ARCH COAL INC
Form 424B5
May 31, 2011

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The information in this prospectus supplement and accompanying prospectus is not complete and may be changed. This prospectus supplement and the accompanying prospectus are not an offer to sell these securities and are not soliciting an offer to purchase these securities in any jurisdiction where the offer or sale is not permitted.

Prospectus Supplement Subject to Completion, Dated May 31, 2011
(To Prospectus dated August 2, 2010)

Filed Pursuant to Rule 424(b)(5)
Registration No. 333-157880

44,000,000 Shares

COMMON STOCK

Arch Coal, Inc. is offering 44,000,000 shares of its common stock.

Our common stock is listed on the New York Stock Exchange under the symbol ACI. On May 27, 2011, the reported last sale price of our common stock on the New York Stock Exchange was $29.60 per share.

Investing in our common stock involves risks. See Risk Factors beginning on page S-20 of this prospectus supplement.

PRICE $ A SHARE

	Price to Public	*Underwriting Discounts and Commissions*	*Proceeds to Arch Coal, Inc.*

Per share	$	$	$
Total	$	$	$

We have granted the underwriters the right to purchase up to an additional 6,600,000 shares to cover over-allotments.

The underwriters are offering the common stock as set forth under Underwriting.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares to purchasers on or about , 2011.

Joint Book-Running Managers

Morgan Stanley ***PNC Capital Markets LLC*** ***BofA Merrill Lynch*** ***Citi***

, 2011

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ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first part consists of this prospectus supplement, which describes the specific terms of this offering. The second part consists of the accompanying prospectus, which gives more general information about securities that we may offer from time to time, some of which may not be applicable to the shares of common stock offered by this prospectus supplement and the accompanying prospectus. For more information about our common stock offered in this offering, see Description of Common Stock in this prospectus supplement and Description of Capital Securities Common Stock in the accompanying prospectus.

Before you invest in our common stock, you should read the registration statement of which this prospectus supplement and the accompanying prospectus form a part. You also should read the exhibits to that registration statement, as well as this prospectus supplement, the accompanying prospectus, any free writing prospectus we may file and the documents incorporated by reference into this prospectus supplement and the accompanying prospectus. The documents incorporated by reference are described in this prospectus supplement under Where You Can Find More Information.

If the information set forth in this prospectus supplement varies in any way from the information set forth in the accompanying prospectus, you should rely on the information contained in this prospectus supplement. If the information set forth in this prospectus supplement varies in any way from the information set forth in a document that we have incorporated by reference into this prospectus supplement, you should rely on the information in the more recent document.

You should rely only on the information contained or incorporated by reference in this prospectus supplement, the accompanying prospectus and any free writing prospectus we may file. We have not, and the underwriters have not, authorized any other person to provide you with different information. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus supplement, the accompanying prospectus, any free writing prospectus we may file and the documents incorporated by reference is accurate only as of their respective dates. Our business, financial condition, results of operations and prospects may have changed since those dates.

In this prospectus supplement, unless otherwise specified or the context requires otherwise, we use the terms Arch Coal, the company, we, us and our to refer to Arch Coal, Inc. and its subsidiaries and the terms International Co Group, Inc. and ICG to refer to International Coal Group, Inc. and its subsidiaries.

The term merger refers to our acquisition of the outstanding common shares of ICG and the term transactions refers to the merger and the related financing transactions as described in Prospectus Supplement Summary The Transactions in this prospectus supplement. The term combined company refers to Arch Coal and its subsidiaries (including ICG and its subsidiaries) after the completion of the transactions, including the merger.

The term ton refers to short or net tons, equal to 2,000 pounds (907.18 kilograms) and tonne refers to metric tons, equal to 2,294.62 pounds (1,000 kilograms).

MARKET AND INDUSTRY DATA

This prospectus supplement includes market and industry data and forecasts that we have derived from a variety of sources, including independent reports, publicly available information, various industry publications, other published industry sources and internal data and estimates. Third-party publications and surveys and forecasts generally state that the information contained therein has been obtained from sources believed to be reliable, but there can be no assurance as to the accuracy or completeness of included information. Although we believe that such information is reliable, we have not had this information verified by any independent sources.

