with its terms. The Certificates issued on the date hereof have been duly issued, executed and delivered by the Certificate Trustee, pursuant to authorization contained in the Trust Agreement, and constitute legal, valid and binding obligations of the Certificate Trustee, enforceable against the Certificate Trustee in accordance with their terms and the terms of the Trust Agreement.

4. The Trust Agreement duly creates a legal and valid trust under Utah law; the trust created by the Trust Agreement exists for the benefit of the Certificate Purchasers as provided therein and creates for the benefit of the Certificate Purchasers the interest in the Trust Estate which the Trust Agreement by its terms purports to create.

5. Neither the execution, delivery or performance by First Security or the Certificate Trustee, as the case may be, of the Operative Documents, the consummation by First Security or the Certificate Trustee, as the case may be, of any of the transactions contemplated thereby nor the compliance by First Security or the Certificate Trustee, as the case may be, with any of the terms and provisions thereof (i) requires any approval of its stockholders, or any consent or approval of or the giving of notice to any trustees or holders of any indebtedness or obligations of it known to us, (ii) violates its articles of association or by-laws, or contravenes or will contravene any provision of, or constitutes a default under, or results in any breach of, or results in the creation of any Lien (other than as permitted under the Operative Documents), upon property under, any indenture, mortgage, chattel mortgage, deed of trust, conditional sales contract, bank loan or credit agreement, license or other agreement or instrument, in each case known to us, to which it is a party or by which it is bound or (iii) contravenes any Utah applicable law or United States applicable law governing the banking or trust powers of First Security or any judgment or order, in each case, known to us applicable to or binding on it.

6. No consent, approval, order or authorization of, giving of notice to, or registration with, or taking of any other action in respect of, any Utah governmental authority or United States governmental authority regulating the banking or trust powers of First Security is required for the execution, delivery, validity or enforceability of the Operative Documents, or the carrying out by, First Security or the Certificate Trustee, as the case may be, of any of the transactions contemplated by the Operative Documents, other than any such consent, approval, order, authorization, registration, notice or action as has been duly obtained, given or taken.

8. There are no fees, taxes or other charges payable by First Security or the Certificate Trustee imposed by the State of Utah or any political subdivision or taxing authority thereof in connection with the execution, delivery and performance by First Security or the Certificate Trustee of the Operative Documents (other than taxes based on or measured by any fees or compensation received by First Security, acting as the Certificate Trustee, for services rendered in connection with the transactions contemplated by the Operative Documents) solely because First Security or the Certificate Trustee, as the case may be, performs certain of its obligations under the Trust Agreement and the Operative Documents in Salt Lake City or the State of Utah.

9. The Certificate Trustee has received such titles to the Units as were conveyed to it by Lessees, subject to the rights of Lessees under the Lease and to our knowledge, there exist no liens or encumbrances affecting the right, title and interest of the Certificate Trustee in and to the Trust Estate resulting from claims against First Security not related to the ownership of the Trust Estate or any other transaction contemplated by the Trust Agreement and the Operative Documents.

10. There are no proceedings pending or, to our knowledge, threatened and, to our knowledge, there is no existing basis for any such proceedings against or affecting First Security or the Certificate Trustee, as the case may be, in or before any court or before any governmental authority or arbitration board or tribunal which, if adversely determined, might, individually or in the aggregate, adversely affect or impair the ability of First Security or the Certificate Trustee, as the case may be, to enter into or to perform in obligations under the Trust Agreement or the Operative Documents.

The foregoing opinions are subject to the following assumptions, exceptions and qualifications:

A. The foregoing opinions are limited to the laws of the State of Utah and the federal laws of the United States of America governing the banking and trust powers of First Security. In addition, without limiting the foregoing we express no opinion with respect to (i) federal securities laws, including the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, and the Trust Indenture Act of 1939, as amended or (ii) state securities or blue sky laws. Insofar as the foregoing opinions relate to the legally, validly, binding effect and enforceability of the documents involved in these transactions, which by their terms are governed by the laws of a state other than Utah, we have assumed that such documents constitute legal, valid, binding and enforceable agreements under the laws of such other state, as to which we express no opinion.

B. The foregoing opinions regarding enforceability of any document or instrument are subject to (i) applicable bankruptcy, insolvency, moratorium, reorganization, receivership and similar laws affecting the rights and remedies of creditors generally, and (ii) general principles of equity, regardless of whether such enforceability is considered in a proceeding in equity or at law.

C. As to the documents involved in these transactions, we have assumed that each is a legal, valid and binding obligation of each party thereto, other than First Security or the Certificate Trustee, and is enforceable against each such party in accordance with their respective terms.

D. We have assumed that all signatures, other than those of the Certificate Trustee or First Security, on documents and instruments involved in these transactions are genuine, that all documents and instruments submitted to us as originals are authentic, and that all documents and instruments submitted to US as copies conform with the originals, which facts we have not independently verified.

