
Section 1: 10-Q (FORM 10-Q)

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

FORM 10-Q

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

For the quarterly period ended September 30, 2009

OR

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

For the transition period from _____ to _____

Commission File No.: 0-26823

ALLIANCE RESOURCE PARTNERS, L.P.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

73-1564280
(IRS Employer
Identification No.)

1717 South Boulder Avenue, Suite 400, Tulsa, Oklahoma 74119
(Address of principal executive offices and zip code)

(918) 295-7600
(Registrant's telephone number, including area code)

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

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

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer Do not check if smaller reporting company)

Smaller Reporting Company

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

As of November 6, 2009, 36,661,029 Common Units are outstanding.

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PART I
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ALLIANCE RESOURCE PARTNERS, L.P. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except unit data)
(Unaudited)

	September 30, 2009	December 31, 2008
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 91,634	\$ 244,875
Trade receivables	93,532	87,922
Other receivables	3,662	6,018
Due from affiliates	86	—
Marketable securities	4,952	—
Inventories	49,239	26,510
Advance royalties	3,200	3,200
Prepaid expenses and other assets	802	10,070
Total current assets	247,107	378,595
PROPERTY, PLANT AND EQUIPMENT:		
Property, plant and equipment, at cost	1,317,098	1,085,214
Less accumulated depreciation, depletion and amortization	(532,741)	(468,784)
Total property, plant and equipment, net	784,357	616,430
OTHER ASSETS:		
Advance royalties	26,628	23,828
Other long-term assets	12,346	11,787
Total other assets	38,974	35,615
TOTAL ASSETS	\$ 1,070,438	\$ 1,030,640
LIABILITIES AND PARTNERS' CAPITAL		
CURRENT LIABILITIES:		
Accounts payable	\$ 65,534	\$ 63,236
Due to affiliates	487	706
Accrued taxes other than income taxes	11,837	11,195
Accrued payroll and related expenses	23,709	20,555
Accrued interest	6,703	3,454
Workers' compensation and pneumoconiosis benefits	9,254	9,377
Current capital lease obligation	331	351
Other current liabilities	12,424	11,911
Current maturities, long-term debt	18,000	18,000
Total current liabilities	148,279	138,785
LONG-TERM LIABILITIES:		
Long-term debt, excluding current maturities	422,000	440,000
Pneumoconiosis benefits	33,559	31,436
Accrued pension benefit	20,881	19,952
Workers' compensation	59,663	47,828
Asset retirement obligations	57,949	56,204
Due to affiliates	867	420
Long-term capital lease obligation	543	784
Other liabilities	6,140	5,039
Total long-term liabilities	601,602	601,663
Total liabilities	749,881	740,448

COMMITMENTS AND CONTINGENCIES**PARTNERS' CAPITAL:**

Alliance Resource Partners, L.P. ("ARLP") Partners' Capital:

Limited Partners - Common Unitholders 36,661,029 and 36,613,458 units outstanding, respectively	631,458	604,998
General Partners' deficit	(293,652)	(295,834)
Accumulated other comprehensive income (loss)	(18,408)	(19,899)
Total ARLP Partners' Capital	319,398	289,265
Noncontrolling interest	1,159	927
Total Partners' Capital	320,557	290,192
TOTAL LIABILITIES AND PARTNERS' CAPITAL	\$ 1,070,438	\$ 1,030,640

See notes to condensed consolidated financial statements.

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ALLIANCE RESOURCE PARTNERS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except unit and per unit data)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
SALES AND OPERATING REVENUES:				
Coal sales	\$ 281,628	\$ 269,318	\$ 881,508	\$ 800,043
Transportation revenues	11,663	11,721	35,347	33,348
Other sales and operating revenues	6,353	4,751	15,993	12,211
Total revenues	<u>299,644</u>	<u>285,790</u>	<u>932,848</u>	<u>845,602</u>
EXPENSES:				
Operating expenses (excluding depreciation, depletion and amortization)	204,840	199,321	605,693	583,302
Transportation expenses	11,663	11,721	35,347	33,348
Outside coal purchases	517	6,995	5,709	14,450
General and administrative	9,959	7,184	29,000	28,134
Depreciation, depletion and amortization	28,145	25,403	83,767	74,297
Gain from sale of coal reserves	—	—	—	(5,159)
Net gain from insurance settlement and other	—	—	—	(2,790)
Total operating expenses	<u>255,124</u>	<u>250,624</u>	<u>759,516</u>	<u>725,582</u>
INCOME FROM OPERATIONS	44,520	35,166	173,332	120,020
Interest expense (net of interest capitalized for the three and nine months ended September 30, 2009 and 2008 of \$310, \$182, \$857 and \$484, respectively)	(7,675)	(8,134)	(23,464)	(14,372)
Interest income	112	2,118	1,036	2,413
Other income	126	231	554	698
INCOME BEFORE INCOME TAXES	37,083	29,381	151,458	108,759
INCOME TAX EXPENSE (BENEFIT)	586	92	811	(633)
NET INCOME	36,497	29,289	150,647	109,392
LESS: NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTEREST	(53)	(153)	(232)	(396)
NET INCOME ATTRIBUTABLE TO ALLIANCE RESOURCE PARTNERS, L.P. ("NET INCOME OF ARLP")	\$ 36,444	\$ 29,136	\$ 150,415	\$ 108,996
GENERAL PARTNERS' INTEREST IN NET INCOME OF ARLP	\$ 15,192	\$ 11,512	\$ 44,813	\$ 32,331
LIMITED PARTNERS' INTEREST IN NET INCOME OF ARLP	\$ 21,252	\$ 17,624	\$ 105,602	\$ 76,665
BASIC AND DILUTED NET INCOME OF ARLP PER LIMITED PARTNER UNIT (Note 7)	\$ 0.57	\$ 0.47	\$ 2.85	\$ 2.08
DISTRIBUTIONS PAID PER LIMITED PARTNER UNIT	\$ 0.745	\$ 0.66	\$ 2.19	\$ 1.83
BASIC AND DILUTED WEIGHTED AVERAGE NUMBER OF UNITS OUTSTANDING	36,661,029	36,613,458	36,653,710	36,601,769

See notes to condensed consolidated financial statements.

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ALLIANCE RESOURCE PARTNERS, L.P. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2009	2008
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES	\$ 238,349	\$ 192,720
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property, plant and equipment:		
Capital expenditures	(251,453)	(122,887)
Changes in accounts payable and accrued liabilities	5,084	11,339
Proceeds from sale of property, plant and equipment	1	2,487
Proceeds from sale of coal reserves	—	7,159
Purchase of marketable securities	(4,527)	—
Payment for acquisition of coal reserves and other assets	—	(29,800)
Receipts of prior advances on Gibson rail project	1,828	1,645
Net cash used in investing activities	<u>(249,067)</u>	<u>(130,057)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of long-term debt	—	350,000
Borrowings under revolving credit facilities	—	88,850
Payments under revolving credit facilities	—	(116,850)
Payment on long-term debt	(18,000)	(18,000)
Payments on capital lease obligation	(261)	(281)
Payment of debt issuance costs	—	(1,721)
Net settlement of employee withholding taxes on vesting of Long-Term Incentive Plan	(791)	—
Cash contributions by General Partners	31	866
Distributions paid to Partners	(123,689)	(96,912)
Net cash (used in) provided by financing activities	<u>(142,710)</u>	<u>205,952</u>
EFFECT OF CURRENCY TRANSLATION ON CASH	<u>187</u>	<u>—</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(153,241)	268,615
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>244,875</u>	<u>1,118</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$ 91,634</u>	<u>\$ 269,733</u>
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	<u>\$ 20,734</u>	<u>\$ 11,538</u>
Cash paid for income taxes	<u>\$ 225</u>	<u>\$ —</u>
NON-CASH INVESTING AND FINANCING ACTIVITY:		
Accounts payable for purchase of property, plant and equipment	<u>\$ 20,176</u>	<u>\$ 16,385</u>
Non-cash contribution by general partner	<u>\$ —</u>	<u>\$ 620</u>
Market value of common units vested in Long-Term Incentive Plan before minimum statutory tax withholding requirements	<u>\$ 2,333</u>	<u>\$ 3,658</u>

See notes to condensed consolidated financial statements.

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ALLIANCE RESOURCE PARTNERS, L.P. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. ORGANIZATION AND PRESENTATION

Significant Relationships Referenced in Notes to Condensed Consolidated Financial Statements

- References to “we,” “us,” “our” or “ARLP Partnership” mean the business and operations of Alliance Resource Partners, L.P., the parent company, as well as its consolidated subsidiaries.
- References to “ARLP” mean Alliance Resource Partners, L.P., individually as the parent company, and not on a consolidated basis.
- References to “MGP” mean Alliance Resource Management GP, LLC, the managing general partner of Alliance Resource Partners, L.P., also referred to as our managing general partner.
- References to “SGP” mean Alliance Resource GP, LLC, the special general partner of Alliance Resource Partners, L.P., also referred to as our special general partner.
- References to “Intermediate Partnership” mean Alliance Resource Operating Partners, L.P., the intermediate partnership of Alliance Resource Partners, L.P., also referred to as our intermediate partnership.
- References to “Alliance Coal” mean Alliance Coal, LLC, the holding company for the operations of Alliance Resource Operating Partners, L.P., also referred to as our operating subsidiary.
- References to “AHGP” mean Alliance Holdings GP, L.P., individually as the parent company, and not on a consolidated basis.
- References to “AGP” mean Alliance GP, LLC, the general partner of Alliance Holdings GP, L.P.

Organization

ARLP is a Delaware limited partnership listed on the NASDAQ Global Select Market under the ticker symbol “ARLP.” ARLP was formed in May 1999, to acquire, upon completion of ARLP’s initial public offering on August 19, 1999, certain coal production and marketing assets of Alliance Resource Holdings, Inc., a Delaware corporation (“ARH”), consisting of substantially all of ARH’s operating subsidiaries, but excluding ARH. ARH was previously owned by our current and former management. In June 2006, our special general partner, SGP, and its parent, ARH, became wholly-owned, directly and indirectly, by Joseph W. Craft, III, a director and the President and Chief Executive Officer of our managing general partner. SGP, a Delaware limited liability company, holds a 0.01% general partner interest in each of ARLP and the Intermediate Partnership. We have a time sharing agreement for the use of aircraft and we lease certain assets, including coal reserves and certain surface facilities, owned by SGP.

We are managed by our managing general partner, MGP, a Delaware limited liability company, which holds a 0.99% and a 1.0001% managing general partner interest in ARLP and the Intermediate Partnership, respectively, and a 0.001% managing member interest in Alliance Coal. AHGP is a Delaware limited partnership that was formed to become the owner and controlling member of MGP. AHGP completed its initial public offering on May 15, 2006. AHGP owns directly and indirectly 100% of the members’ interest of MGP, the incentive distribution rights (“IDR”) in ARLP and 15,544,169 common units of ARLP.

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Basis of Presentation

The accompanying condensed consolidated financial statements include the accounts and operations of the ARLP Partnership and present our financial position as of September 30, 2009 and December 31, 2008, results of our operations for the three and nine months ended September 30, 2009 and 2008 and our cash flows for the nine months ended September 30, 2009 and 2008. All of our intercompany transactions and accounts have been eliminated. Net income attributable to Alliance Resource Partners, L.P. from our accompanied condensed consolidated financial statements will be described as “Net Income of ARLP.”

These condensed consolidated financial statements and notes are unaudited. However, in the opinion of management, these financial statements reflect all adjustments (which include only normal recurring adjustments) necessary for a fair presentation of the results for the periods presented. Results for interim periods are not necessarily indicative of results for a full year.

These condensed consolidated financial statements and notes are prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”) for interim reporting and should be read in conjunction with the consolidated financial statements and notes included in our Annual Report on Form 10-K for the year ended December 31, 2008.

2. NEW ACCOUNTING STANDARDS

New Accounting Standards Issued and Adopted

In June 2009, we adopted amendments to Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 105, *Generally Accepted Accounting Principles* (Statement of Financial Accounting Standards (“SFAS”) No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles-A Replacement of FASB Statement No. 162*), effective for interim periods ending after September 15, 2009. FASB ASC 105-10-05-1 establishes the FASB Accounting Standards Codification as the only source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with Generally Accepted Accounting Principles (“GAAP”). Rules and interpretive releases of the SEC under federal securities laws are also sources of authoritative GAAP for SEC registrants. FASB ASC 105 is not intended to change GAAP. All references to GAAP standards below include both FASB ASC reference in addition to the previously disclosed GAAP standard references as appropriate. The adoption of FASB ASC 105 had no impact on our financial position or results of operations.

In September 2009, the FASB issued Accounting Standards Update (“ASU”) 2009-06, *Implementation Guidance on Accounting for Uncertainty in Income Taxes and Disclosure Amendments for Nonpublic Entities*. ASU 2009-06 amended guidance on certain aspects of FASB ASC 740, *Income Taxes*, including application to nonpublic entities, as well as application guidance on the accounting for income tax uncertainties for all entities. The amendments are applicable to all entities that apply FASB ASC 740 as well as those that historically had not, such as pass-through and tax-exempt not-for-profit entities. The amendments clarify that an entity’s tax status as a pass-through or tax-exempt not-for-profit entity is a tax position subject to the recognition requirements of FASB ASC 740 and therefore these entities must use the recognition and measurement guidance in FASB ASC 740 when assessing their tax positions. The ASU 2009-06 amendments are effective for interim and annual periods ending after September 15, 2009. The adoption of the ASU 2009-06 amendments is for the quarterly period ending September 30, 2009 did not have a material impact on our consolidated financial statements.

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On January 1, 2009, we adopted amendments to FASB ASC 805, *Business Combinations* (SFAS No. 141R, *Business Combinations*), issued by the FASB in December 2007. The FASB ASC 805 amendments apply to all business combinations and establish guidance for recognizing and measuring identifiable assets acquired, liabilities assumed, noncontrolling interests in the acquiree and goodwill. Most of these items are recognized at their full fair value on the acquisition date, including acquisitions where the acquirer obtains control but less than 100% ownership in the acquiree. The FASB ASC 805 amendments also require expensing restructuring and acquisition-related costs as incurred and establish disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. Per FASB ASC 805-10-65-1, these amendments to FASB ASC 805 are effective for business combinations with an acquisition date in fiscal years beginning after December 15, 2008. We did not complete any business acquisitions during the nine months ended September 30, 2009.

On January 1, 2009, we adopted FASB ASC 810-10-65 and 810-10-45-16 (SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements*) (Note 13), FASB ASC 260-10-55-102 through 55-110, *Master Limited Partnerships* (Emerging Issues Task Force (“EITF”) No. 07-4, *Application of the Two-Class Method under FASB Statement No. 128, Earnings Per Share, to Master Limited Partnerships*), and FASB ASC 260-10-55-25 (Financial Staff Position (“FSP”) No. EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities*) (Note 7).

Beginning with the quarterly period ended June 30, 2009, we adopted FASB ASC 825-10-50-2A (FSP SFAS No. 107-1 and Accounting Principles Board (“APB”) Opinion No. 28-1, *Interim Disclosures about Fair Value of Financial Instruments*). FASB ASC 825-10-50-2A requires disclosures about fair value of financial instruments in interim financial statements as well as in annual financial statements (Note 5).

Beginning with the quarterly period ended June 30, 2009, we adopted amendments to FASB ASC 855, *Subsequent Events* (SFAS No. 165, *Subsequent Events*), issued by the FASB in May 2009. The amendments to FASB ASC 855 establish the accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The amendments to FASB ASC 855 also require disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, that is, whether that date represents the date the financial statements were issued or were available to be issued (Note 14).

New Accounting Standards Issued and Not Yet Adopted

In August 2009, the FASB issued ASU 2009-05, *Measuring Liabilities at Fair Value*. The ASU 2009-05 amendments provide additional guidance on measuring the fair value of liabilities, as well as outline alternative valuation methods and a hierarchy for their use. The amendments also clarify that restrictions preventing the transfer of a liability should not be considered as a separate input or adjustment in the measurement of its fair value. The ASU 2009-05 amendments are effective as of the beginning of interim and annual reporting periods that begin after August 26, 2009. We do not anticipate these requirements will have a material impact on our consolidated financial statements.

In June 2009, the FASB issued amendments to FASB ASC 810, *Consolidation* (SFAS No. 167, *Amendments to FASB Interpretation No. 46 (R)*), which change the consolidation guidance applicable to a variable interest entity (“VIE”). These amendments also update the guidance governing the determination of whether an enterprise is the primary beneficiary of a VIE, and is, therefore, required to consolidate an entity, by requiring a qualitative analysis rather than a quantitative analysis. The qualitative analysis will include, among other things, consideration of who has the power to direct the activities of the entity that most significantly impact the entity’s economic performance and who has the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. This standard also requires continuous reassessments of whether an

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enterprise is the primary beneficiary of a VIE. Previously, FASB ASC 810 required reconsideration of whether an enterprise was the primary beneficiary of a VIE only when specific events had occurred. Qualifying special purpose entities, which were previously exempt from the application of this standard, will be subject to the provisions of this standard when it becomes effective. These amendments also require enhanced disclosures about an enterprise's involvement with a VIE. The provisions of these amendments are effective as of the beginning of interim and annual reporting periods that begin after November 15, 2009. We are currently evaluating the requirements of these amendments.

In December 2008, FASB ASC 715, *Compensation-Retirement Benefits*, was amended (FSP SFAS No. 132(R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets*) to require more detailed annual disclosures about employers' plan assets, concentrations of risk within plan assets and valuation techniques used to measure the fair value of plan assets. These amendments are effective for fiscal years ending after December 15, 2009. We are currently evaluating these requirements. However, we do not anticipate these requirements will have a material impact on our consolidated financial statements.

3. CONTINGENCIES

Various lawsuits, claims and regulatory proceedings incidental to our business are pending against the ARLP Partnership. We record an accrual for a potential loss related to these matters when, in management's opinion, such loss is probable and reasonably estimable. Based on known facts and circumstances, we believe the ultimate outcome of these outstanding lawsuits, claims and regulatory proceedings will not have a material adverse effect on our financial condition, results of operations or liquidity. However, if the results of these matters were different from management's current opinion and in amounts greater than our accruals, then they could have a material adverse effect.