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FORWARD-LOOKING STATEMENTS

Information we have included or incorporated by reference in this prospectus supplement and the accompanying prospectus contains or may contain forward-looking statements. These forward-looking statements include, among others, statements of our plans, objectives, expectations (financial or otherwise) or intentions. Words such as anticipates, believes, could, estimates, expects, intends, may, plans, predicts, projects, seeks, comparable words and phrases are intended to identify such forward-looking statements. All statements included or incorporated by reference in this prospectus supplement and the accompanying prospectus that we expect or anticipate will, should or may occur in the future, including, without limitation, statements in this prospectus supplement under the captions Prospectus Supplement Summary, Management s Discussion and Analysis of Financial Condition and Results of Operations of Arch Coal, Management s Discussion and Analysis of Financial Condition of Operations of ICG, Business Overview, and Industry Overview, and located elsewhere in this prospectus supplement regarding our financial position, business strategy and measures to implement that strategy, including changes to operations, competitive strengths, goals, expansion and growth of our business and operations, plans, references to future success and other similar matters are forward-looking statements.

Our forward-looking statements involve risks and uncertainties. Our actual results may differ significantly from those projected or suggested in any forward-looking statements. We do not undertake any obligation to release publicly any revisions to such forward-looking statements to reflect events or circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events. Factors that might cause such a difference to occur include, but are not limited to:

- our ability to successfully integrate the Arch Coal and ICG businesses;
- delay or failure to realize the expected benefits, including anticipated cost savings, we expect to realize in the merger;
- market demand for coal and electricity;
- geologic conditions, weather, including flooding, and other inherent risks of coal mining that are beyond our control;
- competition within our industry and with producers of competing energy sources;
- excess production and production capacity;
- our ability to acquire or develop coal reserves in an economically feasible manner;
- inaccuracies in our estimates of our coal reserves;
- availability and price of mining and other industrial supplies;
- availability of skilled employees and other workforce factors;
- disruptions in the quantities of coal produced by our contract mine operators;
- our ability to collect payments from our customers;

defects in title or the loss of a leasehold interest;

railroad, barge, truck and other transportation performance and costs;

our ability to successfully integrate the operations that we acquire;

our ability to secure new coal supply arrangements or to renew existing coal supply arrangements;

our relationships with, and other conditions affecting, our customers;

the deferral of contracted shipments of coal by our customers;

our ability to service our outstanding indebtedness;

our ability to comply with the restrictions imposed by our credit facility and other financing arrangements;

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- the availability and cost of surety bonds;
- failure by Magnum Coal Company, which we refer to as Magnum, a subsidiary of Patriot Coal Corporation, to satisfy certain below-market contracts that we guarantee;
- our ability to manage the market and other risks associated with certain trading and other asset optimization strategies;
- terrorist attacks, military action or war;
- our ability to obtain and renew various permits, including permits authorizing the disposition of certain mining waste;
- existing and future legislation and regulations affecting both our coal mining operations and our customers coal usage, governmental policies and taxes, including those aimed at reducing emissions of elements such as mercury, sulfur dioxides, nitrogen oxides, particulate matter or greenhouse gases;
- the accuracy of our estimates of reclamation and other mine closure obligations;
- the existence of hazardous substances or other environmental contamination on property owned or used by us; and
- other factors, including those discussed in Risk Factors.

These and other relevant factors, including those risk factors identified in our Annual Report on Form 10-K for the year ended December 31, 2010, our Quarterly Report on Form 10-Q for the quarter ended March 31, 2011 and our other filings with the Securities and Exchange Commission (the SEC) under the Securities Exchange Act of 1934, as amended (the Exchange Act), which are incorporated by reference in this prospectus supplement, should be carefully considered when reviewing any forward-looking statement. See Where You Can Find More Information.