E. We do not purport to be experts in respect of, or express any opinion concerning laws, rules or regulations applicable to the particular nature of the equipment involved in these transactions.

F. We have made no investigation of, and we express no opinion concerning, the nature of the title to any part of the equipment involved in these transactions or the priority of any mortgage or security interest.

G. We have assumed that the Trust Agreement, the Operative Documents and the transactions contemplated thereby are not within the prohibitions of Section 406 of the Employee Retirement Income Security Act of 1974.

H. In addition to any other limitation by operation of law upon the scope, meaning, or purpose of this opinion, this opinion speaks only as of the date hereof. We have no obligation to advise the recipients of this opinion (or any third party) of changes of law or fact that may occur after the date hereof even though the change may affect the legal analysis, a legal conclusion or an information confirmation herein.

[Rest of this page left intentionally blank]

I. The opinions expressed in this letter are solely for the use of the parties to which it is addressed ha matters directly related to the Trust Agreement, the Operative Documents and the transactions contemplated thereunder and these opinions may not be relied on by any other persons or for any other purpose without our prior written approval. The opinions expressed in this letter are limited to the matter set forth in this letter, and Do other opinions should be inferred beyond the matters expressly stated.

Although we have not verified the accuracy of any of the assumed conditions set forth in Paragraphs A through I, we have no knowledge of any inaccuracy in these assumptions.

Very truly yours,

EXHIBIT C-4 TO LEASE INTENDED AS SECURE  
DATED AS OF JANUARY 15, 1998

FORM OF OPINION OF CERTIFICATE PURCHASER'S SPECIAL COUNSEL

January \_\_\_\_, 1998

To the Parties Listed on  
the Attached Schedule

Re: Synthetic Lease of Above-Ground Mining Equipment  
(Arch Coal. Inc.)

Ladies and Gentlemen:

We have acted as your special counsel in connection with (i) your execution and delivery of the Lease Intended as Security dated as of January 15, 1998 (the "Lease") among Apogee Coal Company, Catenary Coal Company and Hobet Mining, Inc. (collectively, "Lessees"), First Security Bank, National Association, individually ("First Security") and as trustee under Arch Coal Trust 1998-1 ("Certificate Trustee"), providing, among other things, for your commitment to purchase up to \$75,000,000 aggregate principal amount of Certificates of Certificate Trustee; and (ii) your purchase on the date hereof of \$ in aggregate principal amount of the Certificates. Capitalized terms used herein and not otherwise defined herein shall have the meanings set forth in the Lease.

In that connection, we have examined executed counterparts of the Lease, Trust Agreement, the Subsidiary Guaranty and the Parent Guaranty (collectively referred to in this opinion as the "Operative Agreements"). The Operative Agreements to which Lessees are a party are referred to in this opinion as the "Lessee Agreements". We have also examined the Certificates issued to each of you on this date.

We have also examined such other documents, records, matters of law and other matters as we have considered necessary in connection with the expression of the opinions hereinafter set forth. We have also relied upon the certificates of appropriate persons.

Based upon the foregoing, we are of the opinion that:

1. Each Lessee is a corporation validly existing and in good standing under the laws of the state of its incorporation and has the corporate power to enter into and perform the Lessee Agreements.

2. Parent Guarantor is a corporation validly existing and in good standing under the laws of the State of Delaware and has the corporate power to enter into and perform the Parent Guaranty.

3. Each Subsidiary Guarantor is a corporation validly existing and in good standing under the laws of the state of its incorporation and has the corporate power to enter into and perform the Subsidiary Guaranty.

4. Each Lessee Agreement has been duly authorized, executed and delivered by each Lessee and constitutes the legal, valid and binding obligation of such Lessee enforceable against such Lessee in accordance with the terms thereof, subject to bankruptcy, insolvency, fraudulent conveyance and similar laws affecting creditors' rights generally, and general principles of equity (regardless of whether the application of such principles are considered in a proceeding in equity or at law).

5. The Parent Guaranty has been duly authorized, executed and delivered by Parent Guarantor and constitutes the legal, valid and binding obligation of Parent Guarantor enforceable against Parent Guarantor in accordance with the terms thereof, subject to applicable bankruptcy, insolvency, fraudulent conveyance, moratorium or similar laws affecting creditors' rights generally and to general principles of equity (regardless of whether such principles are considered in a proceeding in equity or at law).

6. The Subsidiary Guaranty has been duly authorized, executed and delivered by each Subsidiary Guarantor.

7. The issuance, sale and delivery of the Certificates under the circumstances contemplated by the Lease do not, under existing law require the registration of the Certificates under the Securities Act of 1933, as amended or the qualification of the Trust Agreement under the Trust Indenture Act of 1939, as amended.