The matters referenced in the previous paragraph include, but are not limited to, the *Rector* lawsuit, which is a royalty dispute involving certain coal leases that had been previously terminated. Plaintiffs have alleged damages of over \$33 million and have also asserted a claim for punitive damages. We believe plaintiffs' claims are without merit, have accrued no loss and are vigorously defending the litigation. This legal matter is also discussed in Part II, Item 1. "Legal Proceedings."

At certain of our operations, property tax assessments for several years are under audit by various state tax authorities. We believe that we have recorded adequate liabilities based on reasonable estimates of any property tax assessments that may be ultimately assessed as a result of these audits.

4. ACQUISITIONS

On January 28, 2008, effective January 1, 2008, we acquired, through our subsidiary Alliance Resource Properties, LLC ("Alliance Resource Properties"), additional rights to approximately 48.2 million tons of coal reserves located in western Kentucky from SGP Land, LLC ("SGP Land"). SGP Land is a subsidiary of our special general partner and is indirectly owned by Mr. Craft. At the time of our acquisition, these reserves were leased by SGP Land to our subsidiaries, Webster County Coal, LLC ("Webster County Coal"), Warrior Coal, LLC ("Warrior") and Hopkins County Coal, LLC ("Hopkins County Coal") through mineral leases and sublease agreements, pursuant to which we had paid advance royalties of approximately \$8.0 million that had not yet been recouped against production royalties. Those mineral leases and sublease agreements between SGP Land and our subsidiaries were assigned to Alliance Resource Properties by SGP Land in this transaction. The recoupable balances of advance minimum royalties and other payments at the time of this acquisition, other than \$0.4 million paid to the base lessors, were eliminated upon consolidation of the Partnership's financial statements. The purchase price of \$13.3 million cash paid at closing was primarily attributable to the historical cost basis of the mineral rights included in property, plant and equipment. We financed this acquisition using a combination of

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existing cash on hand and borrowings under our revolving credit facility. Since this transaction was a related-party transaction, it was reviewed by the board of directors of our managing general partner (“Board of Directors”) and its conflicts committee (“Conflicts Committee”). Based upon these reviews, the Board of Directors and its Conflicts Committee approved the SGP Land transaction as fair and reasonable to us and our limited partners. Because the SGP Land acquisition was between entities under common control, it was accounted for at historical cost.

5. FAIR VALUE MEASUREMENTS

Effective January 1, 2008, we adopted FASB ASC 820, *Fair Value Measurements and Disclosures* (SFAS No. 157, *Fair Value Measurements*) which, among other things, defines fair value, requires enhanced disclosures about assets and liabilities carried at fair value and establishes a hierarchal disclosure framework based upon the quality of inputs used to measure fair value. We elected to defer the application of FASB ASC 820 to nonfinancial assets and liabilities that are recognized or disclosed at fair value on a nonrecurring basis until our fiscal year beginning January 1, 2009, as permitted by FASB ASC 820-10-15-1A (FSP No. SFAS 157-2). The application of FASB ASC 820 to nonfinancial assets and liabilities on January 1, 2009 did not have an impact on our condensed consolidated financial statements as of September 30, 2009.

Valuation techniques are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our own market assumptions. These two types of inputs create the following fair value hierarchy:

- Level 1 – Quoted prices for identical instruments in active markets.
- Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model derived valuations whose inputs are observable or whose significant value drivers are observable.
- Level 3 – Instruments whose significant value drivers are unobservable.

Our investment in marketable securities at September 30, 2009 that are classified as available for sale comprise a United Kingdom treasury bill with a six month maturity, which was valued using quoted prices in active markets that are considered Level 1 inputs. The fair value of our marketable securities at September 30, 2009 was \$5.0 million and had a cumulative unrealized gain reflected in partners’ capital of \$0.4 million at September 30, 2009.

The carrying amounts for accounts receivable and accounts payable approximate fair value because of the short maturity of those instruments. At September 30, 2009 and December 31, 2008, the estimated fair value of our fixed rate term debt, including current maturities, was approximately \$454.3 million and \$362.8 million, respectively, based on interest rates that we believe are currently available to us for issuance of debt with similar terms and remaining maturities (see Note 6).

6. LONG-TERM DEBT

On September 30, 2009, our Intermediate Partnership entered into Amendment No. 2 (the “Credit Amendment”) to its Second Amended and Restated Credit Agreement (the “ARLP Credit Facility”) dated September 25, 2007.

The Credit Amendment increases the annual capital expenditure limits under the ARLP Credit Facility. The new limits are \$425.0 million for 2009, \$375.0 million for 2010, \$350.0 million for 2011 and \$250.0 million for 2012. The amount of any annual limit in excess of actual capital expenditures for that year carries forward and is added to the annual limit of the subsequent year.

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Pursuant to the Credit Amendment, the applicable margin for London Interbank Offered Rate borrowings under the ARLP Credit Facility is increased from a range of 0.625% to 1.150% (depending on the Intermediate Partnership's leverage margin) to a range of 1.115% to 2.000%, and the annual commitment fee is increased from a range of 0.15% to 0.35% (also depending on the Intermediate Partnership's leverage margin) to a range of 0.25% to 0.50%. In addition, the Credit Amendment includes certain changes relating to a "defaulting lender", including changes which clarify that the overall ARLP Credit Facility commitment would be reduced by the commitment share of a defaulting lender but also provide our Intermediate Partnership with more flexibility in replacing a defaulting lender.

At September 30, 2009, we had no borrowings and \$13.9 million of letters of credit outstanding under the ARLP Credit Facility.

In addition to limitations on our maximum annual capital expenditures, the ARLP Credit Facility, Senior Notes and 2008 Senior Notes require our Intermediate Partnership to maintain (i) a minimum debt to cash flow ratio of not more than 3.0 to 1.0 and (ii) a ratio of cash flow to interest expense of not less than 4.0 to 1.0, in each case during the four most recently ended fiscal quarters. The Credit Amendment did not change these requirements. We were in compliance with all covenants as of September 30, 2009.

7. NET INCOME OF ARLP PER LIMITED PARTNER UNIT

On January 1, 2009, we adopted FASB ASC 260-10-55-102 through 55-110 (EITF No. 07-4), which considers whether the IDR of a master limited partnership represents a participating security when considered in the calculation of earnings per unit under the two-class method. FASB ASC 260-10-55-102 through 55-110 also considers whether the partnership agreement contains any contractual limitations concerning distributions to IDR holders that would impact the amount of earnings to allocate to the IDR holders for each reporting period. If distributions are contractually limited to the IDR holders' share of currently designated available cash for distributions as defined under the partnership agreement, undistributed earnings in excess of available cash should not be allocated to the IDR holders. Our partnership agreement contractually limits our distributions to available cash and therefore, undistributed earnings are no longer allocated to the IDR holder. Accordingly, the adoption impacts our presentation of earnings per unit in periods when Net Income of ARLP exceeds the aggregate distributions because undistributed earnings are no longer allocated to the IDR holder.

Also, on January 1, 2009, we adopted the provisions of FASB ASC 260-10-55-25 (FASB FSP No. EITF No. 03-6-1), which affects entities that accrue cash dividends on share-based payment awards during the awards' service period when the dividends are not required to be returned if the employees forfeit the award. Outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends participate in undistributed earnings with common shareholders and are considered participating securities. Because the awards are considered participating securities, the issuing entity is required to apply the two-class method of computing basic and diluted earnings per share. We now include an allocation of undistributed and distributed earnings to outstanding unvested awards under our Long-Term Incentive Plan ("LTIP") (Note 9) in the calculation of our basic earnings per unit.

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The following is a reconciliation of Net Income of ARLP and net income used for calculating basic earnings per unit and the weighted average units used in computing basic and diluted earnings per unit with retrospective application for the three and nine months ended September 30, 2009 and 2008, respectively, (in thousands, except per unit data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Net Income of ARLP	\$ 36,444	\$ 29,136	\$150,415	\$108,996
Adjustments:				
General partner's priority distributions	(14,758)	(12,587)	(42,658)	(32,201)
General partners' 2% equity ownership	(434)	(360)	(2,155)	(1,565)
General partners' special allocation of certain general and administrative expenses	—	1,435	—	1,435
Limited partners' interest in Net Income of ARLP	21,252	17,624	105,602	76,665
Less:				
Distributions on LTIP awards outstanding	(253)	(271)	(744)	(585)
Undistributed earnings attributable to LTIP awards	—	—	(212)	(35)
Net Income of ARLP available to limited partners	\$ 20,999	\$ 17,353	\$104,646	\$ 76,045
Weighted average limited partner units outstanding	36,661	36,613	36,654	36,602
Basic Net Income of ARLP per limited partner unit	<u>\$ 0.57</u>	<u>\$ 0.47</u>	<u>\$ 2.85</u>	<u>\$ 2.08</u>
Weighted average limited partner units – basic	36,661	36,613	36,654	36,602
Dilutive units:				
Directors' compensation phantom units	—	—	—	4
Supplemental Executive Retirement Plan phantom units	—	—	—	9
Weighted average limited partner units, assuming dilutive effect of contingently issuable units (1)	36,661	36,613	36,654	36,615
Diluted Net Income of ARLP per limited partner unit	<u>\$ 0.57</u>	<u>\$ 0.47</u>	<u>\$ 2.85</u>	<u>\$ 2.08</u>

- (1) Diluted earnings per unit give effect to all dilutive potential common units outstanding during the period using the treasury stock method. Dilutive earnings per unit exclude all dilutive potential units calculated under the treasury stock method if their effect is anti-dilutive. For the three and nine months ended September 30, 2009 and 2008, LTIP units of 184,115, 147,834, 157,829 and 136,720, respectively, were considered anti-dilutive.

Net Income of ARLP is allocated to the general partners and limited partners in accordance with their respective partnership percentages, after giving effect to any special income allocations, including incentive distributions to our managing general partner, the holder of the IDR, which are declared and paid following the close of each quarter. Under the quarterly IDR provisions of our partnership agreement, our managing general partner is entitled to receive 15% of the amount we distribute in excess of \$0.275 per unit, 25% of the amount we distribute in excess of \$0.3125 per unit, and 50% of the amount we distribute in excess of \$0.375 per unit.

On January 29, 2008 the compensation committee of the Board of Directors (“Compensation Committee”) approved amendments to the Deferred Compensation Plan for Directors and Supplemental Executive Retirement Plan to eliminate the option of settling awards in common units of ARLP and require that vested benefits be paid to participants in cash only. As a result, the

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phantom units associated with these plans are no longer considered in the calculation of diluted units effective January 29, 2008. The non-vested LTIP grants associated with the LTIP Plan continue to entitle the LTIP participants to receive ARLP common units and accordingly are included in the calculation of basic and diluted units (to the extent of dilution).

FASB ASC 260-10-65-1 and 65-2 requires retrospective application of FASB ASC 260-10-55-102 through 55-110 and 260-10-55-25. The following is a reconciliation of basic and diluted Net Income of ARLP per limited partner unit as presented in the prior period for the three and nine months ended September 30, 2008:

	Basic		Dilutive	
	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2008	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2008
Basic and diluted Net Income of ARLP per limited partners unit as previously reported	\$ 0.48	\$ 2.04	\$ 0.48	\$ 2.03
Effect of the adoption of FASB ASC 260-10-55-102 through 55-110 (EITF No. 07-4) on basic and diluted Net Income of ARLP per limited partner unit	—	0.05	—	0.06
Effect of the adoption of FASB ASC 260-10-55-25 (FSP No. EITF No. 03-6-1) on basic and diluted Net Income of ARLP per limited partner unit	(0.01)	(0.01)	(0.01)	(0.01)
Basic and diluted Net Income of ARLP per limited partner unit as presented	<u>\$ 0.47</u>	<u>\$ 2.08</u>	<u>\$ 0.47</u>	<u>\$ 2.08</u>

8. WORKERS' COMPENSATION

The changes in the workers' compensation liability (including current and long-term liability balances) for each of the periods presented were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Beginning balance	\$63,082	\$54,243	\$56,671	\$51,619
Accruals increase/decrease	4,703	4,116	13,850	12,316
Payments	(3,459)	(3,015)	(9,412)	(8,944)
Interest accretion	864	765	2,592	2,295
Valuation changes (gain)/loss	3,193	(2,132)	4,682	(3,309)
Ending balance	<u>\$68,383</u>	<u>\$53,977</u>	<u>\$68,383</u>	<u>\$53,977</u>

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9. COMPENSATION PLANS

We have the LTIP for certain employees and officers of our managing general partner and its affiliates who perform services for us. The LTIP awards are grants of non-vested notional units, which upon satisfaction of vesting requirements entitle the LTIP participant to receive ARLP common units. On January 27, 2009, the Compensation Committee determined that the vesting requirements for the 2006 grants of 71,975 units (which is net of 18,725 forfeitures) had been satisfied as of January 1, 2009. As a result of this vesting, on February 12, 2009, we issued 47,571 unrestricted common units to LTIP participants. The remaining units were settled in cash to satisfy the individual tax withholding obligations for the LTIP participants. On January 29, 2008 and October 28, 2008, the Compensation Committee authorized additional grants up to 100,000 and 152,445 units, respectively of which 93,600 and 141,145 units had been granted as of December 31, 2008 and will vest January 1, 2011 and 2012, respectively subject to satisfaction of certain financial tests. During the nine months ended September 30, 2009, LTIP grants were made of 9,625 units, all of which will vest on January 1, 2012 subject to satisfaction of certain financial tests. The fair value of these 2009 grants is equal to the intrinsic value at the date of grant, which was \$25.60 per unit on a weighted average basis. LTIP expense was \$0.9 million, \$0.7 million, \$2.7 million and \$2.2 million, for the three and nine months ended September 30, 2009 and 2008, respectively. As of September 30, 2009, the outstanding unvested LTIP grants exceeded the units available for issuance under the LTIP by 1,705 units. However, “reloading” of units available for awards as a result of settlement of a portion of outstanding awards in cash to satisfy tax withholding obligations, as provided in the LTIP, will provide sufficient units to fulfill all outstanding awards. In addition, on October 23, 2009, our unitholders approved the Third Amendment (“Third Amendment”) to the Amended and Restated Alliance Coal, LLC Long-Term Incentive Plan (See Note 14). The Third Amendment was previously authorized by the Board of Directors, subject to unitholder approval. The Third Amendment increased the number of units available for issuance under the LTIP from 1.2 million to 3.6 million, providing 2.4 million units for satisfaction of future awards.

As of September 30, 2009, there was \$4.5 million in total unrecognized compensation expense related to the non-vested LTIP grants that are expected to vest. That expense is expected to be recognized over a weighted-average period of 1.4 years. As of September 30, 2009, the intrinsic value of the non-vested LTIP grants was \$12.1 million. As of September 30, 2009, the total obligation associated with the LTIP was \$5.9 million and is included in the partners’ capital-limited partners’ line item in our condensed consolidated balance sheets.

As provided under the distribution equivalent rights provisions of the LTIP, all non-vested grants include contingent rights to receive quarterly cash distributions in an amount equal to the cash distributions we make to unitholders during the vesting period.

10. COMPONENTS OF PENSION PLAN NET PERIODIC BENEFIT COSTS

Employees at certain of our mining operations participate in a defined benefit plan (the “Pension Plan”) that we sponsor. The benefit formula for the Pension Plan is a fixed dollar unit based on years of service. Effective during 2008, new employees of these participating operations are no longer eligible to participate in the Pension Plan, but are eligible to participate in a defined contribution profit sharing and savings plan (“PSSP”) that we sponsor. Additionally, certain employees participating in the Pension Plan, for some of those participating operations, had the one-time option during 2008 to remain in the Pension Plan or participate in enhanced benefit provisions under the PSSP. Components of the net periodic benefit cost for each of the periods presented are as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Service cost	\$ 667	\$ 655	\$ 2,001	\$ 2,062
Interest cost	755	682	2,264	1,987
Expected return on plan assets	(608)	(842)	(1,824)	(2,601)
Amortization of actuarial loss	355	—	1,066	—
Net periodic benefit cost	<u>\$ 1,169</u>	<u>\$ 495</u>	<u>\$ 3,507</u>	<u>\$ 1,448</u>

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We previously disclosed in our financial statements for the year ended December 31, 2008 that we expected to contribute \$10.6 million to the Pension Plan in 2009 for the 2008 plan year. Based upon guidance recently issued by the Internal Revenue Service regarding determination of pension plan liabilities, we have elected to not contribute to the Pension Plan in 2009 for the 2008 plan year. During the nine months ended September 30, 2009, we made contribution payments of \$1.5 million for the 2009 plan year.

11. COMPREHENSIVE INCOME

Total comprehensive income for the three and nine months ended September 30, 2009 and 2008, respectively (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Net income	\$36,497	\$29,289	\$150,647	\$109,392
Other comprehensive income:				
Unrealized (loss) gain on marketable securities	(142)	—	425	—
Pension (Note 10)	355	—	1,066	—
Total other comprehensive income	213	—	1,491	—
Total comprehensive income	36,710	29,289	152,138	109,392
Less comprehensive income attributable to noncontrolling interest	(53)	(153)	(232)	(396)
Comprehensive income attributable to ARLP	<u>\$36,657</u>	<u>\$29,136</u>	<u>\$151,906</u>	<u>\$108,996</u>

Comprehensive income differs from net income due to an unrealized gain on our available for sale marketable securities resulting from valuation changes and amortization of actuarial loss associated with adoption of amendments to FASB ASC 715, *Compensation – Retirement Benefits* (SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132 (R)*), issued by the FASB in September 2006.

12. SEGMENT INFORMATION

We operate in the eastern United States as a producer and marketer of coal to major utilities and industrial users. We have four reportable segments: the Illinois Basin, Central Appalachia, Northern Appalachia and Other and Corporate. The first three segments correspond to the three major coal producing regions in the eastern U.S. Coal quality, coal seam height, mining and transportation methods and regulatory issues are similar within each of these three segments.

The Illinois Basin segment is comprised of Webster County Coal's Dotiki mining complex, Gibson County Coal, LLC's Gibson North mining complex, Hopkins County Coal's Elk Creek mining complex, White County Coal, LLC's ("White County Coal") Pattiki mining complex, Warrior's mining complex, River View Coal, LLC's newly constructed mining complex, which recently initiated operations, the Gibson County Coal (South), LLC ("Gibson South") property and certain properties of Alliance Resource Properties. We are in the process of permitting the Gibson South property for future mine development.

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The Central Appalachian segment is comprised of Pontiki Coal, LLC's and MC Mining, LLC's mining complexes.