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PROSPECTUS SUPPLEMENT SUMMARY

This summary highlights selected information about us and this offering. This summary is not complete and does not contain all of the information that may be important to you. You should read carefully this entire prospectus supplement and the accompanying prospectus, including the Risk Factors section, and the other documents that we refer to and incorporate by reference in this prospectus supplement and the accompanying prospectus for a more complete understanding of us and this offering. In particular, we incorporate by reference important business and financial information into this prospectus supplement and the accompanying prospectus. This summary contains forward-looking statements that involve risks and uncertainties. Except as otherwise noted, all information in this prospectus supplement assumes no exercise of the underwriters option to purchase additional shares of our common stock.

Our Combined Company

We are one of the world s largest private sector coal producers. We produce, process and sell steam and metallurgical coal. Our combined company will have operations in all major U.S. coal basins, providing us with important geographical diversity and operational flexibility. The diversity of our operations enables us to source coal from multiple locations to meet the needs of our customers, including U.S. and international power producers and steel manufacturers.

The high quality of our coal, our access to key infrastructure hubs and the availability of multiple transportation options (including rail, truck and barge) equip us to compete both in the domestic coal market as well as the growing global seaborne coal markets. For the year ended December 31, 2010, on a pro forma basis giving effect to our acquisition of ICG, we would have sold 179 million tons of coal, including eight million tons of metallurgical coal, and generated net sales of $4.3 billion.

Prior to the ICG acquisition, our principal assets as of December 31, 2010 included:

- Powder River Basin operations, including two mining complexes;
- Western Bituminous operations, including five mining complexes;
- Central Appalachian operations, including four mining complexes;
- transportation and logistics holdings, including a 22% partnership interest in Dominion Terminal Associates which operates a coal export facility on the East Coast and a shipping terminal with a six million ton annual capacity with access to the Ohio River for shipment on inland waterways; and
- approximately 4,700 full and part-time employees.

In addition, during the first quarter of 2011, we expanded our access to the seaborne coal markets by purchasing a 38% ownership interest in Millennium Bulk Terminals-Longview LLC which is developing coal export capacity on the West Coast and by entering into a throughput agreement with Canadian Crown Corporation Ridley Terminals Inc. in British Columbia, Canada.

As a result of the ICG acquisition, we will acquire a number of new assets, including:

Central Appalachian operations, including eight mining complexes;

Northern Appalachian operations, including four mining complexes;

an Illinois Basin operation, including one mining complex;

three development properties, including the Tygart Valley #1 mine complex which is designed to have up to 3.5 million tons of capacity per year of high quality metallurgical and steam coal; and

approximately 2,800 employees.

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Supplemental Pro Forma Combined Reserve and Production Data

The supplemental pro forma combined reserve and production data set forth in the tables below has been prepared for illustrative purposes only and is not necessarily indicative of the reserve data of Arch Coal had the merger occurred on December 31, 2010. Additionally, we have not yet completed all of the due diligence to fully assess ICG s proven and probable reserve data. Upon completion of this detailed due diligence, there may be increases or decreases to the reserve data presented below for ICG and for Arch Coal on a pro forma basis.

The following table presents Arch Coal historical data by region for proven and probable reserves as of December 31, 2010.

	Arch Coal Historical				
Region	**Proven and Probable Reserves**	**Assigned**	**Unassigned**	**Owned**	**Leased**
		(tons in millions)			
Powder River Basin	3,258	1,591	1,667		3,258
Western Bituminous	455	162	293	108	347
Illinois	364		364	307	57
Central Appalachia	368	175	193	63	305
Northern Appalachia					
Total	4,445	1,928	2,517	478	3,967

The following table presents ICG historical data by region for proven and probable reserves as of December 31, 2010.

	ICG Historical				
Region	**Proven and Probable Reserves**	**Assigned**	**Unassigned**	**Owned**	**Leased**
		(tons in millions)			
Illinois	372	48	324	332	40
Central Appalachia	265	177	88	35	230
Northern Appalachia	451	87	364	356	95
Total	1,088	312	776	723	365

The following table presents Arch Coal pro forma data by region for proven and probable reserves as of December 31, 2010. The table assumes the merger was completed on that date.

	Arch Coal Pro Forma[1]
	Proven and

Region	Probable Reserves	Assigned	Unassigned	Owned	Leased
		(tons in millions)			
Powder River Basin	3,258	1,591	1,667		3,258
Western Bituminous	455	162	293	108	347
Illinois	736	48	688	639	97
Central Appalachia	633	352	281	98	535
Northern Appalachia	451	87	364	356	95
Total	5,533	2,240	3,293	1,201	4,332

(1) The Arch Coal pro forma data has been calculated by adding the Arch Coal historical data and ICG historical data.