Our opinions as to the matters referred to in Paragraphs 1, 2 and 3 above are based and given in sole reliance upon an examination of the Certificate of Incorporation or Articles of Incorporation, as the case may be, and By-laws of Lessees, Subsidiary Guarantors and Parent Guarantor and Certificates of the Secretary of State of the States of Delaware and West Virginia, as the case may be. We believe that the opinion of [\_\_\_\_\_] delivered to you on the date hereof is satisfactory in scope and form and that you are justified in relying thereon.

Our opinion is limited to the laws of the State of Illinois, the general corporate law of the States of West Virginia and Delaware and the Federal laws of the United States of America and we express no opinion on the laws of any other jurisdiction. We give no opinion whatsoever on the legal, valid, binding and enforceable nature of the Subsidiary Guaranty.

EXHIBIT D TO LEASE INTENDED AS SECURITY  
DATED AS OF JANUARY 15, 1998

FORM OF DELIVERY DATE NOTICE

January \_\_, 1998

TO: Lessor and Certificate Purchasers, pursuant to that certain Lease Intended as Security (the "Lease"), dated as of January 15, 1998 among: Apogee Coal Company, a Delaware corporation, Catenary Coal Company, a Delaware corporation and Hobet Mining, Inc., a West Virginia corporation; the Persons identified on Schedule I thereto as the "Certificate Purchasers"; and First Security Bank, National Association, a national banking association, not in its individual capacity but solely as Certificate Trustee ("Lessor"; all capitalized terms used herein without definition shall have the meaning assigned to such terms in the Lease).

FROM: Lessees' Agent

REGARDING: Delivery Date

1. The Delivery Date is scheduled for January 29, 1998, at the offices of Chapman and Cutler, 111 West Monroe Street, Chicago, Illinois 60603 at 9:00 a.m.

2. The Units to be acquired and accepted on such date are identified on Schedule I hereto, all of which Units will be identified on Schedule II to the Lease.

3. The aggregate Purchase Price to be paid for the Units identified on Schedule I hereto is \$ \_\_\_\_\_, which Purchase Price is to be paid out of Funding.

The Purchase Price shall be sent by wire transfer to Lessees in the amounts and at the accounts set forth on Schedule II hereto.

ARCH COAL, INC., as Lessees' Agent

By: \_\_\_\_\_  
Name Printed: \_\_\_\_\_  
Title: \_\_\_\_\_

-----

SCHEDULE I TO DELIVERY DATE NOTICE

Description of Units:

-----

SCHEDULE II TO DELIVERY DATE NOTICE

LESSEE

WIRE TRANSFER INSTRUCTIONS

AMOUNT

1. Apogee Coal Company
2. Catenary Coal Company
3. Hobet Mining, Inc.

EXHIBIT E-1 TO LEASE INTENDED AS SECURITY  
DATED AS OF JANUARY 15, 1998

FORM OF OFFICER'S CERTIFICATE

TO: Lessor and Certificate Purchasers, pursuant to that certain Lease Intended as Security (the "Lease"), dated as of January 15, 1998 among: [\_\_\_\_\_], a \_\_\_\_\_ corporation (the "Company"), and the other Lessees named therein (collectively, together with the Company, "Lessees"); the Persons identified on Schedule I thereto as the "Certificate Purchasers"; and First Security Bank, National Association, a national banking association, not in its individual capacity but solely as Certificate Trustee ("Lessor"; all capitalized terms used herein without definition shall have the meaning assigned to such terms in the Lease).

Pursuant to the Lease among Lessees, Lessor and Certificate Purchasers, I, \_\_\_\_\_, \_\_\_\_\_ of the Company, do hereby certify as follows:

The representations and warranties of the Company contained in the Lease and made on behalf of the Company in the other Operative Documents are true and correct on and as of the date hereof with the same effect as if such representations and warranties had been made on and as of the date hereof; the Company has performed all agreements on its part required to be performed under the Lease and the other Operative Documents on or prior to the date hereof; and there exists on the date hereof no Incipient Default or Event of Default.

IN WITNESS WHEREOF, I have signed my name this \_\_\_\_\_ day of January, 1998.

[-----]

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

EXHIBIT E-2 TO LEASE INTENDED AS SECURITY  
DATED AS OF JANUARY 15, 1998

FORM OF SECRETARY'S CERTIFICATE

The UNDERSIGNED \_\_\_\_\_, [Assistant] Secretary of [\_\_\_\_\_] (the "Company"), pursuant to that certain Lease Intended as Security, dated as of January 15, 1998 (the "Lease"), among the Company, the other Lessees named therein, First Security Bank, National Association and the Persons listed on Schedule I thereto as Certificate Purchasers, does hereby certify as follows (capitalized terms used herein and not otherwise defined herein shall have the meanings ascribed thereto in the Lease):

1. Attached hereto as Exhibit A is a true and complete copy of the Company's [Certificate/Articles] of Incorporation as amended and in effect on the date hereof, certified by the Secretary of State of the State of [Delaware/West Virginia].