The Northern Appalachian segment is comprised of Mettiki Coal, LLC's mining complex, Mettiki Coal (WV) LLC's Mountain View mining complex, two small third-party mining operations (one of which was idled in May 2009), a mining complex currently under construction at Tunnel Ridge, LLC and the Penn Ridge Coal, LLC ("Penn Ridge") property. We are in the process of permitting the Penn Ridge property for future mine development.

Other and Corporate includes marketing and administrative expenses, Matrix Design Group, LLC ("Matrix Design"), Alliance Design Group, LLC ("Alliance Design"), the Mt. Vernon Transfer Terminal, LLC ("Mt. Vernon") dock activities, coal brokerage activity, Mid-America Carbonates, LLC ("MAC") and certain properties of Alliance Resource Properties.

Segment results for the three and nine months ended September 30, 2009 and 2008 are presented below:

	<u>Illinois Basin</u>	<u>Central Appalachia</u>	<u>Northern Appalachia</u>	<u>Other and Corporate</u>	<u>Elimination (1)</u>	<u>Consolidated</u>
	(in thousands)					
Operating segment results for the three months ended September 30, 2009:						
Total revenues (2)	\$217,128	\$ 41,401	\$ 36,041	\$ 9,489	\$ (4,415)	\$ 299,644
Segment Adjusted EBITDA Expense (3)	137,579	34,839	30,650	6,298	(4,135)	205,231
Segment Adjusted EBITDA (4)	70,090	6,517	3,234	3,189	(280)	82,750
Capital expenditures	54,274	3,845	17,589	1,060	—	76,768
Operating segment results for the three months ended September 30, 2008:						
Total revenues (2)	\$181,276	\$ 49,836	\$ 51,262	\$ 5,508	\$ (2,092)	\$ 285,790
Segment Adjusted EBITDA Expense (3)	128,186	38,846	37,284	3,843	(2,074)	206,085
Segment Adjusted EBITDA (4)	45,068	10,998	10,270	1,666	(18)	67,984
Capital expenditures (5)	39,232	5,086	6,162	1,457	—	51,937
Operating segment results for the nine months ended September 30, 2009:						
Total revenues (2)	\$675,441	\$ 137,739	\$ 106,898	\$ 27,430	\$ (14,660)	\$ 932,848
Segment Adjusted EBITDA Expense (3)	410,103	106,784	88,934	19,325	(14,298)	610,848
Segment Adjusted EBITDA (4)	237,860	29,486	11,571	8,098	(362)	286,653
Total assets	684,823	90,141	178,259	117,334	(119)	1,070,438
Capital expenditures	186,678	11,555	49,910	3,310	—	251,453
Operating segment results for the nine months ended September 30, 2008:						
Total revenues (2)	\$549,831	\$ 151,898	\$ 136,015	\$ 14,628	\$ (6,770)	\$ 845,602
Segment Adjusted EBITDA Expense (3)	376,707	115,594	99,133	12,390	(6,770)	597,054
Segment Adjusted EBITDA (4)	149,824	39,047	26,881	7,397	—	223,149
Total assets	531,487	96,761	133,056	285,731	(122)	1,046,913
Capital expenditures (5)	99,223	9,004	11,826	2,834	—	122,887

(1) The elimination column represents the elimination of intercompany transactions and is primarily comprised of sales from Matrix Design, Alliance Design and MAC to our mining operations.

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- (2) Revenues included in the Other and Corporate column are primarily attributable to Matrix Design revenues, Alliance Design revenues, Mt. Vernon transloading revenues, administrative service revenues from affiliates, MAC rock dust revenues and brokerage sales (nine months ended September 30, 2009 only).
- (3) Segment Adjusted EBITDA Expense includes operating expenses, outside coal purchases and other income. Transportation expenses are excluded as these expenses are passed through to our customers and consequently we do not realize any gain or loss on transportation revenues.

The following is a reconciliation of consolidated Segment Adjusted EBITDA Expense to operating expenses (excluding depreciation, depletion and amortization) (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Segment Adjusted EBITDA Expense	\$205,231	\$206,085	\$610,848	\$597,054
Outside coal purchases	(517)	(6,995)	(5,709)	(14,450)
Other income	126	231	554	698
Operating expenses (excluding depreciation, depletion and amortization)	<u>\$204,840</u>	<u>\$199,321</u>	<u>\$605,693</u>	<u>\$583,302</u>

- (4) Segment Adjusted EBITDA is defined as net income before net interest expense, income taxes, depreciation, depletion and amortization, net income attributable to noncontrolling interest and general and administrative expenses. Consolidated Segment Adjusted EBITDA is reconciled to net income and Net Income of ARLP below (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Segment Adjusted EBITDA	\$ 82,750	\$ 67,984	\$286,653	\$223,149
General and administrative	(9,959)	(7,184)	(29,000)	(28,134)
Depreciation, depletion and amortization	(28,145)	(25,403)	(83,767)	(74,297)
Interest expense, net	(7,563)	(6,016)	(22,428)	(11,959)
Income tax (expense) benefit	(586)	(92)	(811)	633
Net income	36,497	29,289	150,647	109,392
Net income attributable to noncontrolling interest	(53)	(153)	(232)	(396)
Net Income of ARLP	<u>\$ 36,444</u>	<u>\$ 29,136</u>	<u>\$150,415</u>	<u>\$108,996</u>

- (5) Capital expenditures for the three and nine months ended September 30, 2008 do not include acquisition of coal reserves and other assets in the Illinois Basin of \$16.5 million and \$29.8 million, respectively, separately reported in our condensed consolidated statements of cash flows.

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13. NONCONTROLLING INTEREST

On January 1, 2009, we adopted FASB ASC 810-10-65 and FASB ASC 810-10-45-16 (SFAS No. 160), which establishes accounting and reporting standards for noncontrolling ownership interests in subsidiaries. Noncontrolling ownership interest in consolidated subsidiaries is presented in the consolidated balance sheet within partners' capital as a separate component from the parent's equity. Consolidated net income now includes earnings attributable to both the parent and the noncontrolling interests. Earnings per unit is based on earnings attributable to only the parent company and did not change upon adoption. In addition, FASB ASC 810-10-65 provides guidance on accounting for changes in the parent's ownership interest in a subsidiary, including transactions where control is retained and where control is relinquished and requires additional disclosure of information related to amounts attributable to the parent for income from continuing operations, discontinued operations, extraordinary items and reconciliations of the parent and noncontrolling interests' equity of a subsidiary. The provisions are applied prospectively to transactions involving noncontrolling interests, including noncontrolling interests that arose prior to the effective date, as of the beginning of 2009, the year of adoption. However, the presentation of noncontrolling interests within partners' capital and the inclusion of earnings attributable to the noncontrolling interests in consolidated net income requires retrospective application to all periods presented.

The noncontrolling interest designated as MAC represents a 50% third-party interest in MAC. White County Coal entered into a limited liability company agreement with a third-party in 2006 to form MAC, which manufactures and sells rock dust. We consolidate MAC's financial results in accordance with FASB ASC 810, *Consolidation* (FIN No. 46R, *Consolidation of Variable Interest Entities, an interpretation of ARB No. 51*). Based on the guidance in FASB ASC 810, we concluded that MAC is a VIE and we are the primary beneficiary. Effective January 1, 2010, we will adopt the amendments to FASB ASC 810, *Consolidation* (SFAS No. 167), issued in June 2009, and we are currently evaluating the amendments impact, if any, on MAC (Note 2).

The following tables present the change in partners' capital with retrospective application due to the adoption of FASB ASC 810-10-65 for the nine months ended September 30, 2009 and 2008 (in thousands):

	Alliance Resource Partners, L.P.				
	Limited Partners' Capital	General Partners	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Total Partners' Capital
January 1, 2009	\$604,998	\$(295,834)	\$ (19,899)	\$ 927	\$ 290,192
Net income	105,602	44,813	—	232	150,647
Other comprehensive income	—	—	1,491	—	1,491
Vesting of Long-Term Incentive Plan	(791)	—	—	—	(791)
Common unit-based compensation under Long-Term Incentive Plan	2,676	—	—	—	2,676
General Partners contribution	—	31	—	—	31
Distributions on common unit-based compensation	(773)	—	—	—	(773)
Distributions paid to Partners	(80,254)	(42,662)	—	—	(122,916)
Balance at September 30, 2009	<u>\$631,458</u>	<u>\$(293,652)</u>	<u>\$ (18,408)</u>	<u>\$ 1,159</u>	<u>\$ 320,557</u>

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	<u>Alliance Resource Partners, L.P.</u>				
	<u>Limited Partners' Capital</u>	<u>General Partners</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Noncontrolling Interest</u>	<u>Total Partners' Capital</u>
January 1, 2008	\$607,777	\$(290,669)	\$ 109	\$ 507	\$317,724
Net income	76,665	32,331	—	396	109,392
Vesting of Long-Term Incentive Plan	(1,181)	—	—	—	(1,181)
Common unit-based compensation under Long-Term Incentive Plan	2,234	—	—	—	2,234
Common control acquisitions	—	(9,809)	—	—	(9,809)
General Partners contribution	—	1,486	—	—	1,486
Distributions on common unit-based compensation	(517)	—	—	—	(517)
Distributions paid to Partners	<u>(66,966)</u>	<u>(29,429)</u>	<u>—</u>	<u>—</u>	<u>(96,395)</u>
Balance at September 30, 2008	<u>\$618,012</u>	<u>\$(296,090)</u>	<u>\$ 109</u>	<u>\$ 903</u>	<u>\$322,934</u>

14. SUBSEQUENT EVENTS

On October 28, 2009, we declared a quarterly distribution for the quarter ended September 30, 2009, of \$0.76 per unit, on all common units outstanding, totaling approximately \$43.2 million (which includes our managing general partner's incentive distributions), payable on November 13, 2009 to all unitholders of record as of November 6, 2009.

On October 23, 2009, our unitholders approved the Third Amendment. This Amendment was previously authorized by the Board of Directors, subject to unitholder approval, and increased the number of units available for issuance under the LTIP from 1.2 million to 3.6 million, providing 2.4 million units for satisfaction of future awards.

Subsequent events have been evaluated through November 6, 2009, the issuance date of the financial statements.

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

Significant relationships referenced in this management's discussion and analysis of financial condition and results of operations include the following:

- References to "we," "us," "our" or "ARLP Partnership" mean the business and operations of Alliance Resource Partners, L.P., the parent company, as well as its consolidated subsidiaries.
- References to "ARLP" mean Alliance Resource Partners, L.P., individually as the parent company, and not on a consolidated basis.
- References to "MGP" mean Alliance Resource Management GP, LLC, the managing general partner of Alliance Resource Partners, L.P., also referred to as our managing general partner.
- References to "SGP" mean Alliance Resource GP, LLC, the special general partner of Alliance Resource Partners, L.P., also referred to as our special general partner.
- References to "Intermediate Partnership" mean Alliance Resource Operating Partners, L.P., the intermediate partnership of Alliance Resource Partners, L.P., also referred to as our intermediate partnership.
- References to "Alliance Coal" mean Alliance Coal, LLC, the holding company for the operations of Alliance Resource Operating Partners, L.P., also referred to as our operating subsidiary.
- References to "AHGP" mean Alliance Holdings GP, L.P., individually as the parent company, and not on a consolidated basis.
- References to "AGP" mean Alliance GP, LLC, the general partner of Alliance Holdings GP, L.P.

Summary

We are a diversified producer and marketer of coal primarily to major U.S. utilities and industrial users. We began mining operations in 1971 and, since then, have grown through acquisitions and internal development to become what we believe to be the fifth largest coal producer in the eastern U.S. We operate eight mining complexes in Illinois, Indiana, Kentucky, Maryland and West Virginia. We recently initiated operations at a newly constructed mining complex in Kentucky which is now our ninth mining complex and are constructing a new mining complex in West Virginia. We also operate a coal loading terminal on the Ohio River at Mt. Vernon, Indiana. As is customary in the coal industry, we have entered into long-term coal supply agreements with many of our customers.

We have four reportable segments: Illinois Basin, Central Appalachia, Northern Appalachia and Other and Corporate. The first three segments correspond to the three major coal producing regions in the eastern U.S. Coal quality, coal seam height, mining and transportation methods and regulatory issues are similar within each of these three segments.

- *Illinois Basin* segment is comprised of Webster County Coal, LLC's Dotiki mining complex, Gibson County Coal, LLC's Gibson North mining complex, Hopkins County Coal LLC's Elk Creek mining complex, White County Coal LLC's ("White County Coal") Pattiki mine and Warrior Coal, LLC's ("Warrior") mining complex, River View Coal, LLC's ("River View") newly constructed mining complex which recently initiated operations, the Gibson County Coal (South), LLC ("Gibson South") property and certain properties of Alliance Resource Properties, LLC ("Alliance Resource Properties"). We are in the process of permitting the Gibson South property for future mine development.
- *Central Appalachian* segment is comprised of Pontiki Coal, LLC's and MC Mining, LLC's mining complexes.

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- *Northern Appalachian* segment is comprised of Mettiki Coal, LLC's mining complex, Mettiki Coal (WV) LLC's Mountain View mining complex, two small third-party mining operations (one of which was idled in May 2009), a mining complex currently under construction at Tunnel Ridge, LLC ("Tunnel Ridge") and the Penn Ridge Coal, LLC ("Penn Ridge") property. We are in the process of permitting the Penn Ridge property for future mine development.
- *Other and Corporate* segment includes marketing and administrative expenses, Matrix Design Group, LLC ("Matrix Design"), Alliance Design Group, LLC ("Alliance Design"), the Mt. Vernon Transfer Terminal LLC ("Mt. Vernon") dock activities, coal brokerage activity, Mid-America Carbonates, LLC ("MAC") and certain properties of Alliance Resource Properties.

Overview

On a macro level, although some segments of the U.S. economy are beginning to show signs of stability, growth in general remains elusive and electric power generation continues to be constrained. This weakness is evident in the following statistics reported in October 2009 by the Energy Information Administration ("EIA") for the twelve months ended July 2009:

- Net electricity generation in the U.S. dropped 7.6 percent.
- Industrial production fell 13.1 percent.
- Low prices continued to benefit natural gas-fired generation, which showed the largest absolute fuel specific increase.
- In contrast, the drop in coal-fired generation was the largest absolute fuel specific decline – falling 15 percent during this period.

Reflecting these factors, utility coal stock piles have continued to climb, with current levels well above historical averages and representing an estimated 70 days of consumption and we believe the overhang in customer inventories is likely to continue into the first half of 2010.

Despite near-term challenges, we strengthened our long-term contract position and have secured commitments and pricing for substantially all of ARLP's remaining 2009 production, approximately 90% to 95% of currently estimated 2010 production and approximately 80% to 85% of currently estimated production for 2011. We also continue to see encouraging long-term indicators and remain positive on the future of coal. For 2010, industrial and power demand is likely to increase with improved economic activity and the EIA is forecasting coal demand will likely climb 2% as power demand recovers and natural gas prices edge up from 2009 lows.

Longer term, coal remains the fastest growing fuel source worldwide and the International Energy Agency expects global demand for coal to outpace the combined growth in demand for natural gas, nuclear, hydro, wind and solar through 2025. In the U.S., power generators continue to install scrubber technology on existing facilities and approximately 19 gigawatts of new coal-fired electricity generation capacity is progressing toward commercial operation. We believe anticipated higher coal demand, coupled with significant reductions in coal production from economic, regulatory and legislative pressures, are setting the stage for potential coal supply shortages over the next few years.

Results of Operations

Comparison of our operating results for the nine months ended September 30, 2009 ("2009 Period") and September 30, 2008 ("2008 Period") is affected by the following significant items:

- Gain on sale of non-core coal reserves of \$5.2 million in the 2008 Period;

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- Gain of \$2.8 million on settlement of claims against the third-party that provided security services at the time of the December 2004 MC Mining mine fire (“MC Mining Fire Incident”) was recognized in the 2008 Period; and
- Gain of \$1.9 million on settlement of claims relating to the 2005 failure of the vertical belt system (the “Vertical Belt Incident”) at our Pattiki mine in the 2008 Period recorded as a reduction to operating expenses. The 2008 Period gain resulted from a settlement reached with the third-party installer of the vertical belt system and represents a partial recovery of expenses incurred in 2005.

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

We reported Net Income of ARLP of \$36.4 million for the three months ended September 30, 2009 (“2009 Quarter”) compared to \$29.1 million for the three months ended September 30, 2008 (“2008 Quarter”). This increase of \$7.3 million was principally due to improved contract pricing resulting in an average coal sales price of \$45.58 per ton sold, as compared to \$40.79 per ton sold for the 2008 Quarter. We sold 6.2 million tons and produced 6.3 million tons in the 2009 Quarter, compared to 6.6 million tons sold and produced in the 2008 Quarter. Unplanned customer outages, contractual deferrals and weak spot market demand continued to impact coal sales and production volumes in the 2009 Quarter as compared to the 2008 Quarter. Increased operating expenses (excluding outside coal purchases) during the 2009 Quarter primarily reflect the increase in labor and labor-related expenses, as well as higher sales-related expenses, and other factors described below.

	<u>Three Months Ended September 30,</u>			
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
	(in thousands)		(per ton sold)	
Tons sold	6,179	6,603	N/A	N/A
Tons produced	6,304	6,561	N/A	N/A
Coal sales	\$281,628	\$269,318	\$45.58	\$40.79
Operating expenses and outside coal purchases	\$205,357	\$206,316	\$33.23	\$31.25

Coal sales. Coal sales for the 2009 Quarter increased 4.6% to \$281.6 million from \$269.3 million for the 2008 Quarter. The increase of \$12.3 million in coal sales reflected the benefit of higher average coal sales prices (contributing \$29.6 million in additional coal sales) partially offset by lower sales volumes due to unplanned customer outages, contractual deferrals and weak spot market demand (reducing coal sales by \$17.3 million). Average coal sales prices increased \$4.79 per ton sold to \$45.58 per ton in the 2009 Quarter compared to the 2008 Quarter, primarily as a result of improved contract pricing in the Illinois Basin and Central Appalachian regions.