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The following tables present Arch Coal historical, ICG historical and Arch Coal pro forma data by region for production of saleable tons for the year ended December 31, 2010. The table assumes the acquisition was completed on January 1, 2010. This supplemental pro forma combined production data has been prepared for illustrative purposes only and is not necessarily indicative of the production data of Arch Coal had the merger occurred on January 1, 2010.

		2010 Production	
Region	**Arch Coal Historical**	**ICG Historical**	**Arch Pro Forma(1)**
		(tons in millions)	
Powder River Basin	128		128
Western Bituminous	16		16
Illinois		2	2
Central Appalachia	12	9	21
Northern Appalachia		4	4
Total	156	16	172

(1) The Arch Coal pro forma data has been calculated by adding the Arch Coal historical data and the ICG historical data.

Pro Forma Reserve Base

5.5 Billion Ton Reserve Base (pro forma reserves at December 31, 2010)

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Strategic Rationale

We believe that the acquisition offers numerous strategic benefits, including:

Creating a Leading Global Metallurgical Coal Producer. On a pro forma basis, we expect the combined company to be the second largest U.S. metallurgical coal producer based on 2010 production and 2011 production guidance and a top 10 global metallurgical coal producer based on 2010 production. The merger increases our product diversity and provides significant blending opportunities between ICG s low-volatile and rank A high-volatile metallurgical coals and Arch s existing rank B high-volatile metallurgical products.

Strengthening Our Growth Profile. The combined company will have the industry s second largest U.S. reserve position, with 5.5 billion tons, providing significant opportunities for future coal volume growth. In particular, the combined company s existing and planned development projects are expected to increase annual metallurgical coal production capacity to approximately 14 million tons by 2015, while creating opportunities for further expansion thereafter.

Increasing Our Presence in Global Seaborne Thermal and Metallurgical Coal Markets. We expect to expand our participation in global markets via the offering of a greatly expanded metallurgical and steam coal product slate, and through the increased utilization of our extensive transportation and logistics network.

Creating One of the Industry s Most Balanced Operating Portfolios. The acquisition extends our geographic diversity, greatly strengthening our position in Central Appalachia while creating the only U.S. coal producer with assets in every major U.S. coal supply basin.

Driving Significant Synergies. We expect to generate annual synergies of $70-$80 million beginning in 2012 across a wide range of marketing, operational and administrative activities and functions.

We believe that these strategic benefits enhance our scale, competitive profile, and ability to respond to economic, regulatory, legislative and other developments that affect the coal industry in general and our combined business in particular.

Business Strategy

Our objective is to increase shareholder value through sustained earnings growth and free cash flow generation. Our key strategies to achieve this objective are described below:

Increasing Metallurgical Coal Production. We expect 2011 pro forma metallurgical coal sales to reach approximately 11 million tons. Over the next four years, we anticipate metallurgical coal production capacity to increase to approximately 14 million tons by 2015 from the combined operations primarily from ICG s growth asset in Tygart Valley. The Tygart Valley #1 mine is currently scheduled to begin development production in late 2011. At full output, currently projected for early 2014, Tygart Valley #1 is designed to have 3.5 million tons of capacity per year of high quality coal that is well suited to both the high-volatile metallurgical market and the steam market.

Establishing a Preeminent Position in All Major U.S. Coal Producing Basins. We maintain one of the industry s most geographically balanced operating portfolios and upon completion of the merger we expect to be the only U.S. coal producer with assets in every major U.S. coal producing basin. In particular, we believe that ICG s Central and Northern Appalachian assets, in conjunction with our existing Central Appalachian operations, provide a strong growth platform in the high quality thermal and metallurgical coal market. We expect that the acquisition, which will add approximately 1.1 billion tons of proven and probable reserves, will create attractive new opportunities and increase our flexibility in evaluating potential future growth opportunities.