2. The copy of the By-laws of the Company, attached hereto as Exhibit B, is true and complete and such By-laws are in full force and effect on the date hereof.

3. Attached hereto as Exhibit C are true and correct copies of all resolutions adopted by the Board of Directors of the Company relating to the Lease and the other Operative Documents, which resolutions have not been amended or rescinded and are in full force and effect on the date hereof.

4. The following persons are on the date hereof duly qualified and acting officers of the Company, duly elected or appointed to the offices set forth beside their respective names and signatures, and each such person who, as an officer of the Company, signed the Lease, the certificates representing interests in the Lease, any of the other Operative Documents or any other document delivered prior hereto or on the date hereof in connection with such agreements and documents and the transactions contemplated therein was, at the respective times of such signing and delivery and is now duly elected or appointed, qualified and acting as such officer, and the signatures of such persons appearing on such documents are their genuine signatures:

NAME	OFFICE	SIGNATURE
=====	=====	=====
-----	-----	-----

IN WITNESS WHEREOF, I have signed my name this \_\_\_\_ day of January, 1998.

[-----]

By: \_\_\_\_\_  
Name Printed: \_\_\_\_\_  
Title: [Assistant]  
Secretary

I, \_\_\_\_\_, \_\_\_\_\_ of the Company, hereby certify that \_\_\_\_\_ is on the date hereof the duly elected, qualified and acting [Assistant] Secretary of the Company, and that the signature set forth above is such person's true and correct signature.

Dated: January \_\_, 1998.

[-----]

By: \_\_\_\_\_  
Name Printed: \_\_\_\_\_  
Title: \_\_\_\_\_

EXHIBIT E-3 TO LEASE INTENDED AS SECURITY  
DATED AS OF JANUARY 15, 1998

FORM OF OFFICER'S CERTIFICATE

TO: Lessor and Certificate Purchasers, pursuant to that certain Lease Intended as Security (the "Lease"), dated as of January 15, 1998 among: Apogee Coal Company, a Delaware corporation, Catenary Coal Company, a Delaware corporation, and Hobet Mining, Inc., a West Virginia corporation (collectively, "Lessees"); the Persons identified on Schedule I thereto as the "Certificate Purchasers"; and First Security Bank, National Association, a national banking association, not in its individual capacity but solely as Certificate Trustee ("Lessor"; all capitalized terms used herein without definition shall have the meaning assigned to such terms in the Lease).

Pursuant to the Lease among Lessees, Lessor and Certificate Purchasers, I, \_\_\_\_\_, \_\_\_\_\_ of [INSERT NAME OF PARENT GUARANTOR OR SUBSIDIARY GUARANTOR], a Delaware corporation ("Guarantor") do hereby certify as follows:

The representations and warranties made by or on behalf of Guarantor in the Operative Documents are true on and as of the date hereof with the same effect as if such representations and warranties had been made on and as of the date hereof; Guarantor has performed all agreements on its part required to be performed under the [Parent/Subsidiary] Guaranty and the other Operative Documents on or prior to the date hereof; and there exists on the date hereof no Incipient Default or Event of Default.

IN WITNESS WHEREOF, I have signed my name this \_\_\_\_ day of January, 1998.

[-----]

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

EXHIBIT E-4 TO LEASE INTENDED AS SECURITY  
DATED AS OF JANUARY 15, 1998

FORM OF SECRETARY'S CERTIFICATE

The UNDERSIGNED \_\_\_\_\_, [Assistant] Secretary of [NAME OF PARENT GUARANTOR OR SUBSIDIARY GUARANTOR] ("Guarantor"), pursuant to that certain Lease Intended as Security, dated as of January 15, 1998 (the "Lease"), among Apogee Coal Company, Catenary Coal Company, Hobet Mining, Inc., First Security Bank, National Association and the Persons listed on Schedule I thereto, does hereby certify as follows (capitalized terms used herein and not otherwise defined herein shall have the meanings ascribed thereto in the Lease):

1. Attached hereto as Exhibit A is a true and complete copy of Guarantor's Certificate of Incorporation as amended and in effect on the date hereof, certified by the Secretary of State of the State of Delaware.

2. The copy of the By-laws of Guarantor, attached hereto as Exhibit B, is true and complete and such By-laws are in full force and effect on the date hereof.

3. Attached hereto as Exhibit C are true and correct copies of all resolutions adopted by the [Finance Committee and] Board of Directors of Guarantor relating to the [Parent/Subsidiary] Guaranty and the other Operative Documents, which resolutions have not been amended or rescinded and are in full force and effect on the date hereof.