Operating expenses. Operating expenses increased 2.8% to \$204.8 million for the 2009 Quarter from \$199.3 million for the 2008 Quarter. Higher operating expenses of \$5.5 million resulted from the specific factors listed below:

- Labor and benefit expenses per ton produced, excluding workers’ compensation, increased 14.6% to \$11.04 per ton in the 2009 Quarter from \$9.63 per ton in the 2008 Quarter. This increase of \$1.41 per ton represents pay rate increases and higher benefit expenses, primarily increased health care costs and retirement expenses, and the impact of increased headcount as we continue to hire and train new employees for the River View and Tunnel Ridge mine development projects;

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- Workers' compensation expenses per ton produced increased to \$1.64 per ton in the 2009 Quarter from \$0.56 per ton in the 2008 Quarter. The increase of \$1.08 per ton produced primarily reflected a non-cash charge during the 2009 Quarter and a non-cash benefit during the 2008 Quarter that both resulted from discount rate changes, which increased and decreased, respectively, the accrued liabilities for the present value of estimated future claim payments;
- Material and supplies per ton produced decreased 8.3% to \$9.59 per ton in the 2009 Quarter from \$10.46 per ton in the 2008 Quarter. The decrease of \$0.87 per ton produced resulted from decreased costs for certain products and services, primarily roof support (decrease of \$0.64 per ton), seals (decrease of \$0.16 per ton), fuel used in the mining process (decrease of \$0.14 per ton) and outside services (decrease of \$0.10 per ton), offset partially by increased costs per ton in various other categories;
- Maintenance expenses per ton produced increased 2.0% to \$3.55 per ton in the 2009 Quarter from \$3.48 per ton in the 2008 Quarter. The increase of \$0.07 per ton produced resulted primarily from higher repair costs related to longwall equipment;
- Mine administration expenses decreased \$1.9 million for the 2009 Quarter compared to the 2008 Quarter, primarily as a result of lower estimated regulatory costs;
- Contract mining expenses decreased \$2.9 million for the 2009 Quarter compared to the 2008 Quarter. The decrease reflects a curtailment of third-party mining operations in our Northern Appalachian segment in response to weak demand in export and spot coal markets;
- Production taxes and royalties expenses (which were incurred as a percentage of coal sales and coal volumes) increased \$0.39 per produced tons sold in the 2009 Quarter compared to the 2008 Quarter primarily as a result of increased average coal sales prices;
- Operating expenses increased due to higher beginning coal inventory cost per ton of \$35.76 for 915,000 tons in the 2009 Quarter compared to \$33.45 per ton for 341,000 tons in the 2008 Quarter;
- Operating expenses decreased due to a 281,000 ton reduction in produced tons sold reflecting unplanned customer outages, contractual deferrals and lower export and spot market demand; and
- Operating expenses incurred during the 2009 Quarter related to our River View and Tunnel Ridge mine development projects increased \$2.3 million over the 2008 Quarter. These expenses are generally included in the variances discussed above.

General and administrative. General and administrative expenses for the 2009 Quarter increased to \$10.0 million compared to \$7.2 million in the 2008 Quarter. The increase of \$2.8 million was primarily due to higher unit-based incentive compensation expense.

Other sales and operating revenues. Other sales and operating revenues are principally comprised of Mt. Vernon transloading revenues, products and services provided by MAC and Matrix Design, and other outside services and administrative services revenue from affiliates. Other sales and operating revenues increased to \$6.4 million for the 2009 Quarter from \$4.8 million for the 2008 Quarter. The increase of \$1.6 million was primarily attributable to increased Matrix Design product sales and Mt. Vernon transloading revenues partially offset by decreases in other outside services and MAC product sales.

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Outside coal purchases. Outside coal purchases decreased to \$0.5 million for the 2009 Quarter compared to \$7.0 million in the 2008 Quarter. The decrease of \$6.5 million was primarily attributable to a decrease in outside coal purchases at our Central and Northern Appalachian regions due to reduced demand in the spot and export coal markets.

Depreciation, depletion and amortization. Depreciation, depletion and amortization expense increased to \$28.1 million for the 2009 Quarter from \$25.4 million for the 2008 Quarter. The increase of \$2.7 million was primarily attributable to additional depreciation expense associated with continuing capital expenditures related to infrastructure improvements, efficiency projects and expansion of production capacity.

Interest expense. Interest expense, net of capitalized interest decreased to \$7.7 million for the 2009 Quarter from \$8.1 million for the 2008 Quarter. The decrease of \$0.4 million was principally attributable to reduced interest expense resulting from our August 2009 principal repayment of \$18.0 million on our original senior notes issued in 1999.

Interest income. Interest income decreased to \$0.1 million for the 2009 Quarter compared to \$2.1 million for the 2008 Quarter. The decrease of \$2.0 million resulted from a decrease in short-term investments, which were originally purchased with proceeds from the \$350 million private placement of senior notes received in June 2008 discussed in more detail below under “-Debt Obligations.” Short-term investments are lower in the 2009 Quarter due to increased capital expenditures for the 2009 Period discussed in more detail below under “-Capital Expenditures.”

Transportation revenues and expenses. Transportation revenues and expenses were \$11.7 million each for the 2009 and 2008 Quarters. The cost of transportation services are passed through to our customers. Consequently, we do not realize any gain or loss on transportation revenues.

Income tax expense (benefit). Income tax expense increased to \$0.6 million for the 2009 Quarter compared to \$0.1 million for the 2008 Quarter, primarily due to increased operating income of Matrix Design, which is owned by our subsidiary, Alliance Services, Inc. (“ASI”).

Net income attributable to noncontrolling interest. The noncontrolling interest represents a 50% third-party interest in MAC. The third-party’s portion of MAC’s net income was \$0.1 million and \$0.2 million for the 2009 and 2008 Quarters, respectively. For more information about MAC, please read “Item 1. Financial Statements (Unaudited) – Note 13. Noncontrolling Interest” of this Quarterly Report on Form 10-Q.

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Segment Adjusted EBITDA. Our 2009 Quarter Segment Adjusted EBITDA increased \$14.8 million, or 21.7%, to \$82.8 million from the 2008 Quarter Segment Adjusted EBITDA of \$68.0 million. Segment Adjusted EBITDA, tons sold, coal sales, other sales and operating revenues and Segment Adjusted EBITDA Expense by segment are (in thousands):

	Three Months Ended		Increase/(Decrease)	
	September 30,			
	2009	2008		
Segment Adjusted EBITDA				
Illinois Basin	\$ 70,090	\$ 45,068	\$ 25,022	55.5%
Central Appalachia	6,517	10,998	(4,481)	(40.7)%
Northern Appalachia	3,234	10,270	(7,036)	(68.5)%
Other and Corporate	3,189	1,666	1,523	91.4%
Elimination	(280)	(18)	(262)	(1)
Total Segment Adjusted EBITDA (2)	\$ 82,750	\$ 67,984	\$ 14,766	21.7%
Tons sold				
Illinois Basin	4,925	4,934	(9)	(0.2)%
Central Appalachia	604	810	(206)	(25.4)%
Northern Appalachia	650	859	(209)	(24.3)%
Other and Corporate	—	—	—	—
Elimination	—	—	—	—
Total tons sold	6,179	6,603	(424)	(6.4)%
Coal sales				
Illinois Basin	\$207,410	\$173,096	\$ 34,314	19.8%
Central Appalachia	41,357	49,829	(8,472)	(17.0)%
Northern Appalachia	32,861	46,393	(13,532)	(29.2)%
Other and Corporate	—	—	—	—
Elimination	—	—	—	—
Total coal sales	\$281,628	\$269,318	\$ 12,310	4.6%
Other sales and operating revenues				
Illinois Basin	\$ 257	\$ 158	\$ 99	62.7%
Central Appalachia	—	15	(15)	(1)
Northern Appalachia	1,024	1,161	(137)	(11.8)%
Other and Corporate	9,487	5,508	3,979	72.2%
Elimination	(4,415)	(2,091)	(2,324)	(1)
Total other sales and operating revenues	\$ 6,353	\$ 4,751	\$ 1,602	33.7%
Segment Adjusted EBITDA Expense				
Illinois Basin	\$137,579	\$128,186	\$ 9,393	7.3%
Central Appalachia	34,839	38,846	(4,007)	(10.3)%
Northern Appalachia	30,650	37,284	(6,634)	(17.8)%
Other and Corporate	6,298	3,843	2,455	63.9%
Elimination	(4,135)	(2,074)	(2,061)	(99.4)%
Total Segment Adjusted EBITDA Expense (3)	\$205,231	\$206,085	\$ (854)	(0.4)%

(1) Percentage increase or decrease was greater than or equal to 100%.

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- (2) Segment Adjusted EBITDA is defined as net income before net interest expense, income taxes, depreciation, depletion and amortization, net income attributable to noncontrolling interest and general and administrative expenses. Consolidated EBITDA is used as a supplemental financial measure by management and by external users of our financial statements such as investors, commercial banks, research analysts and others, to assess:
- the financial performance of our assets without regard to financing methods, capital structure or historical cost basis;
 - the ability of our assets to generate cash sufficient to pay interest costs and support its indebtedness;
 - our operating performance and return on investment as compared to those of other companies in the coal energy sector, without regard to financing or capital structures; and
 - the viability of acquisitions and capital expenditure projects and the overall rates of return on alternative investment opportunities.

Segment Adjusted EBITDA is also used as a supplemental financial measure by our management for reasons similar to those stated in the above explanation of EBITDA. In addition, the exclusion of corporate general and administrative expenses from Segment Adjusted EBITDA allows management to focus solely on the evaluation of segment operating profitability as it relates to our revenues and operating expenses which are primarily controlled by our segments.

The following is a reconciliation of consolidated Segment Adjusted EBITDA to net income and Net Income of ARLP (in thousands):

	Three Months Ended	
	September 30,	
	2009	2008
Segment Adjusted EBITDA	\$ 82,750	\$ 67,984
General and administrative	(9,959)	(7,184)
Depreciation, depletion and amortization	(28,145)	(25,403)
Interest expense, net	(7,563)	(6,016)
Income tax expense	(586)	(92)
Net income	\$ 36,497	\$ 29,289
Net income attributable to noncontrolling interest	(53)	(153)
Net Income of ARLP	\$ 36,444	\$ 29,136

- (3) Segment Adjusted EBITDA Expense includes operating expenses, outside coal purchases and other income. Transportation expenses are excluded as these expenses are passed through to our customers, and consequently we do not realize any gain or loss on transportation revenues. Segment Adjusted EBITDA Expense is used as a supplemental financial measure by our management to assess the operating performance of our segments. Segment Adjusted EBITDA Expense is a key component of EBITDA in addition to coal sales and other sales and operating revenues. The exclusion of corporate general and administrative expenses from Segment Adjusted EBITDA Expense allows management to focus solely on the evaluation of segment operating performance as it primarily relates to our operating expenses. Outside coal purchases are included in Segment Adjusted EBITDA Expense because tons sold and coal sales include sales from outside coal purchases.

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The following is a reconciliation of consolidated Segment Adjusted EBITDA Expense to Operating expense (in thousands):

	Three Months Ended	
	September 30,	
	2009	2008
Segment Adjusted EBITDA Expense	\$205,231	\$206,085
Outside coal purchases	(517)	(6,995)
Other income	126	231
Operating expense (excluding depreciation, depletion and amortization)	<u>\$204,840</u>	<u>\$199,321</u>

Illinois Basin – Segment Adjusted EBITDA increased 55.5% to \$70.1 million in the 2009 Quarter from \$45.1 million in the 2008 Quarter. The increase of \$25.0 million was primarily attributable to improved contract pricing reflecting a higher average coal sales price of \$42.11 per ton during the 2009 Quarter compared to \$35.08 per ton for the 2008 Quarter. Coal sales increased 19.8% to \$207.4 million in the 2009 Quarter compared to \$173.1 million in the 2008 Quarter. The increase of \$34.3 million was partially offset by higher Segment Adjusted EBITDA Expense in the 2009 Quarter. Total Segment Adjusted EBITDA Expense for the 2009 Quarter increased 7.3% to \$137.6 million from \$128.2 million in the 2008 Quarter, primarily as a result of certain cost increases described above under consolidated operating expenses. On a per ton sold basis, Segment Adjusted EBITDA Expense for the 2009 Quarter increased \$1.95 to \$27.93 per ton compared to the 2008 Quarter Segment Adjusted EBITDA Expense of \$25.98 per ton.

Central Appalachia – Segment Adjusted EBITDA decreased 40.7% to \$6.5 million for the 2009 Quarter compared to \$11.0 million in the 2008 Quarter. The decrease of \$4.5 million was primarily the result of lower sales volumes due to unplanned customer outages, weak coal demand in the spot market and higher expenses per ton during the 2009 Quarter, partially offset by improved contract pricing that resulted in an increase in the average coal sales price of \$6.91 per ton to \$68.43 per ton in the 2009 Quarter, compared to \$61.52 per ton in the 2008 Quarter. Although Segment Adjusted EBITDA Expense for the 2009 Quarter decreased 10.3% to \$34.8 million from \$38.8 million in the 2008 Quarter primarily as a result of lower coal sales volumes, Segment Adjusted EBITDA Expense per ton sold during the 2009 Quarter increased \$9.68 per ton sold to \$57.64 as compared to \$47.96 per ton sold in the 2008 Quarter. The increase in Segment Adjusted EBITDA Expense per ton resulted in part from decreased coal production primarily due to reduced clean coal recovery, unplanned customer outages and lower spot market demand, in addition to certain cost per ton increases described above under consolidated operating expenses. Lower clean coal recovery resulted partly from Pontiki's transition from the depleted Pond Creek coal seam into the thinner Van Lear coal seam during the second quarter of 2009.

Northern Appalachia – Segment Adjusted EBITDA decreased 68.5% to \$3.2 million for the 2009 Quarter as compared to \$10.3 million in the 2008 Quarter. This decrease of \$7.1 million was primarily the result of lower sales volumes due to weakness in the spot and export coal markets and higher Segment Adjusted EBITDA expense per ton sold in the 2009 Quarter of \$47.18 per ton, an increase of \$3.78 per ton compared to \$43.40 per ton in the 2008 Quarter. Increased Segment Adjusted EBITDA Expense per ton in the 2009 Quarter resulted primarily from lower production during the 2009 Quarter, as well as the other cost increases described above under consolidated operating expenses, including expenses incurred related to our Tunnel Ridge organic growth project, partially offset by curtailment of third-party mining operations (which began in the second quarter of 2009). Lower production was primarily in response to weak demand in export and spot coal markets in addition to lower clean coal recovery resulting from

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difficult mining conditions partially offset by higher longwall production days in the 2009 Quarter. Although Segment Adjusted EBITDA Expense per ton sold increased in the 2009 Quarter, Segment Adjusted EBITDA Expense for the 2009 Quarter decreased 17.8% to \$30.7 million from \$37.3 million in the 2008 Quarter, primarily as a result of lower coal sales volumes offset in part by higher expenses per ton as described above. Reduced coal sales also reflect a lower average coal sales price of \$50.58 per ton for the 2009 Quarter as compared to \$54.00 per ton for the 2008 Quarter due to weakness in the spot market mentioned above.

Other and Corporate – Segment Adjusted EBITDA increased to \$3.2 million in the 2009 Quarter from \$1.7 million in the 2008 Quarter, primarily due to increased Matrix Design and Alliance Design product sales and service revenues and Mt. Vernon transloading revenues, partially offset by decreased MAC product sales. The increase in Segment Adjusted EBITDA Expense, as defined in reference (3) to the above table, primarily reflects increased expenses associated with higher outside services revenue and product sales.

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

We reported record Net Income of ARLP of \$150.4 million for the 2009 Period compared to \$109.0 million for the 2008 Period. This increase of \$41.4 million was principally due to improved contract pricing resulting in an average coal sales price of \$46.76 per ton sold, as compared to \$39.57 per ton sold for the 2008 Period. We had tons sold of 18.9 million and tons produced of 19.5 million for the 2009 Period compared to 20.2 million tons sold and 19.9 million tons produced for the 2008 Period. Unplanned customer outages, contractual deferrals and weak spot market demand continued to impact coal sales and production volumes in the 2009 Period as compared to the 2008 Period. The 2008 Period also included significant gains of \$9.9 million discussed above under “–Results of Operations.” Increased operating expenses (excluding outside coal purchases) during the 2009 Period primarily reflect the increase in labor and labor-related expenses, as well as higher sale-related expenses, maintenance costs and other factors described below.

	Nine Months Ended September 30,			
	2009	2008	2009	2008
	(in thousands)		(per ton sold)	
Tons sold	18,853	20,219	N/A	N/A
Tons produced	19,500	19,893	N/A	N/A
Coal sales	\$881,508	\$800,043	\$46.76	\$39.57
Operating expenses and outside coal purchases	\$611,402	\$597,752	\$32.43	\$29.56

Coal sales. Coal sales for the 2009 Period increased 10.2% to \$881.5 million from \$800.0 million for the 2008 Period. The increase of \$81.5 million in coal sales reflected the benefit of higher average coal sales prices (contributing \$135.5 million of the increase) partially offset by lower sales volume (reducing coal sales by \$54.0 million). Average coal sales prices increased \$7.19 per ton sold to \$46.76 per ton in the 2009 Period as compared to the 2008 Period, primarily as a result of improved contract pricing across all operations.