Expanding Our Product Offerings. By operating and owning reserves in all major U.S. coal producing regions, we will be able to source and blend coal from multiple mines to meet the needs of our domestic and international customers. For example, blending ICG s low-volatile and rank A high-volatile metallurgical coals with our existing rank B high-volatile metallurgical products will allow us to create new synthetic mid-volatile metallurgical coals that command a premium in the global market. We anticipate that marketing synergies, including these expanded blending opportunities, will allow us to generate approximately an additional $27 million annually as a result of increased sales prices. Additionally, we believe the robust product offerings of the combined company will enhance our value proposition to customers, which will allow us to grow our customer base and customer loyalty.

Continuing to Position Our Business to Take Advantage of Favorable Long-Term Trends for Global Coal Consumption and Associated Export of Domestic Coal Production. We expect that international demand for U.S. coal will increase in the future, driven by favorable projected global growth trends and the high quality of U.S. coal compared to many other producing regions around the world. We have actively strengthened our logistical positioning through our recent investment in the development of port capacity at Millennium Bulk Terminal and our throughput agreement with Ridley Terminals in Canada.

Upholding Our Commitment to Excellence in Safety and Environmental Stewardship. In 2010 we were honored with a national Sentinels of Safety certificate from the U.S. Department of Labor and eight state awards for outstanding safety practices. We intend to maintain our recognized leadership in operating some of the safest mines in the United States and in achieving environmental excellence. We intend to integrate ICG s already strong safety and environmental processes with our own. Our ability to minimize workplace incidents and environmental violations improves our operating efficiency, which directly improves our cost structure and financial performance.

Competitive Strengths

Second Largest Publicly Traded Coal Producer in U.S. The combined company will represent the second largest publicly traded coal producer in the U.S. based on pro forma 2010 sales of approximately 179 million tons. As of December 31, 2010, on a pro forma basis giving effect to the merger, we would have had approximately 5.5 billion tons of coal reserves. We will also represent the second largest producer of domestic metallurgical coal based on our combined pro forma 2010 production and 2011 production guidance.

Diversity of Production and Reserves with Operations in Every Major U.S. Coal Basin. Upon completion of the merger, we will be a leading producer in each of the five major coal producing regions in the United States, which provides important geographical diversity in terms of markets, transportation and labor. Our combined company will operate or contract out the operation of 46 mines, which we believe gives us substantial operational flexibility and makes us less reliant on any single mine for a significant portion of our earnings or cash flow. We believe the diversity of our operations and reserves also provides us with a significant advantage over those competitors with operations located primarily in a single coal producing region, as it allows us to source coal from multiple operations to meet the needs of our customers. In addition, we believe our operations are well positioned to take advantage of the growing global seaborne coal markets in Asia, Europe and South America.

Low Cost Producer. We seek to maintain our operational excellence with an emphasis on investing selectively in new equipment and advanced technologies. We will continue to focus on profitability and efficiency by leveraging our significant economies of scale, large fleet of mining equipment, information technology and logistics systems and coordinated purchasing and land management functions. In addition, we intend to continue to focus on productivity through our culture of workforce involvement by leveraging our strong base of experienced, well-trained employees.

Significant Leverage to Coal Prices Given Uncommitted Position. As of March 31, 2011, the combined company would have had 85 million tons committed and priced for 2012 delivery. Based on planned pro forma 2011 sales volumes, the 2012 committed and priced volume would represent 49% of total company sales for 2012. We believe our uncommitted position provides us with substantial leverage in a stronger coal

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price environment and allows us to take advantage of the growing seaborne coal markets. In addition, we believe we are well-positioned to increase our export volumes through strategic infrastructure investments that guarantee us throughput, such as our 22% partnership interest in Dominion Terminal located in Newport News, Virginia, our 38% ownership interest in the Millennium Bulk Terminals located near Longview, Washington and our agreement with Ridley Terminals in Canada.

Low Amount of Legacy Liabilities. Compared to other publicly traded U.S. coal producers, we believe we have among the lowest legacy liabilities. As of December 31, 2010, we had pro forma total legacy liabilities of $640 million (including accrued workers compensation, pension, post-retirement medical and reclamation liabilities). Approximate