4. [The following persons are on the date hereof duly qualified and acting officers of Guarantor, duly elected or appointed to the offices set forth beside their respective names and signatures, and each such person who, as an officer of Guarantor, signed the [Parent/Subsidiary] Guaranty, any of the other Operative Documents or any other document delivered prior hereto or on the date hereof in connection with such agreements and documents and the transactions contemplated therein was, at the respective times of such signing and delivery and is now duly elected or appointed, qualified and acting as such officer, and the signatures of such persons appearing on such documents are their genuine signatures:] [The following person is on the date hereof duly authorized as attorney in fact to execute and deliver the Subsidiary Guaranty, any of the other Operative Documents or any other document delivered prior hereto or on the date hereof in connection with such agreements and documents and the transactions contemplated therein; set forth opposite his/her name is his/her genuine signature; such person was at the time of such execution and delivery an authorized attorney in fact; and the signature of such person appearing on such documents is his/her genuine signature:]

NAME	OFFICE	SIGNATURE
=====	=====	=====
-----	-----	-----

IN WITNESS WHEREOF, I have signed my name this \_\_\_\_ day of January, 1998.

[NAME OF GUARANTOR]

By: \_\_\_\_\_  
Name Printed: \_\_\_\_\_  
Title: [Assistant]  
Secretary

I, \_\_\_\_\_, \_\_\_\_\_ of Guarantor, hereby certify that \_\_\_\_\_ is on the date hereof the duly elected, qualified and acting [Assistant] Secretary of Guarantor, and that the signature set forth above is such person's true and correct signature.

Dated: January \_\_, 1998.

[NAME OF GUARANTOR]

By: \_\_\_\_\_  
Name Printed: \_\_\_\_\_  
Title: \_\_\_\_\_

EXHIBIT E-5 TO LEASE INTENDED AS SECURITY  
DATED AS OF JANUARY 15, 1998

FORM OF OFFICER'S CERTIFICATE

TO: Lessees and Certificate Purchasers, pursuant to that certain Lease Intended as Security (the "Lease"), dated as of January 15, 1998 among: Apogee Coal Company, a Delaware corporation, Catenary Coal Company, a Delaware corporation, and Hobet Mining, Inc., a West Virginia corporation (collectively, "Lessees"); the Persons identified on Schedule I thereto as the "Certificate Purchasers"; and First Security Bank, National Association, a national banking association, not in its individual capacity but solely as Certificate Trustee ("Lessor"; all capitalized terms used herein without definition shall have the meaning assigned to such terms in the Lease).

Pursuant to the Lease among Lessees, Lessor and Certificate Purchasers, I, \_\_\_\_\_, \_\_\_\_\_ of First Security Bank, National Association, do hereby certify as follows:

The representations and warranties made by or on behalf of Lessor in the Operative Documents are true on and as of the date hereof with the same effect as if such representations and warranties had been made on and as of the date hereof; Lessor has performed all agreements on its part required to be performed under the Lease and the other Operative Documents on or prior to the date hereof; and there exists on the date hereof no Incipient Default or Event of Default.

IN WITNESS WHEREOF, I have signed my name this \_\_\_\_ day of January, 1998.

FIRST SECURITY BANK,  
NATIONAL ASSOCIATION

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

EXHIBIT F TO LEASE INTENDED AS SECURITY  
DATED AS OF JANUARY 15, 1998

FORM OF ASSUMPTION AGREEMENT

Reference is hereby made to their certain Lease Intended as Security dated as of January 15, 1998 (the "Lease") among Apogee Coal Company, a Delaware corporation, Catenary Coal Company, a Delaware corporation, and Hobet Mining, Inc., a West Virginia corporation (collectively, "Lessees"), First Security Bank, National Association, as Certificate Trustee, as lessor ("Lessor") and the several Certificate Purchasers named therein. Unless otherwise defined herein, or the context hereof otherwise requires, terms which are defined or defined by reference in the Lease shall have the same meanings when used herein.

\_\_\_\_\_ ("Assignor") and \_\_\_\_\_ ("Assignee") hereby agree as follows:

1. Assignor hereby irrevocably sells and assigns to Assignee, without recourse to Assignor, and Assignee hereby irrevocably agrees to purchase from Assignor, without recourse to Assignor, \_\_\_\_\_% of Assignor's right, title and interest in and to the Lease and the Trust Agreement, as evidenced by the Certificate (the "Certificate") issued in the name of Assignee (or its nominee) on the date hereof (the "Assigned Rights").

2. Assignee hereby agrees to assume all obligations of Assignor under, and to be bound by all terms and conditions of, the Lease, the Trust Agreement and any other Operative Document to which Assignor is a party, in each case, solely to the extent of the Assigned Rights, and Assignor and Assignee hereby agree that any reference in the Operative Documents to "Certificate Purchaser" shall be deemed to refer to Assignee.

3. Assignee hereby represents and warrants:

- (a) Assignee has complied with all securities or blue sky laws of any applicable jurisdiction;
- (b) the representations and warranties in Section 12.2 of the Lease are true and correct with respect to Assignee; and
- (c) Assignee will not sell, assign or transfer any of its right, title and interest in Assigned Rights or the Certificate (i) without the transferee thereof making the representations and warranties herein and (ii) in violation of Article XIV of the Lease and Article V of the Trust Agreement.