Operating expenses. Operating expenses increased 3.8% to \$605.7 million for the 2009 Period from \$583.3 million for the 2008 Period. Higher operating expenses of \$22.4 million resulted from the specific factors listed below:

- Labor and benefit expenses per ton produced, excluding workers’ compensation, increased 18.9% to \$10.90 per ton in the 2009 Period from \$9.17 per ton in the 2008 Period. The increase of \$1.73 per ton produced represents pay rate increases and higher benefit expenses, particularly increased health care costs and retirement expenses, and the impact of increased headcount as we continue to hire and train new employees for the River View and Tunnel Ridge mine development projects;

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- Workers' compensation expenses per ton produced increased 81.9% to \$1.31 per ton in the 2009 Period from \$0.72 per ton in the 2008 Period. The increase of \$0.59 per ton produced primarily reflected a non-cash charge during the 2009 Period that resulted from discount rate changes, which increased the accrued liabilities for the present value of estimated future claim payments;
- Material and supplies per ton produced decreased 3.3% to \$9.47 per ton in the 2009 Period from \$9.79 per ton in the 2008 Period. This decrease of \$0.32 per ton produced resulted from decreased costs for certain products and services, primarily roof support (decrease of \$0.23 per ton), outside services (decrease of \$0.15 per ton), seals (decrease of \$0.14 per ton) and fuel used in the mining process (decrease of \$0.15 per ton). These decreases were offset in part by increased costs in bits and cutter bars (increase of \$0.06 per ton), higher power costs (increase of \$0.09 per ton), preparation plant costs (increase of \$0.11 per ton), and additional supplies associated with disruptions related to an ice storm during the 2009 first quarter in the Illinois Basin region, among other factors;
- Maintenance expenses per ton produced increased 13.7% to \$3.66 per ton in the 2009 Period from \$3.22 per ton in the 2008 Period. The increase of \$0.44 per ton produced resulted from higher repair costs related to continuous miners, belt conveyor equipment and other equipment categories;
- Mine administration expenses decreased \$1.8 million for the 2009 Period compared to the 2008 Period, primarily as a result of lower estimated regulatory costs;
- Contract mining expenses decreased \$2.1 million for the 2009 Period as compared to the 2008 Period. The decrease reflects a curtailment of third-party mining operations in our Northern Appalachian segment in response to weak demand in export and spot coal markets;
- Operating expenses decreased due to a 1.2 million ton reduction in produced tons sold due to the previously mentioned 2009 first quarter weather disruptions in western Kentucky, particularly at the Dotiki, Warrior and Elk Creek mines, as well as unplanned customer outages, contractual deferrals and lower export and spot demand throughout the 2009 Period;
- Production taxes and royalties expenses (which were incurred as a percentage of coal sales and coal volumes) increased \$0.51 per produced tons sold in the 2009 Period compared to the 2008 Period primarily as a result of increased average coal sales prices;
- Operating expenses incurred during the 2009 Period relating to our River View and Tunnel Ridge mine development projects increased \$6.0 million over the 2008 Period. These expenses are generally included in the variances discussed above; and
- The 2008 Period benefited from a \$1.9 million gain on settlement of claims relating to the Vertical Belt Incident at our Pattiki mine.

General and administrative. General and administrative expenses for the 2009 Period increased to \$29.0 million compared to \$28.1 million in the 2008 Period. The increase was primarily due to higher unit-based incentive compensation expense and increased salary and benefit costs primarily related to higher staffing levels.

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Other sales and operating revenues. Other sales and operating revenues are principally comprised of Mt. Vernon transloading revenues, products and services provided by MAC and Matrix Design, and other outside services and administrative services revenue from affiliates. Other sales and operating revenues increased to \$16.0 million for the 2009 Period from \$12.2 million for the 2008 Period. The increase of \$3.8 million was primarily attributable to increased revenues from Mt. Vernon transloading revenues and Matrix Design product sales partially offset by decreases in other outside services and MAC product sales.

Outside coal purchases. Outside coal purchases decreased to \$5.7 million for the 2009 Period from \$14.5 million in the 2008 Period. The decrease of \$8.8 million was primarily attributable to a decrease in outside coal purchases at our Central and Northern Appalachian regions in response to a weak demand in export and spot coal markets.

Depreciation, depletion and amortization. Depreciation, depletion and amortization expense increased to \$83.8 million for the 2009 Period from \$74.3 million for the 2008 Period. The increase of \$9.5 million was primarily attributable to additional depreciation expense associated with continuing capital expenditures related to infrastructure improvements, efficiency projects and expansion of production capacity.

Interest expense. Interest expense, net of capitalized interest increased to \$23.5 million for the 2009 Period from \$14.4 million for the 2008 Period. The increase of \$9.1 million was principally attributable to the increased interest expense resulting from the \$350 million private placement during late June of the 2008 Period, partially offset by reduced interest expense from our August 2009 principal payment of \$18.0 million on our original senior notes issued in 1999. The 2008 financing activities are discussed in more detail below under “–Debt Obligations.”

Interest income. Interest income decreased to \$1.0 million for the 2009 Period from \$2.4 million for the 2008 Period. The decrease of \$1.4 million resulted from fewer short-term investments, which were originally purchased with proceeds from the \$350 million private placement of senior notes during the 2008 Period discussed in more detail below under “–Debt Obligations.”

Transportation revenues and expenses. Transportation revenues and expenses each increased to \$35.3 million for the 2009 Period compared to \$33.3 million for the 2008 Period. The increase of \$2.0 million was primarily attributable to an increase in coal sales volumes in the 2009 Period for which we arrange transportation compared to the 2008 Period, partially offset by a decrease in average transportation rates of \$0.36 on a per ton basis in the 2009 Period compared to the 2008 Period primarily due to lower fuel costs. The cost of transportation services are passed through to our customers. Consequently, we do not realize any gain or loss on transportation revenues.

Income tax expense (benefit). Income tax expense for the 2009 Period was \$0.8 million compared to income tax benefit of \$0.6 million for the 2008 Period. The income tax expense for the 2009 Period was primarily due to operating income of Matrix Design, while the income tax benefit for the 2008 Period was primarily due to operating losses of Matrix Design.

Net income attributable to noncontrolling interest. The noncontrolling interest represents a 50% third-party interest in MAC. The third-party’s portion of MAC’s net income was \$0.2 million for the 2009 Period and \$0.4 million for the 2008 Period. For more information about MAC, please read “Item 1. Financial Statements (Unaudited) – Note 13. Noncontrolling Interest” of this Quarterly Report on Form 10-Q.

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Segment Adjusted EBITDA. Our 2009 Period Segment Adjusted EBITDA increased \$63.5 million to a record \$286.6 million from the 2008 Period Segment Adjusted EBITDA of \$223.1 million. Segment Adjusted EBITDA, tons sold, coal sales, other sales and operating revenues and Segment Adjusted EBITDA Expense by segment are (in thousands):

	Nine Months Ended September 30,		Increase/(Decrease)	
	2009	2008		
Segment Adjusted EBITDA				
Illinois Basin	\$237,860	\$149,824	\$ 88,036	58.8%
Central Appalachia	29,486	39,047	(9,561)	(24.5)%
Northern Appalachia	11,571	26,881	(15,310)	(57.0)%
Other and Corporate	8,098	7,397	701	9.5%
Elimination	(362)	—	(362)	(1)
Total Segment Adjusted EBITDA (2)	\$286,653	\$223,149	\$ 63,504	28.5%
Tons sold				
Illinois Basin	14,950	15,258	(308)	(2.0)%
Central Appalachia	1,983	2,522	(539)	(21.4)%
Northern Appalachia	1,920	2,439	(519)	(21.3)%
Other and Corporate	—	—	—	—
Elimination	—	—	—	—
Total tons sold	18,853	20,219	(1,366)	(6.8)%
Coal sales				
Illinois Basin	\$646,901	\$525,655	\$121,246	23.1%
Central Appalachia	136,143	151,675	(15,532)	(10.2)%
Northern Appalachia	98,007	122,713	(24,706)	(20.1)%
Other and Corporate	457	—	457	(1)
Elimination	—	—	—	—
Total coal sales	\$881,508	\$800,043	\$ 81,465	10.2%
Other sales and operating revenues				
Illinois Basin	\$ 1,061	\$ 876	\$ 185	21.1%
Central Appalachia	128	176	(48)	(27.3)%
Northern Appalachia	2,499	3,301	(802)	(24.3)%
Other and Corporate	26,965	14,628	12,337	84.3%
Elimination	(14,660)	(6,770)	(7,890)	(1)
Total other sales and operating revenues	\$ 15,993	\$ 12,211	\$ 3,782	31.0%
Segment Adjusted EBITDA Expense				
Illinois Basin	\$410,103	\$376,707	\$ 33,396	8.9%
Central Appalachia	106,784	115,594	(8,810)	(7.6)%
Northern Appalachia	88,934	99,133	(10,199)	(10.3)%
Other and Corporate	19,325	12,390	6,935	56.0%
Elimination	(14,298)	(6,770)	(7,528)	(1)
Total Segment Adjusted EBITDA Expense (3)	\$610,848	\$597,054	\$ 13,794	2.3%

(1) Percentage change was greater than or equal to 100%.

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- (2) Segment Adjusted EBITDA is defined as net income before net interest expense, income taxes, depreciation, depletion and amortization, net income attributable to noncontrolling interest and general and administrative expenses. Consolidated EBITDA is used as a supplemental financial measure by management and by external users of our financial statements such as investors, commercial banks, research analysts and others, to assess:
- the financial performance of our assets without regard to financing methods, capital structure or historical cost basis;
 - the ability of our assets to generate cash sufficient to pay interest costs and support its indebtedness;
 - our operating performance and return on investment as compared to those of other companies in the coal energy sector, without regard to financing or capital structures; and
 - the viability of acquisitions and capital expenditure projects and the overall rates of return on alternative investment opportunities.

Segment Adjusted EBITDA is also used as a supplemental financial measure by our management for reasons similar to the above explanation of EBITDA. In addition, the exclusion of corporate general and administrative expenses from Segment Adjusted EBITDA allows management to focus solely on the evaluation of segment operating profitability as it relates to our revenues and operating expenses which are primarily controlled by our segments.

The following is a reconciliation of consolidated Segment Adjusted EBITDA to net income and Net Income of ARLP (in thousands):

	Nine Months Ended	
	September 30,	
	2009	2008
Segment Adjusted EBITDA	\$286,653	\$223,149
General and administrative	(29,000)	(28,134)
Depreciation, depletion and amortization	(83,767)	(74,297)
Interest expense, net	(22,428)	(11,959)
Income tax (expense) benefit	(811)	633
Net income	150,647	109,392
Net income attributable to noncontrolling interest	(232)	(396)
Net income of ARLP	<u>\$150,415</u>	<u>\$108,996</u>

- (3) Segment Adjusted EBITDA Expense includes operating expenses, outside coal purchases and other income. Transportation expenses are excluded as these expenses are passed through to our customers, and consequently we do not realize any gain or loss on transportation revenues. Segment Adjusted EBITDA Expense is used as a supplemental financial measure by our management to assess the operating performance of our segments. Segment Adjusted EBITDA Expense is a key component of EBITDA in addition to coal sales and other sales and operating revenues. The exclusion of corporate general and administrative expenses from Segment Adjusted EBITDA Expense allows management to focus solely on the evaluation of segment operating performance as it primarily relates to our operating expenses. Outside coal purchases are included in Segment Adjusted EBITDA Expense because tons sold and coal sales include sales from outside coal purchases.

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The following is a reconciliation of consolidated Segment Adjusted EBITDA Expense to Operating expense (in thousands):

	Nine Months Ended September 30,	
	2009	2008
Segment Adjusted EBITDA Expense	\$610,848	\$597,054
Outside coal purchases	(5,709)	(14,450)
Other income	554	698
Operating expense (excluding depreciation, depletion and amortization)	<u>\$605,693</u>	<u>\$583,302</u>

Illinois Basin – Segment Adjusted EBITDA increased 58.8% to \$237.9 million for the 2009 Period from \$149.8 million for the 2008 Period. The increase of \$88.1 million was primarily attributable to improved contract pricing resulting in a higher average coal sales price of \$43.27 per ton during the 2009 Period compared to \$34.45 per ton for the 2008 Period. The benefit of higher average coal sales price was partially offset by reduced tons sold due to weather disruptions in western Kentucky, particularly at the Dotiki, Warrior and Elk Creek mines, as well as unplanned customer outages, weakness in the spot market during the 2009 Period. Total Segment Adjusted EBITDA Expense for the 2009 Period increased 8.9% to \$410.1 million from \$376.7 million in the 2008 Period. The increase in the 2009 Period Segment Adjusted EBITDA Expense compared to the 2008 Period was primarily the result of cost increases described above under consolidated operating expenses and the impact of weather disruptions in the first quarter of 2009, partially offset by the \$1.9 million gain on settlement of claims relating to the Pattiki Vertical Belt Incident during the 2008 Period, as discussed above under “–Results of Operations.” On a per ton basis, Segment Adjusted EBITDA Expense for the 2009 Period increased \$2.74 per ton to \$27.43 per ton as compared to the 2008 Period Segment Adjusted EBITDA Expense of \$24.69 per ton.

Central Appalachia – Segment Adjusted EBITDA decreased \$9.5 million, or 24.5%, to \$29.5 million for the 2009 Period, compared to \$39.0 million for the 2008 Period. The decrease was primarily the result of lower sales volumes due to unplanned customer outages, contract deferrals and weak coal demand in the spot market during the 2009 Period, partially offset by improved contract pricing that resulted in an increase in the average coal sales price of \$8.50 per ton to \$68.65 per ton in the 2009 Period, as compared to \$60.15 per ton in the 2008 Period. Although Segment Adjusted EBITDA Expense for the 2009 Period decreased 7.6% to \$106.8 million from \$115.6 million in the 2008 Period primarily as a result of lower coal sales volumes, Segment Adjusted EBITDA Expense per ton sold during the 2009 Period increased \$8.01 per ton to \$53.85 per ton, or 17.5% over the 2008 Period Segment Adjusted EBITDA Expense per ton of \$45.84. The increase in the Segment Adjusted EBITDA Expense per ton resulted in part from decreased coal production primarily due to unplanned customer outages, contractual deferrals, lower spot market demand and reduced clean coal recovery resulting partly from Pontiki’s transition from the depleted Pond Creek coal seam into the thinner Van Lear coal seam during the 2009 Period in addition to cost per ton increases described above under consolidated operating expenses. Segment Adjusted EBITDA in the 2008 Period benefited from the \$2.8 million gain recognized on settlement of claims from the third-party that provided security services at the time of the MC Mining Fire Incident as discussed above under “–Results of Operations.”

Northern Appalachia – Segment Adjusted EBITDA decreased 57.0%, to \$11.6 million for the 2009 Period, compared to \$26.9 million for the 2008 Period. The decrease of \$15.3 million was primarily the result of lower sales volumes during the 2009 Period reflecting unplanned customer outages, contractual deferrals and reduced spot market sales resulting in lower tons sold, and

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higher Segment Adjusted EBITDA Expense per ton sold during the 2009 Period of \$46.32 per ton, an increase of \$5.68 per ton, or 14.0%, as compared to \$40.64 per ton in the 2008 Period. Increased Segment Adjusted EBITDA Expense per ton in the 2009 Period resulted primarily from lower production which was impacted by a reduction in longwall run-days for the 2009 Period, in addition to a curtailment of third-party mining operations during the 2009 Period, as well as the other cost increases described above under consolidated operating expenses, including higher expenses incurred related to our Tunnel Ridge organic growth project and higher longwall maintenance expense per ton. Although Segment Adjusted EBITDA Expense per ton sold increased in the 2009 Period, Segment EBITDA Expense for the 2009 Period decreased 10.3% to \$88.9 million from \$99.1 million in the 2008 Period, primarily as a result of lower coal sales volumes offset in part by higher expenses per ton as described above. Coal sales benefited from a higher average coal sales price of \$51.05 per ton for the 2009 Period as compared to \$50.30 per ton for the 2008 Period reflecting improved contract sales prices partially offset by lower spot market prices.

Other and Corporate – Segment Adjusted EBITDA increased to \$8.1 million in the 2009 Period from \$7.4 million in the 2008 Period, primarily due to increased Matrix Design and Alliance Design product sales and service revenues and Mt. Vernon transloading revenue in the 2009 Period partially offset by decreased MAC product sales in the 2009 Period and a \$5.2 million gain on sale of non-core coal reserves in the 2008 Period. The increase in Segment Adjusted EBITDA Expense primarily reflects increased cost associated with higher outside services revenue and product sales.

Liquidity and Capital Resources

Liquidity

We have historically satisfied our working capital requirements and funded our capital expenditures and debt service obligations from cash generated from operations, cash provided by the issuance of debt or equity and borrowings under revolving credit facilities. We believe that the current cash on hand along with cash generated from operations and our borrowing capacity will be sufficient to meet our working capital requirements, anticipated capital expenditures (other than major capital improvements or acquisitions), scheduled debt payments and distribution payments. Our ability to satisfy our obligations and planned expenditures will depend upon our future operating performance and access to and cost of capital sources, which will be affected by prevailing economic conditions generally and in the coal industry specifically, which are beyond our control. Based on our recent operating results, current cash position, anticipated future cash flows and sources of capital that we expect to have available, we do not anticipate any significant liquidity constraints in the foreseeable future. However, to the extent operating cash flow or access to and cost of capital sources are materially different than expected, future liquidity may be adversely affected. Please see “Item 1A. Risk Factors” in the Annual Report on Form 10-K for the year ended December 31, 2008.

Cash Flows

Cash provided by operating activities was \$238.3 million for the 2009 Period compared to \$192.7 million for the 2008 Period. The increase in cash provided by operating activities was principally attributable to higher net income and a reduction in the change in accounts receivable during the 2009 Period compared to the 2008 Period, partially offset by reduced cash flow related to increases in certain operating assets such as inventory.

Net cash used in investing activities was \$249.1 million for the 2009 Period compared to \$130.1 million for the 2008 Period. The increase in cash used for investing activities was primarily attributable to increased capital expenditures related to the continuing mine development at the River View and Tunnel Ridge organic growth projects, as well as the purchase of \$4.5 million in marketable

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securities. There were no significant acquisitions or sales of coal reserves and other assets in the 2009 Period compared to net cash used of \$22.6 million on such transactions in the 2008 Period. Additionally, timing of materials and services receipts, vendor invoices and related payments of accounts payable and accrued liabilities for capital expenditures during the 2009 Period reduced cash used for capital expenditures in the 2009 Period to a lesser extent than the 2008 Period.

Net cash used in financing activities was \$142.7 million for the 2009 Period compared to net cash provided by financing activities of \$206.0 million for the 2008 Period. The difference was primarily attributable to proceeds from borrowings in the 2008 Period from the issuance of the \$350 million of senior notes in a private placement (see “—Debt Obligations” below) in addition to increased distributions paid to partners in the 2009 Period.

Capital Expenditures

Capital expenditures increased to \$251.5 million in the 2009 Period from \$122.9 million in the 2008 Period. See “—Cash Flows” above concerning this increase in capital expenditures. Our anticipated total capital expenditures for the year ending December 31, 2009 are estimated in a range of \$350 to \$400 million. Management anticipates funding remaining 2009 capital requirements with cash and cash equivalents (\$91.6 million as of September 30, 2009), cash flows provided by operations and borrowing available under our revolving credit facility as discussed below. We will continue to have significant capital requirements over the long-term, which may require us to incur debt or seek additional equity capital. The availability and cost of additional capital will depend upon prevailing market conditions, the market price of our common units and several other factors over which we have limited control, as well as our financial condition and results of operations.