4. Assignor and Assignee hereby agree that Lessor, Lessees, Parent Guarantor, Subsidiary Guarantors and the other Certificate Purchasers are entitled to rely upon the representations made by it in this Assumption Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Assumption Agreement to be duly executed and delivered by one of its officers thereunto duly authorized this \_\_\_\_ day of \_\_\_\_\_.

[-----]

By: \_\_\_\_\_  
Name Printed: \_\_\_\_\_  
Title: \_\_\_\_\_

[-----]

By: \_\_\_\_\_  
Name Printed: \_\_\_\_\_  
Title: \_\_\_\_\_

[Consented and Agreed to this \_\_\_\_ day  
of \_\_\_\_\_, \_\_\_\_

ARCH COAL, INC.

By: \_\_\_\_\_  
Name Printed: \_\_\_\_\_  
Title: \_\_\_\_\_]

[GRAPHIC OF ARCH COAL, INC. LOGO APPEARS HERE]

ARCH COAL, INC.  
INCENTIVE COMPENSATION PLAN

Effective: January 1, 1998

ARCH COAL, INC.  
INCENTIVE COMPENSATION PLAN

1. PURPOSE OF THE PLAN

The purpose of the Arch Coal, Inc. Incentive Compensation Plan (the "Plan") is to provide an opportunity for key employees of Arch Coal, Inc. and its subsidiaries (the "Company") to earn competitive annual cash incentive awards through the achievement of both Company and individual performance goals.

2. DEFINITIONS

A. "Award" means the portion of the amount earned by a Participant for a Plan Year in accordance with Section 5 and shall consist of the sum of two parts: (i) the Individual Performance Portion; and (ii) the Quantitative Performance Portion.

B. "Base Salary" means all cash pay earned by a Participant from the Company for his or her personal services while a Participant during a Plan Year, plus any amount contributed by the Participant pursuant to the Company's Employee Thrift Plan for such year, less any Award or incentive bonus earned or received during such year.

C. "CEO" means the Chief Executive Officer of the Company.

D. "Committee" means the Personnel & Compensation Committee of the Board of Directors of Arch Coal, Inc.

E. "Company" means Arch Coal, Inc. and its subsidiaries.

F. "Corporate Participant" means a Participant employed at Arch Coal, Inc. or a non-coal producing division thereof.

G. "Corporate Performance Measurement" shall mean the financial performance goal which may be established by the Committee from time to time for the Company.

H. "Division" means a coal producing subsidiary or unit of the Company.

I. "Division Participant" means a participant employed at a Division.

J. "Group Heads" means those executive officers with responsibility over multiple Divisions and/or Mines and Facilities.

K. "Individual Performance Portion" is the portion of an Award which is based on the individual performance of the Participant.

L. "Maximum Award Opportunity" shall be the maximum annual incentive Award that a Participant is eligible for under this Plan and shall be determined as set forth in Section 4.

M. "Mine/Facility" means a coal producing unit or loading facility of a Division.

N. "Mine/Facility Participant" means a participant who is employed at a coal producing unit or loading facility of a Division.

O. "Participant" means an employee who has been recommended by the CEO and approved by the Committee to participate in the Plan.

P. "Performance Goals" means those individual and/or Company performance objectives determined at the beginning of each Plan year.

Q. "Performance Rating Percentage" is the subjective performance rating established for each individual by his or her supervisor as determined pursuant to Section 5(A) and confirmed by the CEO of the Company.

R. "Plan" means the Arch Coal, Inc. Incentive Compensation Plan.

S. "Plan Year" means the current calendar year, commencing on January 1 and ending on December 31.

T. "Quantitative Performance Portion" is the portion of an actual or potential Award which is based on the achievement of various measurable goals.

### 3. ELIGIBILITY

A. All salaried employees of the Company are eligible to participate in the Plan, subject to Committee approval of Plan Participants on an annual basis. Six levels of participation in the Plan are hereby established and a designated Maximum Award Opportunity has been established for each level. Levels may be modified, added or subtracted and the Committee may, in its discretion, include Participants in different levels from time to time in their discretion, regardless of the position actually held by the Participant.

B. A new Participant may be entered into the Plan by the CEO at any time during the Plan Year if such new Participant is taking a position which has been previously approved for participation in the Plan by the Committee.

C. Participants will cease to be participants in the Plan effective as of the date they no longer hold an approved position for participation in the Plan.

4. MAXIMUM AWARD OPPORTUNITY

The Maximum Award Opportunity is a percentage of the Base Salary of the Participant and is different for each level of participation established under the Plan. The Maximum Award Opportunity (expressed as a percentage of Base Salary for each level of participation) shall be as follows:

Level	Maximum Award Opportunity (As % of Base Salary)
I	100%
II	80%
III	60%
IV	40%
V	25%
VI	15%

5. AMOUNT/PAYMENT OF AWARD

A Participant's Maximum Award under this Plan shall be the sum of two parts: (i) an Individual Performance Portion calculated pursuant to Section 5(A); and (ii) a Quantitative Performance Portion calculated pursuant to Section 5(B).

A Participant's level of participation in the Plan will determine how much of his/her Maximum Award Opportunity will be based on individual performance criteria pursuant to Section 5(A) and how much will be based on quantitative criteria pursuant to Section 5(B). The chart below shows the weighting of each performance measure by Plan Level. These percentages are as follows:

-----  
 Weighting Assigned to Performance Measures  
 -----

Executive Position	Corporate	Group	Mine		Individual
			Division	Facility	
-----					
CORPORATE					
Level I and II	90%				10%
Level III	80%				20%
All Others	80%				20%
GROUP HEADS					
Level II	60%	30%			10%
DIVISION					
Level III	40%		40%		20%
All Others	20%		40%		40%
MINE/FACILITY					
All	20%		20%	40%	20%
-----					

A. Individual Performance Portion

At the beginning of each Plan Year, the Chief Executive Officer or the Participant's immediate supervisor will meet with each Participant to establish Performance Goals for each Participant for the year. These goals should be signed by the Participant as an acknowledgment of what is expected and approved by the Participant's immediate supervisor.

The performance of the Participant for each Plan Year will be evaluated with respect to achievement of the Performance Goals. A Performance Rating Percentage for each Participant will be determined. The Individual Performance Portion, if any, earned by the Participant will be based on this final rating. The evaluation of a Participant's performance in achieving his/her goals will be subjective and the Individual Performance Portion deemed earned, as determined by the CEO of the Company and approved by the Committee, shall be conclusive.

The percentage of the Individual Performance Portion of the Award earned will be based on the following chart:

Performance Rating Percentage	Percentage of Individual Performance Portion Earned
Less than 70	- 0-
70-74	30%
75-79	44%
80-84	58%
85-89	72%
90-94	86%
95 and above	100%

A minimum Performance Rating Percentage of 70% will be required for any Award to be earned for a Plan Year

B. Quantitative Performance Portion

The Quantitative Performance Portion of an Award will be determined upon the achievement of various measurable corporate and/or operational goals. These goals will be established by the Committee prior to the beginning of each Plan Year. Awards will be based upon the achievement of different goals and performance measurements, depending on whether the Participant is a Corporate Participant, Group Participant, Division Participant or Mine/Facility Participant and the specific position held.

The following chart shows the weighting each goal has in the determination of each Participant's potential Quantitative Performance Portion:

-----  
 PERFORMANCE MEASURES

Unit ----	% Measurement -----	Coverage -----
Corporate:	100% Return on Equity	
Group:	50% Economic Performance Measure* 25% Safety** 25% Environmental Compliance***	Of entire group
Division:	50% Economic Performance Measure* 25% Safety** 25% Environmental Compliance***	Of entire division
Mine:	50% Economic Performance Measure* 25% Safety** 25% Environmental Compliance***	Of specific mine

- \* Transfer price-based profit divided by net assets employed
- \*\* Based upon Safety-related Key Performance Indicators
- \*\*\* Based upon Environmentally-related Key Performance Indicators

C. Miscellaneous Rules

i. The goals established under Sections 5(A) and (B) for Group Participants who possess responsibility for multiple operations will equal the weighted average composite goal of the Divisions, Mines and/or Facilities for which they are responsible. The goals for Division Participants shall equal the weighted average composite goal of all Divisions.

ii. The Committee shall approve any and all payments under this Plan and reserves the discretionary right to increase, decrease, modify or eliminate any Awards which would otherwise be payable under the Plan.

iii. Awards determined under this Plan may only be paid if:

-- They are approved by the Committee; and

-- The Participant continues to be employed by the Company and continues to perform in a satisfactory manner through the day the approved Awards are actually paid.

iv. Any rights a Participant may have to receive an Award will be forfeited if the Participant's full-time employment is terminated prior to the actual date of payment; however, the Committee shall determine to what extent, if any, an Award shall be payable under the Plan and may elect to make a pro rata payment (based on full months of participation during the year or otherwise) in its sole discretion.

6. PAYMENT OF AWARD

The Award, if any, earned in accordance with Section 5 shall be paid in cash by the Company to the Participant within a reasonable period, which in most cases will usually be thirty (30) days after approval of the Awards by the Committee.

7. DEATH OR DISABILITY

In the event of a Participant's death or permanent and total disability prior to receiving his or her Award, a pro rata payment of such Award (based on full months of participation) shall be paid to the Participant or to the Participant's designated beneficiary (or to his or her estate in the event the Participant dies without previously having designated a beneficiary in writing to the Company) pursuant to Section 6.