Debt Obligations

ARLP Credit Facility. Our Intermediate Partnership has a \$150.0 million revolving credit facility (“ARLP Credit Facility”) dated September 25, 2007, which matures in 2012. On September 30, 2009, our Intermediate Partnership entered into Amendment No. 2 (the “Credit Amendment”) to the ARLP Credit Facility. The Credit Amendment increased the annual capital expenditure limits under the ARLP Credit Facility. The new limits are \$425.0 million for 2009, \$375.0 million for 2010, \$350.0 million for 2011 and \$250.0 million for 2012. The amount of any annual limit in excess of actual capital expenditures for that year carries forward and is added to the annual limit of the subsequent year.

Pursuant to the Credit Amendment, the applicable margin for London Interbank Offered Rate borrowings under the ARLP Credit Facility was increased from a range of 0.625% to 1.150% (depending on the Intermediate Partnership’s leverage margin) to a range of 1.115% to 2.000%, and the annual commitment fee was increased from a range of 0.15% to 0.35% (also depending on the Intermediate Partnership’s leverage margin) to a range of 0.25% to 0.50%. In addition, the Credit Amendment includes certain changes relating to a “defaulting lender,” including changes which clarify that the overall ARLP Credit Facility commitment would be reduced by the commitment share of a defaulting lender but also provides our Intermediate Partnership with more flexibility in replacing a defaulting lender.

At September 30, 2009, we had \$13.9 million of letters of credit outstanding with \$136.1 million available for borrowing under the ARLP Credit Facility. We had no borrowings outstanding under the ARLP Credit Facility as of September 30, 2009. We incur an annual commitment fee of 0.25% on the undrawn portion of the ARLP Credit Facility.

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Lehman Commercial Paper, Inc. (“Lehman”), a subsidiary of Lehman Brothers Holding, Inc., holds a 5%, or \$7.5 million, commitment in our \$150 million ARLP Credit Facility. The ARLP Credit Facility is underwritten by a syndicate of twelve financial institutions including Lehman with no individual institution representing more than 11.3% of the \$150 million revolving credit facility. Lehman filed for protection under Chapter 11 of the Federal Bankruptcy Code in early October 2008. Although we have not made any borrowing requests since the bankruptcy filing by Lehman, we do not know if Lehman could, or would, fund its share of the commitment if requested. In the event Lehman, or any other financial institution in our syndicate, does not fund our future borrowing requests, our borrowing availability under the ARLP Credit Facility would be reduced. The obligations of the lenders under our credit facility are individual obligations and the failure of one or more lenders does not relieve the remaining lenders of their funding obligations.

Senior Notes. Our Intermediate Partnership has \$90.0 million principal amount of 8.31% senior notes due August 20, 2014, payable in five remaining equal annual installments of \$18.0 million with interest payable semi-annually (“Senior Notes”).

Series A Senior Notes. On June 26, 2008, our Intermediate Partnership entered into a Note Purchase Agreement (the “2008 Note Purchase Agreement”) with a group of institutional investors in a private placement offering. We issued \$205.0 million of Series A Senior Notes, which bear interest at 6.28% and mature on June 26, 2015 with interest payable semi-annually.

Series B Senior Notes. On June 26, 2008, we issued under the 2008 Note Purchase Agreement \$145.0 million of Series B Senior Notes, which bear interest at 6.72% and mature on June 26, 2018 with interest payable semi-annually.

The proceeds from the Series A and Series B Senior Notes (collectively, the “2008 Senior Notes”) were used to repay \$21.5 million outstanding under the ARLP Credit Facility and pay expenses associated with the offering. The remaining proceeds were placed in short-term investments pending their use to fund the development of the River View and Tunnel Ridge mining complexes and for other general working capital requirements. We incurred debt issuance costs of approximately \$1.7 million associated with the 2008 Senior Notes, which have been deferred and are being amortized as a component of interest expense over the term of the respective notes.

The ARLP Credit Facility, Senior Notes and 2008 Senior Notes (collectively, “ARLP Debt Arrangements”) are guaranteed by all of the direct and indirect subsidiaries of our Intermediate Partnership. The ARLP Debt Arrangements contain various covenants affecting our Intermediate Partnership and its subsidiaries restricting, among other things, the amount of distributions by our Intermediate Partnership, the incurrence of additional indebtedness and liens, the sale of assets, the making of investments, the entry into mergers and consolidations and the entry into transactions with affiliates, in each case subject to various exceptions. The ARLP Debt Arrangements also require the Intermediate Partnership to remain in control of a certain amount of mineable coal reserves relative to its annual production. In addition, the ARLP Debt Arrangements require our Intermediate Partnership to maintain (i) a minimum debt to cash flow ratio of not more than 3.0 to 1.0, (ii) a ratio of cash flow to interest expense of not less than 4.0 to 1.0 and (iii) maximum annual capital expenditures, excluding acquisitions, of \$425.0 million for the year ending December 31, 2009, in each case, during the four most recently ended fiscal quarters. The Credit Amendment did not change the required minimum debt to cash flow or cash flow to interest expense ratios. The debt to cash flow ratio, cash flow to interest expense ratio and actual capital expenditures were 1.34 to 1.0, 10.1 to 1.0 and \$305.0 million, respectively, for the trailing twelve months ended September 30, 2009. Regarding the 2009 maximum annual capital expenditures requirement, see “—Capital Expenditures” above. We were in compliance with the covenants of the ARLP Debt Arrangements as of September 30, 2009.

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Other. In addition to the letters of credit available under the ARLP Credit Facility discussed above, we also have agreements with two banks to provide additional letters of credit in an aggregate amount of \$31.1 million to maintain surety bonds to secure certain asset retirement obligations and our obligations for workers' compensation benefits. At September 30, 2009, we had \$31.1 million in letters of credit outstanding under agreements with these two banks. Our special general partner guarantees \$5.0 million of these outstanding letters of credit.

Related-Party Transactions

We have continuing related-party transactions with our managing general partner, AHGP and our special general partner and its affiliates. These related-party transactions relate principally to the provision of administrative services to AHGP and Alliance Resource Holdings II, Inc. and their respective affiliates, a time sharing agreement concerning use of aircraft and mineral and equipment leases with our special general partner and its affiliates, and guarantees from our special general partner for letters of credit.

Please read our Annual Report on Form 10-K for the year ended December 31, 2008, "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Related-Party Transactions" for additional information concerning the related-party transactions described above.

New Accounting Standards

New Accounting Standards Issued and Adopted

In June 2009, we adopted amendments to Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 105, *Generally Accepted Accounting Principles* (Statement of Financial Accounting Standards ("SFAS") No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles-A Replacement of FASB Statement No. 162*), effective for interim periods ending after September 15, 2009. FASB ASC 105-10-05-1 establishes the FASB Accounting Standards Codification as the only source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with Generally Accepted Accounting Principles ("GAAP"). Rules and interpretive releases of the SEC under federal securities laws are also sources of authoritative GAAP for SEC registrants. FASB ASC 105 is not intended to change GAAP. All references to GAAP standards below include both FASB ASC reference in addition to the previously disclosed GAAP standard references as appropriate. The adoption of FASB ASC 105 had no impact on our financial position or results of operations.

In September 2009, the FASB issued Accounting Standards Update ("ASU") 2009-06, *Implementation Guidance on Accounting for Uncertainty in Income Taxes and Disclosure Amendments for Nonpublic Entities*. ASU 2009-06 amended guidance on certain aspects of FASB ASC 740, *Income Taxes*, including application to nonpublic entities, as well as application guidance on the accounting for income tax uncertainties for all entities. The amendments are applicable to all entities that apply FASB ASC 740 as well as those that historically had not, such as pass-through and tax-exempt not-for-profit entities. The amendments clarify that an entity's tax status as a pass-through or tax-exempt not-for-profit entity is a tax position subject to the recognition requirements of FASB ASC 740 and therefore these entities must use the recognition and measurement guidance in FASB ASC 740 when assessing their tax positions. The ASU 2009-06 amendments are effective for interim and annual periods ending after September 15, 2009. The adoption of the ASU 2009-06 amendments for the 2009 Quarter did not have a material impact on our consolidated financial statements.

On January 1, 2009, we adopted amendments to FASB ASC 805, *Business Combinations* (SFAS No. 141R, *Business Combinations*), issued by the FASB in December 2007. The FASB ASC 805 amendments apply to all business combinations and establish guidance for recognizing and measuring identifiable assets acquired, liabilities assumed, noncontrolling interests in the acquiree and goodwill.

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Most of these items are recognized at their full fair value on the acquisition date, including acquisitions where the acquirer obtains control but less than 100% ownership in the acquiree. The FASB ASC 805 amendments also require expensing restructuring and acquisition-related costs as incurred and establish disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. Per FASB ASC 805-10-65-1, these amendments to FASB ASC 805 are effective for business combinations with an acquisition date in fiscal years beginning after December 15, 2008. We did not complete any business acquisitions during the 2009 Period.

On January 1, 2009, we adopted FASB ASC 810-10-65 and 810-10-45-16 (SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements*), which establishes accounting and reporting standards for noncontrolling ownership interests in subsidiaries. Noncontrolling ownership interests in consolidated subsidiaries is presented in the consolidated balance sheet within total partners' capital as a separate component from the parent's equity. Consolidated net income now includes earnings attributable to both the parent and the noncontrolling interests. Earnings per unit is based on earnings attributable to only the parent company and did not change upon adoption. In addition, FASB ASC 810-10-65 provides guidance on accounting for changes in the parent's ownership interest in a subsidiary, including transactions where control is retained and where control is relinquished and also requires additional disclosure of information related to amounts attributable to the parent for income from continuing operations, discontinued operations, extraordinary items and reconciliations of the parent and noncontrolling interests' equity of a subsidiary. The provisions are applied prospectively to transactions involving noncontrolling interests, including noncontrolling interests that arose prior to the effective date, as of the beginning of 2009, the year of adoption. However, the presentation of noncontrolling interests within partners' capital and the inclusion of earnings attributable to the noncontrolling interests in consolidated net income requires retrospective application to all periods presented. For more information, please read "Item 1. Financial Statements (Unaudited) – Note 13. Noncontrolling Interest" of this Quarterly Report on Form 10-Q.

On January 1, 2009, we adopted FASB ASC 260-10-55-102 through 55-110, *Master Limited Partnerships* (Emerging Issues Task Force ("EITF") No. 07-4, *Application of the Two-Class Method under FASB Statement No. 128, Earnings Per Share, to Master Limited Partnerships*), which considers whether the IDR of a master limited partnership represents a participating security when considered in the calculation of earnings per unit under the two-class method. FASB ASC 260-10-55-102 through 55-110 also considers whether the partnership agreement contains any contractual limitations concerning distributions to IDR holders that would impact the amount of earnings to allocate to the IDR holders for each reporting period. If distributions are contractually limited to the IDR holders' share of currently designated available cash for distributions as defined under the partnership agreement, undistributed earnings in excess of available cash should not be allocated to the IDR holders. We believe our partnership agreement contractually limits our distributions to available cash and therefore, undistributed earnings are no longer allocated to the IDR holder. Accordingly, the adoption impacts our presentation of earnings per unit in periods when Net Income of ARLP exceeds the aggregate distributions because undistributed earnings are no longer allocated to the IDR holder. For more information, please read "Item 1. Financial Statements (Unaudited) – Note 7. Net Income of ARLP per Limited Partner Unit" of this Quarterly Report on Form 10-Q.

On January 1, 2009, we adopted the provisions of FASB ASC 260-10-55-25 (FASB Staff Position ("FSP") No. EITF No. 03-6-1 *Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities*), which affects entities that accrue cash dividends on share-based payment awards during the awards' service period when the dividends are not required to be returned if the employees forfeit the award. Outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends participate in undistributed earnings with common shareholders and are considered participating securities. Because the awards are considered participating securities, the issuing entity is required to apply the two-class method of computing basic and diluted earnings per share. We now include an allocation of undistributed and distributed earnings to outstanding unvested awards

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under our Long-Term Incentive Plan in the calculation of our basic earnings per unit. For more information, please read “Item 1. Financial Statements (Unaudited) – Note 7. Net Income of ARLP per Limited Partner Unit” of this Quarterly Report on Form 10-Q.

Beginning with the quarterly period ended June 30, 2009, we adopted FASB ASC 825-10-50-2A (FSP SFAS No. 107-1 and Accounting Principles Board (“APB”) Opinion No. 28-1, *Interim Disclosures about Fair Value of Financial Instruments*). FASB ASC 825-10-50-2A requires disclosures about fair value of financial instruments in interim financial statements as well as in annual financial statements. For more information, please read “Item 1. Financial Statements (Unaudited) – Note 5. Fair Value Measurements” of this Quarterly Report on Form 10-Q.

Beginning with the quarterly period ended June 30, 2009, we adopted amendments to FASB ASC 855, *Subsequent Events* (SFAS No. 165, *Subsequent Events*), issued by the FASB in May 2009. The amendments to FASB ASC 855 establish the accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The amendments to FASB ASC 855 also require disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, that is, whether that date represents the date the financial statements were issued or were available to be issued. For more information, please read “Item 1. Financial Statements (Unaudited) – Note 14. Subsequent Events” of this Quarterly Report on Form 10-Q.

New Accounting Standards Issued and Not Yet Adopted

In August 2009, the FASB issued ASU 2009-05, *Measuring Liabilities at Fair Value*. The ASU 2009-05 amendments provide additional guidance on measuring the fair value of liabilities, as well as outline alternative valuation methods and a hierarchy for their use. The amendments also clarify that restrictions preventing the transfer of a liability should not be considered as a separate input or adjustment in the measurement of its fair value. The ASU 2006-05 amendments are effective as of the beginning of interim and annual reporting periods that begin after August 26, 2009. We do not anticipate these requirements will have a material impact on our consolidated financial statements.

In June 2009, the FASB issued amendments to FASB ASC 810, *Consolidation* (SFAS No. 167, *Amendments to FASB Interpretation No. 46 (R)*), which change the consolidation guidance applicable to a variable interest entity (“VIE”). These amendments also update the guidance governing the determination of whether an enterprise is the primary beneficiary of a VIE, and is, therefore, required to consolidate an entity, by requiring a qualitative analysis rather than a quantitative analysis. The qualitative analysis will include, among other things, consideration of who has the power to direct the activities of the entity that most significantly impact the entity’s economic performance and who has the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. This standard also requires continuous reassessments of whether an enterprise is the primary beneficiary of a VIE. Previously, FASB ASC 810 required reconsideration of whether an enterprise was the primary beneficiary of a VIE only when specific events had occurred. Qualifying special purpose entities, which were previously exempt from the application of this standard, will be subject to the provisions of this standard when it becomes effective. These amendments also require enhanced disclosures about an enterprise’s involvement with a VIE. The provisions of these amendments are effective as of the beginning of interim and annual reporting periods that begin after November 15, 2009. We are currently evaluating the requirements of these amendments.

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In December 2008, FASB ASC 715, *Compensation-Retirement Benefits* was amended (FSP SFAS No. 132(R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets*) to require more detailed annual disclosures about employers' plan assets, concentrations of risk within plan assets and valuation techniques used to measure the fair value of plan assets. These amendments are effective for fiscal years ending after December 15, 2009. We are currently evaluating these requirements. However, we do not anticipate these requirements will have a material impact on our consolidated financial statements.

Other

Insurance

During September 2009, we completed our annual property and casualty insurance renewal with various insurance coverages effective October 1, 2009. As in past years, we have elected to retain a participating interest in our commercial property insurance program at an average rate of approximately 14.7% in the overall \$75.0 million of coverage, representing 22% of the primary \$50.0 million layer. We do not participate in the second layer of \$25.0 million in excess of \$50.0 million.

The 14.7% participation rate for this year's renewal is consistent with our prior year participation. The aggregate maximum limit in the commercial property program is \$75.0 million per occurrence of which, as a result of our participation, we are responsible for a maximum amount of \$11.0 million for each occurrence, excluding a \$1.5 million deductible for property damage, a \$5.0 million aggregate deductible for extra expense and a 60-day waiting period for business interruption. We can make no assurances that we will not experience significant insurance claims in the future, which as a result of our level of participation in the commercial property program, could have a material adverse effect on our business, financial condition, results of operations and ability to purchase property insurance in the future.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have significant long-term coal supply agreements. Virtually all of the long-term coal supply agreements are subject to price adjustment provisions, which permit an increase or decrease periodically in the contract price to principally reflect changes in specified price indices or items such as taxes, royalties or actual production costs resulting from regulatory changes.

Almost all of our transactions are denominated in U.S. dollars and, as a result, we do not have material exposure to currency exchange-rate risks. We do not have any interest rate or commodity price-hedging transactions outstanding.

Borrowings under the ARLP Credit Facility are at variable rates and, as a result, we have interest rate exposure. Historically, our earnings have not been materially affected by changes in interest rates. We had no borrowings outstanding under the ARLP Credit Facility as of September 30, 2009.

As of September 30, 2009, the estimated fair value of the Senior Notes and the 2008 Senior Notes was approximately \$454.3 million. The fair values of long-term debt are estimated using discounted cash flow analyses, based upon our current incremental borrowing rates for similar types of borrowing arrangements as of September 30, 2009. There were no other significant changes in our quantitative and qualitative disclosures about market risk as set forth in our Annual Report on Form 10-K for the year ended December 31, 2008.