8. AMENDMENT OR TERMINATION OF THE PLAN

The Committee reserves the right to terminate or amend the Plan, in whole or in part, at any time and from time to time, provided that no amendment or termination shall adversely affect any Award previously earned by a Participant.

9. EFFECTIVE DATE OF THE PLAN

The Plan shall become effective and Awards hereunder may be earned on and after January 1, 1998 and until such time as the Plan shall be terminated by the Committee.

10. LIMITATION ON AWARDS

The maximum aggregate Awards payable under the Plan during any Plan Year shall not exceed 7.5% of the Company's reported net income for that calendar year.

IN WITNESS WHEREOF, the Company has executed this Plan this 27th day of  
January, 1998.

ARCH COAL, INC.

By: /s/ Jeffrey N. Quinn

ATTEST:

Its: Sr. V.P.-Law & HR

/s/ Miriam Rogers Singer

## LETTER OF PREDECESSOR ACCOUNTANT

To the Securities and Exchange Commission:

We have read Item 9 included in the attached Annual Report on Form 10-K for the year ended December 31, 1997 of Arch Coal, Inc. to be filed with the Securities and Exchange Commission and are in agreement with the statements contained therein.

/s/ ARTHUR ANDERSEN LLP

ARTHUR ANDERSEN LLP

St. Louis, Missouri  
March 16, 1998

## SUBSIDIARIES OF ARCH COAL, INC.

The following is a complete list of the direct and indirect subsidiaries of Arch Coal, Inc., a Delaware corporation:

NAME -----	JURISDICTION OF INCORPORATION -----
Arch Australia Pty Limited.....	New South Wales, Australia
Arch Energy Resources, Inc.....	Delaware
Arch Reclamation Services, Inc.....	Delaware
Arch Technology Corporation.....	Delaware
Ark Land Company.....	Delaware
Ashland Coal, Inc.....	Delaware
Allegheny Land Company.....	Delaware
Apogee Coal Company.....	Delaware
Arch Coal Sales Company, Inc.....	Delaware
Big Sandy Terminal, Inc.....	Delaware
Arch Coal Terminal, Inc.....	Delaware
Arch Coal International, Ltd.....	Barbados
Ashland Terminal, Inc.....	Delaware
Coal-Mac, Inc.....	Kentucky
Catenary Coal Holdings, Inc.....	Delaware
Arch of Wyoming, Inc.....	Delaware
Catenary Coal Company.....	Delaware
Cumberland River Coal Company.....	Delaware
Lone Mountain Processing, Inc.....	Delaware
Mingo Logan Coal Company.....	Delaware
Mountain Gem Land, Inc.....	West Virginia
Mountain Mining, Inc.....	Delaware
Hobet Mining, Inc.....	West Virginia
Julian Tipple, Inc.....	Delaware
Mountaineer Land Company.....	Delaware
P. C. Holding, Inc.....	Delaware
Energy Development Co.....	Iowa
Paint Creek Terminals, Inc.....	Delaware

## CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in (1) the Registration Statement (Form S-8 No. 333-30565) pertaining to the Arch Coal, Inc. 1997 Stock Incentive Plan and in the related Prospectus, and (2) the Registration Statement (Form S-8 No. 333-32777) pertaining to the Arch Coal, Inc. Employee Thrift Plan and in the related Prospectus, of our report dated January 29, 1998, with respect to the consolidated financial statements and schedule of Arch Coal, Inc. and subsidiaries included in the Annual Report (Form 10-K) for the year ended December 31, 1997.

/s/ ERNST & YOUNG LLP

ERNST & YOUNG LLP

Louisville, Kentucky  
March 16, 1998

## CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our report included in this Form 10-K, into previously filed Registration Statements on Form S-8 (File Nos. 333-30565 and 333-32777) pertaining to the Arch Coal, Inc. Stock Incentive Plan and the Arch Coal, Inc. Employee Thrift Plan.

/s/ ARTHUR ANDERSEN LLP

ARTHUR ANDERSEN LLP

St. Louis, Missouri  
March 16, 1998



/s/ THOMAS MARSHALL Director

-----  
Thomas Marshall

/s/ JAMES L. PARKER Director

-----  
James L. Parker

/s/ J. MARVIN QUIN Director

-----  
J. Marvin Quin

Director

-----  
Ronald Eugene Samples

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

12-MOS		
	DEC-31-1997	
	DEC-31-1997	
		9,177
		0
	147,856	
		0
	50,419	
	243,178	
		1,846,265
	696,339	
	1,656,324	
	202,274	
		0
		0
	0	
		397
	611,101	
1,656,324		
		1,034,813
	1,066,873	
		918,862
	1,024,991	
		0
		0
	17,101	
	24,781	
	(5,500)	
	30,281	
		0
		0
		0
	30,281	
		1.00
		1.00