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ITEM 4. CONTROLS AND PROCEDURES

We maintain controls and procedures designed to ensure that information required to be disclosed in the reports we file with the U.S. Securities and Exchange Commission (“SEC”) is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. An evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) or Rule 15d-15(e) of the Securities Exchange Act) was performed as of September 30, 2009. This evaluation was performed by our management, with the participation of our Chief Executive Officer and Chief Financial Officer. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that these controls and procedures are effective to ensure that the ARLP Partnership is able to collect, process and disclose the information it is required to disclose in the reports it files with the SEC within the required time periods, and during the quarterly period ended September 30, 2009, there have not been any changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) identified in connection with this evaluation that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 that are intended to come within the safe harbor protection provided by those sections. These statements are based on our beliefs as well as assumptions made by, and information currently available to, us. When used in this document, the words “anticipate,” “believe,” “continue,” “estimate,” “expect,” “forecast,” “may,” “project,” “will,” and similar expressions identify forward-looking statements. Without limiting the foregoing, all statements relating to our future outlook, anticipated capital expenditures, future cash flows and borrowings and sources of funding are forward-looking statements. These statements reflect our current views with respect to future events and are subject to numerous assumptions that we believe are reasonable, but are open to a wide range of uncertainties and business risks, and actual results may differ materially from those discussed in these statements. Among the factors that could cause actual results to differ from those in the forward-looking statements are:

- increased competition in coal markets and our ability to respond to the competition;
- sustained decreases in coal prices, which could adversely affect our operating results and cash flows;
- decreases in spot market prices for coal;
- risks associated with the expansion of our operations and properties;
- deregulation of the electric utility industry or the effects of any adverse change in the coal industry, electric utility industry, or general economic conditions;
- dependence on significant customer contracts, including renewing customer contracts upon expiration of existing contracts;
- the impact and duration of the current worldwide economic downturn;
- liquidity constraints, including those resulting from the cost or unavailability of financing due to current credit market conditions;
- customer bankruptcies, cancellations or breaches to existing contracts, or other failures to perform;
- customer delays or defaults in making payments;
- adjustments made in price, volume or terms to existing coal supply agreements;
- fluctuations in coal demand, prices and availability due to labor and transportation costs and disruptions, equipment availability, governmental regulations, including those related to carbon emissions, and other factors;
- legislation, regulatory and court decisions and interpretations thereof, including issues related to climate change and miner health and safety;
- our productivity levels and margins earned on our coal sales;
- greater than expected increases in raw material costs;
- greater than expected shortage of skilled labor;
- any unanticipated increases in labor costs, adverse changes in work rules, or unexpected cash payments associated with post-mine reclamation and workers’ compensation claims;
- any unanticipated increases in transportation costs and risk of transportation delays or interruptions;
- greater than expected environmental regulation, costs and liabilities;
- a variety of operational, geologic, permitting, labor and weather-related factors;
- risks associated with major mine-related accidents, such as mine fires, or interruptions;
- results of litigation, including claims not yet asserted;
- difficulty maintaining our surety bonds for mine reclamation as well as workers’ compensation and black lung benefits;
- difficulty in making accurate assumptions and projections regarding pension and other post-retirement benefit liabilities;

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- coal market's share of electricity generation, including as a result of environmental concerns related to coal mining and combustion and the cost and perceived benefits of alternative sources of energy, such as natural gas and nuclear energy;
- prices of fuel that compete with or impact coal usage, such as oil or natural gas;
- replacement of coal reserves;
- our assumptions and projections concerning economically recoverable coal reserve estimates;
- a loss or reduction of benefits from certain tax credits;
- difficulty obtaining commercial property insurance, and risks associated with our participation (excluding any applicable deductible) in the commercial insurance property program; and
- other factors, including those discussed in Part II, Item 1A, "Risk Factors" and Item 1, "Legal Proceedings."

If one or more of these or other risks or uncertainties materialize, or should underlying assumptions prove incorrect, our actual results may differ materially from those described in any forward-looking statement. When considering forward-looking statements, you should also keep in mind the risk factors described in "Risk Factors" below. The risk factors could also cause our actual results to differ materially from those contained in any forward-looking statement. We disclaim any obligation to update the above list or to announce publicly the result of any revisions to any of the forward-looking statements to reflect future events or developments.

You should consider the information above when reading or considering any forward-looking statements contained in:

- this Quarterly Report on Form 10-Q;
- other reports filed by us with the SEC;
- our press releases; and
- written or oral statements made by us or any of our officers or other authorized persons acting on our behalf.

PART II
OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information in Note 3. Contingencies to the Unaudited Condensed Consolidated Financial Statements included in “Item 1. Financial Statements (Unaudited)” of this Quarterly Report on Form 10-Q herein is hereby incorporated by reference. See also “Item 3. Legal Proceedings” in the Annual Report on Form 10-K for the year ended December 31, 2008.

On November 2, 2006 George W. Rector et al. (the “Plaintiffs”) filed a complaint in the Circuit Court of the Second Judicial Circuit of Illinois, in White County, Illinois, against our subsidiaries White County Coal, LLC, Alliance Properties, LLC and Alliance Coal, LLC (collectively “Alliance”) asserting claims for breach of contract, breach of fiduciary duty and unjust enrichment. The case is scheduled for trial before the Circuit Court beginning November 16, 2009. The Plaintiffs’ claims are based on their assertion that, as a result of assignments in 1977, 1978 and 1979 from the Plaintiffs’ or their predecessors to Alliance’s predecessors, MAPCO Coal, Inc. and MAPCO Land & Development Corporation (collectively “MAPCO”), of certain coal leases, they are entitled to receive royalty payments on all coal mined previously or in the future from the property once affected by those leases as well as from other property in the area. Plaintiffs have alleged damages of over \$33 million, and have also asserted a claim for punitive damages. The subject assignments were made in accordance with an agreement between Plaintiffs and MAPCO pursuant to which Plaintiffs reserved the right to receive an overriding royalty on coal mined under the assigned leases. Several years after MAPCO terminated a number of the assigned leases, we entered into new leases of some of the property previously covered by the assigned leases, and subsequently began mining in the area. We believe that Plaintiffs’ overriding royalty interest did not extend to any renewal of the subject leases or to any new lease covering the same property, and that Plaintiffs’ claims are without merit. We also believe that an adverse decision in this litigation, if any, would not have a material adverse effect on our business, financial position or results of operations.

On April 24, 2006, we were served with a complaint from Mr. Ned Comer, et al. (the “Plaintiffs”) alleging that approximately 40 oil and coal companies, including us, (the “Defendants”) are liable to the Plaintiffs for tortuously causing damage to Plaintiffs’ property in Mississippi. The Plaintiffs allege that the Defendants’ greenhouse gas emissions caused global warming and resulted in the increase in the destructive capacity of Hurricane Katrina. On August 30, 2007, the trial court dismissed the Plaintiffs’ complaint. On September 17, 2007, Plaintiffs filed a notice of appeal of that dismissal to the U.S. Court of Appeals for the Fifth Circuit. On October 16, 2009, the Fifth Circuit overturned the trial court’s dismissal of the Plaintiffs’ private nuisance, trespass and negligence claims, finding Article III constitutional standing and no political question. The Fifth Circuit remanded these claims to the trial court for further proceedings. We believe this complaint is without merit and we do not believe that an adverse decision in this litigation matter, if any, will have a material adverse effect on our business, financial position or results of operations.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in Part I, Item 1A “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2008 which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K and this Quarterly Report on Form 10-Q are not our only risks. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial based on current knowledge and factual circumstances, if such knowledge or facts change, also may materially adversely affect our business, financial condition and/or operating results in the future.

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ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

The Partnership filed a Consent Solicitation Statement dated September 25, 2009 with the Securities and Exchange Commission on Schedule 14A in connection with the solicitation of consents of the holders of common units to approve The Third Amendment (“Third Amendment”) to the 2000 Long-Term Incentive Plan, as amended (The “Plan”). A summary of the Third Amendment was set forth in the Partnership’s Consent Solicitation Statement under the caption “The Plan and Proposed Amendment.” Such description is incorporated herein by reference and is qualified in its entirety by reference to the full text of the Amended and Restated Plan, as amended. On October 23, 2009, the unitholders of the Partnership approved the Third Amendment to the Plan. The Third Amendment had previously been authorized by the Board of Directors of Alliance Resource Management GP, LLC, the Partnership’s managing general partner. The Third Amendment increased the number of common units available for issuance under the Plan from 1.2 million to 3.6 million.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

- 10.1 Amendment No. 2, dated as of September 30, 2009, to the Second Amended and Restated Credit Agreement, dated as of September 25, 2007, among Alliance Resource Operating Partners, L.P. as Borrower, the Initial Lenders, Initial Issuing Banks and Swing Line Bank, in each case as named therein, JPMorgan Chase Bank, N.A. as Paying Agent, Citicorp USA, Inc. and JPMorgan Chase Bank, N.A. as Co-Administrative Agents, and Citigroup Global Markets Inc. and J.P. Morgan Securities, Inc. as Joint Lend Arrangers and Joint Bookrunners. (Incorporated by reference to Exhibit 10.1 of the Registrant’s Current Report on Form 8-K, filed with the Commission on October 6, 2009, File No. 000-26823).
- 10.2*(1) Agreement for the Supply of Coal, dated August 20, 2009 between Tennessee Valley Authority and Alliance Coal, LLC.
- 31.1* Certification of Joseph W. Craft III, President and Chief Executive Officer of Alliance Resource Management GP, LLC, the managing general partner of Alliance Resource Partners, L.P., dated November 6, 2009, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2* Certification of Brian L. Cantrell, Senior Vice President and Chief Financial Officer of Alliance Resource Management GP, LLC, the managing general partner of Alliance Resource Partners, L.P., dated November 6, 2009, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

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- 32.1* Certification of Joseph W. Craft III, President and Chief Executive Officer of Alliance Resource Management GP, LLC, the managing general partner of Alliance Resource Partners, L.P., dated November 6, 2009, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2* Certification of Brian L. Cantrell, Senior Vice President and Chief Financial Officer of Alliance Resource Management GP, LLC, the managing general partner of Alliance Resource Partners, L.P., dated November 6, 2009, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith (or furnished, in the case of Exhibits 32.1 and 32.2).

(1) Application has been made to the Commission for confidential treatment of certain provisions of this exhibit. Omitted material for which confidential treatment has been requested has been filed separately with the Commission.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized, in Tulsa, Oklahoma, on November 6, 2009.

ALLIANCE RESOURCE PARTNERS, L.P.

By: Alliance Resource Management GP, LLC
its managing general partner

/s/ Joseph W. Craft, III

Joseph W. Craft, III
*President, Chief Executive Officer and Director, duly
authorized to sign on behalf of the registrant.*

/s/ Brian L. Cantrell

Brian L. Cantrell
Senior Vice President and Chief Financial Officer

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Section 2: EX-10.2 (AGREEMENT FOR THE SUPPLY OF COAL)

Exhibit 10.2

**CERTAIN INFORMATION (INDICATED BY ASTERISKS) IN THIS EXHIBIT HAS
BEEN OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. CONFIDENTIAL TREATMENT HAS BEEN
REQUESTED WITH RESPECT TO THE OMITTED PORTION.**

CONTRACT FOR PURCHASE AND SALE OF COAL

Between

ALLIANCE COAL, LLC

And

TENNESSEE VALLEY AUTHORITY

Dated August 20, 2009

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Contract No: ____CO - 0____

CONTRACT FOR PURCHASE AND SALE OF COAL

THIS AGREEMENT, is made and entered into this 20th day of August, 2009, by and between TENNESSEE VALLEY AUTHORITY, a corporation organized and existing under an Act of Congress (hereinafter called "TVA"), and Alliance Coal, LLC, a limited liability company organized and existing under the laws of Delaware (hereinafter called "Alliance").

WITNESSETH:

In consideration of the mutual covenants hereinafter stated, the parties hereto agree as follows:

Definitions. "Contract Year" shall mean a twelve-month period commencing with the first day of the calendar month in which the Delivery Commencement Date (as hereinafter defined) occurs.

"Delivery Commencement Date" shall be that date set forth in Section 1 hereof for commencement of deliveries. Such date may be changed only by supplement to this contract that expressly refers to the term "Delivery Commencement Date." The actual date of commencement of deliveries shall not affect the Delivery Commencement Date.

"Contract Administrator" shall be that TVA representative designated to administer the contract on behalf of TVA.

"Alliance's Agent" means Alliance Coal Sales, a division of Alliance Coal, LLC, or any successor agent designated in writing by Alliance to TVA and approved by TVA, which approval shall not be unreasonably withheld. If, during the term of this Agreement, Alliance's Agent holds itself out to TVA

as having the authority to act or make decisions on Alliance's behalf, TVA is entitled to rely on such representations without need for further inquiry, and Alliance agrees to be bound by the actions of Alliance's agent with respect to this Agreement and agrees to indemnify and hold TVA harmless with regard to any such reliance. Hereinafter, all references to "Alliance" in this Agreement may refer to either Alliance or Alliance's Agent as Alliance's representative; provided, however, all obligations of Alliance herein shall be Alliance's full and sole obligation, regardless of whether Alliance's Agent is performing any duties with regard to such obligation.

"Destination" shall have the following meaning: Each TVA fossil-fired power plant receiving or scheduled to receive coal purchased under this contract shall be a "Destination." The initial Destinations shall be the Paradise Fossil Plant, Widows Creek Fossil Plant or the Shawnee Fossil Plant, as elected by TVA. TVA may elect under Subsection 14.g of this contract to change or add Destinations from time to time.

"Receiving Plant" shall mean any TVA fossil-fired power plant that receives or is scheduled to receive coal purchased under this contract, whether or not such coal is transported directly to such plant or is first transported to a trans-loading or blending facility. Where the coal received by a TVA fossil-fired power plant is intended to be used only in certain generating units of the plant, because of the particular coal quality requirements of such units, such units shall be considered the "Receiving Plant."

1. Contract Term - Seven Year Base Term and 7 Year Extension.

a. The Delivery Commencement Date shall be January 1, 2010, and deliveries shall continue for seven (7) years from said Delivery Commencement Date, through December 31, 2016, unless terminated earlier by agreement or as otherwise provided herein; provided, however, this 7-year contract term may be extended for up to an additional seven (7) years from January 1, 2017 through December 31, 2023 (the "Extension Period"), upon mutual agreement of the parties. With respect to such

Extension Period, the parties shall consult and determine, no later than October 1, 2015, whether they intend to begin negotiations for the purpose of negotiating price and other terms and conditions or whether either party or both parties intends to allow this contract to terminate on January 1, 2017. Nothing herein is intended to require a party who has indicated an intention to begin such negotiations with respect to the Extension Period or who has participated in such negotiations hereunder to continue such negotiations if, for any reason, such party determines it is not in its interests to do so. If either or both parties decline to begin negotiations with respect to the Extension Period, this contract will terminate on January 1, 2017. If the parties have begun negotiations with respect to the Extension Period on or after October 1, 2015, this contract will terminate on January 1, 2017 unless TVA and Alliance have mutually agreed in a writing duly executed by both parties on or before March 31, 2016 to continue this contract or to continue negotiations for continuing this contract. Neither party shall be under any obligation or liability to continue this contract beyond January 1, 2017 or have any liability for refusing to do so or with respect to the Extension Period, if either party desires to terminate deliveries in accordance herewith. Any negotiations with respect to the Extension Period can include any topic or matter or any provision of the contract, including, but not limited to, the price of coal to be sold and purchased or the period of any extension of this contract after January 1, 2017, provided that in no event shall the term of this contract, including any extension period, exceed a total of fourteen (14) years.

2. **Quantity.**

a. The quantity of coal to be sold and purchased hereunder during each Contract Year (the "Annual Contract Tonnage") shall be 5.0 million tons, subject to TVA's and Alliance's right to reduce quantities to be delivered or as otherwise adjusted as hereinafter provided, which shall be delivered on a more or less ratable monthly basis as provided in Section 3, Scheduling. If at the expiration of the 7-year term of the contract less than the aggregate total Annual Contract Tonnage has been scheduled for delivery, or if at the expiration of any Extension Period, less than the aggregate total Annual Contract Tonnage has been scheduled for delivery, the parties may by agreement extend the term of this contract or extend the term of any Extension Period, as the case may be, for a period sufficient to permit the delivery of tonnage in an amount up to the difference between the aggregate total

Annual Contract Tonnage and the total scheduled. Neither party shall be obligated to agree to such an extension; furthermore, the failure to agree to such an extension shall not be considered a waiver by either party of any remedy available under this contract for failure of the other party to purchase or sell the quantity of coal required under this contract. This contract is not and shall not be construed as a contract for all of TVA's coal requirements for any plant. TVA reserves the right to purchase coal from other suppliers in any amount during the term of this contract.

b. (1) TVA and Alliance may each make a one-time irrevocable election, on or after January 1, 2011, to reduce the Annual Contract Tonnage, commencing with the following Contract Year by up to one million tons. Such election shall also apply to all subsequent contract years during the 7-year term of this contract (e.g., an election made on January 15, 2012 would reduce deliveries beginning on January 1, 2013 and would also reduce deliveries each year thereafter through December 31, 2016). This one-time election shall not be exercised by either party to reduce any coal deliveries in Calendar Year 2010 and/or Calendar Year 2011, since it is the intention of the parties that the original Annual Contract Tonnage of 5.0 million tons be purchased and sold in both those years. For the sake of clarity and the avoidance of all doubt, TVA and Alliance acknowledge and agree that if each party makes the one-time irrevocable election described above in this Subsection 2.b.(1) and with respect to such election each party also elects to reduce the Annual Contract Tonnage by 1 million tons annually, then the Annual Contract Tonnage would be reduced from 5.0 million tons to 3.0 million tons and that such reduced Annual Contract Tonnage Amount would also remain subject to all of the provisions of Section 6, including but not limited to the automatic annual 1.0 million ton market price reopener procedure set forth in Subsections 6.d and 6.e

(2) An election to reduce the annual contract quantity by up to one million tons shall only be effective if the electing party provides prior written notice to the other party on or before January 31 of the year preceding the year in which such election is to take effect (e.g. notice is due on or before January 31, 2011 to reduce the contract quantity by up to one million tons annually beginning in Calendar Year 2012). Notwithstanding any other provision of this Agreement to the contrary, the parties acknowledge and agree that each party may elect, in its sole, absolute, and exclusive discretion to make a one-time election to reduce the contract quantity by an annual amount of up to one million tons and that

in the event such an election is made by both parties, the annual tonnage amount may be reduced by a total of up to 2 million tons.

(3) In the event either party provides notice regarding its election to reduce the annual contract quantity pursuant to this Section 2.b, the parties shall promptly enter into good faith negotiations with respect to a per-ton price for the tons subject to such election. In the event the parties reach an agreement on a per-ton price with respect to the tons subject to such election no later than March 1st of the year in which such notice was given (the "Election Year"), the annual contract quantity to be sold and purchased hereunder shall not be reduced and the agreed to price for the tons identified in such election shall be used in the weighted average calculation under Section 6.d. to determine the new Mine Price for the following Contract Year, which agreed to price for such tons is in addition to the 1.0 million tons that are subject to the annual market price reopener commencing January 1, 2012 pursuant to Section 6.d. If the parties fail to execute a written agreement by March 1 of the Election Year with respect to the per-ton price for the tons subject to such election, then the annual quantity of coal to be sold and purchased hereunder shall be reduced by the amount of the tons subject to such election, and this agreement shall otherwise remain in full force and effect. Such reduction shall take effect on January 1 of the year following the Election Year and shall apply to each year thereafter, and the parties shall be free to offer or solicit, as the case may be, the tons subject to such election to or from third parties.

(4) TVA and Alliance may, as provided herein, each exercise its respective right to elect to reduce the contract quantity, pursuant to Section 2.b(1), one time and one time only. The election, once exercised, cannot be exercised again by the same party under any circumstances. For the sake of clarity and the avoidance of all doubt, such election, once exercised, may not be exercised again by the exercising party regardless of whether the annual contract quantity is ultimately reduced by up to one (1) million tons or reduced by fewer than one (1) million tons, or not reduced at all because the parties reached an agreement on the per-ton price for the tons subject to such election.

c. Notwithstanding the provisions of Subsections 2. a. and 2. b. above or Section 3 below, if generation of electricity at a Destination or Receiving Plant is reduced, curtailed, suspended, interrupted, or terminated (collectively, a "curtailment") for a period of seven consecutive days or more as a result of the operating requirements of TVA's integrated electric generating system, including

considerations of economic dispatch of TVA's generating units, TVA may, from time to time, suspend or reduce Alliance's deliveries under this contract by a percentage equal to the percentage reduction in electric output of the plant resulting from such curtailment. If there is more than one Destination or Receiving Plant for this contract at the time of such curtailment, the suspension or reduction in deliveries shall apply only to such coal as, but for the curtailment, would have been received at the plant experiencing a curtailment based on the average weekly deliveries of coal hereunder to such plant during the six (6) months preceding the curtailment. Such suspension or reduction in deliveries may continue as long as generation at such plant is reduced, curtailed, suspended, interrupted, or terminated; provided, however, if TVA continues any such reduction or suspension for more than one hundred eighty (180) days during any twelve (12) month period and the weekly reduction or suspension during such 180 day period amounts to more than twenty-five (25%) of the quantity scheduled for delivery to TVA under the last Quarterly Forecast Delivery Schedule (as defined in Section 3.b.) prorated on a weekly basis, Alliance may notify TVA in writing, after such one hundred eighty (180) days, of (i) Alliance's election to reduce the Annual Contract Tonnage by any amount up to the amount of coal affected by such suspension or reduction (which reduction of the Annual Contract Tonnage shall apply on a pro rata basis in the Contract Year of the election and in full in all subsequent Contract Years) or (ii) Alliance's intent to terminate this contract ninety (90) days from the date of TVA's receipt of such written notice, and this contract shall, upon the passing of such ninety-day period, terminate without further cost or obligation to either party, unless TVA shall have directed resumption of the suspended or reduced deliveries within forty-five (45) days of TVA's receipt of Alliance's notice of termination.

If the coal purchased hereunder is shipped to a blending/transloading facility for incorporation into a Blended Product or Blended Products that are constituted from (i) coal purchased hereunder and/or coal of like quality to that purchased hereunder (such coal together with coal purchased hereunder "Contract Quality Coal") and (ii) other coal or coals of dissimilar quality (when blended with Contract Quality Coal, the "Blended Product" or "Blended Products"), which Blended Product(s) is transported to more than one TVA Receiving Plant ("Multiple Receiving Plants"), then the provisions of the preceding paragraph of this Subsection 2.c shall be applied as follows: In the event one or more of the Multiple Receiving Plants experiences a curtailment or interruption in generation as described above,

TVA shall determine the total reduction in weekly usage of Contract Quality Coal associated with the curtailment(s) or interruption(s) (“Contract Quality Coal Reduction”), and TVA may adjust downward weekly deliveries hereunder on the basis of the ratio of the Contract Quality Coal Reduction to the total quantity of Contract Quality Coal TVA has been receiving hereunder weekly for use in the Blended Product(s) based on receipts during the prior 30-day period. All provisions of this section 2.c not inconsistent with this paragraph shall apply in the case of Blended Products and Multiple Receiving Plants.

Except with respect to any reduction in the Annual Contract Tonnage or where Alliance has terminated this contract as provided in the first paragraph of this Subsection 2.c., suspensions or reductions under this Subsection 2. c. shall not affect the enforceability of this contract and, on termination of the suspension or reduction, shipments shall resume pursuant to the terms and conditions of this contract. Alliance shall have the right, but not the obligation, to require TVA to make up any tonnage not received in accordance with this section at the Mine Price in effect when the tons are delivered to TVA.

3. **Scheduling.**

a. The coal shall be delivered under mutually agreed to shipping schedules. The coal shall be delivered in approximately ratable monthly quantities, to the extent practicable, taking into account each party’s loading and unloading logistics, unexpected constraints in the day-to-day operations, and stockpile management and storage capabilities. Accordingly, each party shall make reasonable efforts to accommodate changes in delivery schedules requested by the other party due to such events.

b. On or before thirty (30) days prior to the start of each calendar quarter, TVA shall provide to Alliance in writing a quarterly updated delivery schedule of TVA’s good faith estimate of monthly shipments that are to be scheduled for the following calendar quarter (“Quarterly Forecast Delivery Schedule”). Within five (5) business days following receipt of TVA’s Quarterly Forecast Delivery Schedule, Alliance shall provide to TVA in writing Alliance’s good faith estimate of shipments from the Approved Source Mines (as defined in Subsection 5.b.) to be made each month in the next calendar

quarter ("Quarterly Forecast Mine Source Delivery Schedule"). On or before ten (10) calendar days prior to the month of delivery, Alliance shall provide in writing to TVA the delivery schedule for the following month, which shall contain TVA's declared delivery schedule and Alliance's declared shipments from the Approved Source Mines ("Monthly Shipping Notice"). Upon receipt of said Monthly Shipping Notice, unless otherwise changed by mutual agreement, TVA shall accept and Alliance shall deliver the monthly installment quantities stated therein, subject to and in accordance with the terms and conditions of this contract. In the event that Alliance ships a quantity of coal in excess of the monthly installment quantity and such excess quantity was not approved in advance by TVA, TVA may, upon written notice to Alliance, require that such excess amount be deducted from the quantities to be shipped during the following or subsequent months.

c. Notwithstanding the foregoing provisions of Subsection(s) 3.a. and 3.b., TVA shall be obligated to purchase and accept delivery of 5.0 million tons per Contract Year and Alliance shall be obligated to sell and make delivery of 5.0 million tons per Contract Year, as such quantities may be adjusted pursuant to other provisions of this contract.

d. Alliance agrees to load TVA's carrier's trains on arrival at Alliance's loading point in accordance with the terms and conditions of TVA's applicable rail transportation agreement(s), so long as such terms and conditions are provided to Alliance in advance and are in accordance with industry standards. Subject to Subsection 3.b., TVA maintains the right to coordinate all deliveries under this contract and others for the purposes of establishing a uniform delivery schedule for placement at Destinations and/or Receiving Plants.

e. Alliance shall coordinate with TVA's rail carriers the loading of trains on the dates established under the mutually agreed to delivery schedules set forth in the Monthly Shipping Notice pursuant to Subsection 3.b. Alliance shall be responsible for any demurrage that accrues at the loading point as provided in Section 14, Transportation.

f. Alliance shall provide TVA with sixty (60) days advance written notice of the holidays and vacation periods for its operations. TVA shall not schedule deliveries during such periods, unless such deliveries are critical to the prudent operation of the Receiving Plant(s).

4. Variations, Delays, and Interruptions in Deliveries Due to Circumstances of Force Majeure.

a. Time of delivery is of major importance to TVA. Alliance shall immediately notify TVA's Contract Administrator of any expected deviation from the delivery schedule established in accordance with Section 3, Scheduling, of this contract and of the cause and extent of the deviation, except in the case of variations in quantity from schedule of up to five percent (5%).

b. Subject to the conditions hereinafter stated, neither party shall be liable to the other for failure to deliver or accept delivery of coal as provided for in this contract if such failure was due to supervening causes beyond its control and not due to its own negligence, and which cannot reasonably be overcome by the exercise of due diligence. Such causes shall include by way of illustration, but not limitation: acts of God or of the public enemy; insurrection; riots; strikes; nuclear disaster; partial or total outages of coal-fired units; floods; accidents; major breakdown of equipment or facilities (including, but not limited to, emergency outages of equipment or facilities to make repairs to avoid breakdowns thereof or damage thereto), such equipment and facilities to include, but not limited to, power generation, unloading, stock-out and preparation plant equipment; fires; industry-wide carrier delays or shortages of carriers' equipment; interruptions, delays, or suspensions of transportation service(s) between the Approved Source Mines identified in Section 5.b. and any TVA plant receiving coal hereunder; embargoes; orders or acts of civil or military authority; industry-wide shortages of materials and supplies or other uncontrollable circumstances which prevent the mining, loading, transportation or delivery of coal by Alliance, including adverse geological conditions, roof falls, roof and floor intrusions, geologic pressures which trap equipment, underground flooding, aquifers and build-up of

methane gas, and any other events which cause unusual or material dangers or unsafe working conditions at Alliance's mine; the effects of Governmental Imposition (as defined in Section 10) or compliance therewith; and delays in Alliance's ability to obtain mining permits, certificates and licenses. Nor shall TVA be obligated to accept delivery of coal hereunder to the extent that such causes wholly or partially prevent the unloading, stockpiling, preparing, or burning of coal at a Destination or Receiving Plant or unit at such plant that is receiving coal or scheduled to receive such coal at the time the cause occurs, in which case TVA shall have no obligation to consign deliveries to another destination or plant; provided, however, that if there is more than one Destination or Receiving Plant for this contract at the time such cause occurs, TVA shall be excused from taking delivery of only such coal as would have been received or scheduled to have been received at the Destination or Receiving Plant experiencing such cause based on the average weekly deliveries of coal hereunder to such plant during the six (6) months preceding the cause. Nor shall Alliance be obligated to deliver coal hereunder to the extent such causes wholly or partially prevent the mining, processing or loading of coal at an Approved Source Mine or Alternate Source that is delivering coal at the time the cause occurs, in which case Alliance shall have no obligation to make deliveries from another Approved Source Mine or Alternate Source; provided, however, that if coal is being delivered from more than one Approved Source Mine or Alternate Source at the time such cause occurs, Alliance shall be excused from delivery of only such coal as would have been delivered from the affected source had the Quarterly Forecast Mine Source Delivery Schedule then in effect remained in effect throughout the period of interruption. Nor shall the refusal of either party to settle a strike or labor dispute on terms other than it considers satisfactory preclude the strike or dispute from being considered an excusable cause. The party that did not claim force majeure (the "Non-claiming Party") shall have the right, but not the obligation, to require the other party to make up any tonnage not delivered in accordance with this section. In the event such tonnage is rescheduled at the Non-claiming Party's election, the price shall be: (i) the Mine Price in effect when the tons were originally scheduled to be shipped if TVA is the Non-claiming Party, or (ii) the Mine Price in effect when the tons are delivered to TVA if Alliance is the Non-claiming Party.

The foregoing notwithstanding, the following circumstances, whether or not foreseeable, shall not be considered force majeure circumstances and shall not excuse a party's failure to

deliver or accept delivery of coal as provided for in this contract: TVA's ability to purchase coal at a price lower than the contract price; Alliance's ability to sell the coal at a price greater than the contract price.

Either party's delays due to delays of its contractors or subcontractors (other than for transportation services as specifically set forth in Section 4.b) will not be excusable under this provision unless the delay of the contractor or subcontractor was also due to causes beyond the control and without the negligence of the contractor or subcontractor, such as the causes listed above. The party failing to deliver or the party failing to take coal shall give written notice to the other of such failure and furnish information as to the cause and probable extent thereof within ten (10) calendar days after the failure first occurs. Said ten-day (10-day) period shall begin with the day following that on which delivery or acceptance of tonnage first becomes deficient under the established delivery schedule. Failure to give such notice and furnish such information within the time specified shall be deemed a waiver of all rights under this provision with respect to tonnage scheduled for delivery prior to the date such notice and information are actually furnished.

In the event of partial failure to deliver, take, or unload coal which is excusable under this Subsection, the parties shall prorate deliveries or receipts of coal in substantially the same proportion based upon contractual commitments affected by the failure (e.g. a fifty percent (50%) reduction in receiving or production capacity would result in a fifty percent (50%) reduction in scheduled deliveries for each supplier or consumer). During the periods TVA may experience such failures to take, unload, or burn coal, Alliance shall be permitted to sell such coal normally intended for TVA. In the case of the period during which Alliance may experience such failures to produce or deliver coal, TVA may purchase replacement coal. The party experiencing such failure shall correct such failure as soon as and to the extent reasonably practicable, provided that such failure can be corrected without a commercially unreasonable and significant capital expenditure. It is understood and agreed that whether a force majeure circumstance shall be remedied by a significant capital expenditure shall be entirely within the discretion of the party having the difficulty.

If an event of complete force majeure persists for a continuous period of one hundred eighty (180) days, the party not claiming force majeure shall have the option, upon ten (10) calendar days' prior written notice, to terminate this contract and the associated obligations of the parties

hereunder (other than payment obligations for prior performance hereunder). As used in this paragraph a “complete force majeure” shall mean a failure of Alliance to schedule and deliver or a failure of TVA to accept any coal tonnage under this contract on account of a force majeure circumstance.

If the coal purchased hereunder is shipped to a blending/transloading facility for incorporation into a Blended Product or Blended Products (as defined in Subsection 2.c hereof), which Blended Product(s) is transported to more than one TVA Receiving Plant (“Multiple Receiving Plants”), then the provisions of the first paragraph of this Subsection 4.b shall be applied as follows: In the event one or more of the Multiple Receiving Plants experiences a failure to take, unload or burn a Blended Product due to causes identified in the first paragraph of this Subsection 4.b, TVA shall determine the total Contract Quality Coal Reduction, (as defined in Subsection 2.c hereof), and TVA may adjust downward weekly deliveries hereunder on the basis of the ratio of the Contract Quality Coal Reduction to the total quantity of Contract Quality Coal TVA has been receiving hereunder weekly for the Blended Product(s) based on receipts during the prior 30-day period. All provisions of this Subsection 4.b not inconsistent with this paragraph shall apply in the case of Blended Products and Multiple Receiving Plants. This paragraph shall not apply to excused failures to take coal due to events that affect transportation, receipt, unloading, or handling of coal prior to blending.

c. TVA, by providing at least thirty (30) days’ prior written notice to Alliance, shall have the right to refuse any shipments otherwise scheduled for delivery to a Destination or Receiving Plant during planned maintenance periods at such Destination or Receiving Plant. Deliveries not made during such maintenance periods shall, unless the parties otherwise mutually agree, be made up within six (6) months following the month in which the maintenance period has ended under mutually agreed to shipping schedules.

5. **Source.**

a. The source of coal delivered under this contract is of major importance to TVA. The provisions of this contract pertaining to coal quality and quantity requirements, price adjustments, federal and state legislation, and other matters are directly related to the source of coal. As used in this Section 5, “Source Area” shall mean the total coal reserve areas outlined in the Specific Locations Map(s)

identified in Appendix A; provided, that, within the Source Area, only the area(s) operated and controlled by Alliance and/or its affiliates is an "Authorized Source" of coal for delivery under this contract.

b. The coal delivered under this contract shall be supplied from Alliance's Webster County Coal, LLC Mine, Warrior Coal, LLC Mine, Hopkins County Coal, LLC Mine or White County Coal, LLC Mine ("Approved Source Mines") at the terms and conditions specified herein; provided, however, that the quantity of coal supplied from the White County Coal, LLC Mine shall not exceed ***** tons in any Contract Year. Alliance may request TVA's approval to include any other operation which presently or in the future is acquired, owned or controlled by Alliance as an "Alternate Source", which approval shall not be unreasonably withheld. Prior to granting such approval and as a condition of obtaining TVA's approval with respect to an Alternate Source, TVA may require a plant-specific test burn(s) of up to ***** tons of coal from such new source at any TVA plant that would receive coal from such Alternative Source to ensure the new source coal shall meet or exceed all of the quality specifications required under this contract and to ensure that normal operations in conformance with the design capabilities of each Receiving Plant can be readily and satisfactorily accomplished with such coal. TVA shall be under no obligation to approve such Alternate Source coal with respect to any TVA plant unless the coal from such source is approved for use in such plant by the TVA manager of the plant to which such coal is proposed to be delivered, which approval shall not be unreasonably withheld. The price of coal delivered from an Alternate Source shall be reduced, if necessary, so that TVA's delivered cost of such coal at the Destination shall not exceed the delivered cost per mmBtu for coal to be supplied from the Approved Source Mines and shall meet all other terms and conditions of this contract. TVA reserves the right to require Alliance to furnish any information TVA deems necessary bearing on the ability of any Alternate Source to meet the requirements of this contract.

c. Alliance shall immediately notify TVA in writing of any events affecting the size or location of the Authorized Source(s) or Alternate Sources. All Authorized Sources and Alternate Sources under this contract shall be in compliance with the Federal Mine Safety and Health Act of 1977, as amended, all state and federal reclamation laws, including the Surface Mining Control and Reclamation Act of 1977, as amended, and regulations issued under such laws, except for any non-compliance that does not materially impair Alliance's ability to perform its obligations under this Agreement. If Alliance

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fails to comply with this requirement, whether or not coal from such Authorized Source or Alternate Source is then being delivered hereunder, TVA may exercise its rights under Section 11, Remedies.

d. Alliance expressly assumes the risk that the Authorized Source(s), and/or Alternate Source(s) approved by TVA under Subsection 5.b above, will permit the production of coal in such quantities and of such quality as will meet the requirements of this contract. Coal shall not be delivered from any other source(s), or shipped from any other origin(s), or mined by any other producer(s) or subcontractor(s).

6. **Price.**

a. All coal is sold hereunder f.o.b. railcar or truck at the loading facility at the Approved Source Mine. TVA shall pay Alliance \$***** for each ton of coal purchased and delivered under this Contract, plus or minus such adjustments as provided in this contract (the "Mine Price"), and provided that (i) the price for coal delivered from the White County Coal, LLC Mine shall be the Mine Price adjusted on an equivalent ***** Btu basis (e.g. Mine Price \$***** X ***** Btu ÷ ***** Btu = \$***** Mine Price for coal delivered from the White County Coal, LLC Mine), and (ii) the price for ***** # SO2 coal shall be the greater of (A) ***** of the then existing Mine Price or (B) the then existing Mine Price less \$***** per ton. For example, if the Mine Price is \$***** per ton, TVA shall pay Alliance \$***** per ton, which is the higher of (A) *****% X \$***** = \$***** , or (B) \$***** - \$***** = \$*****.

b. The then current Mine Price shall be increased by *****% per year commencing on January 1, ***** and on each January 1 thereafter.

c. In addition to adjustments that shall be made pursuant to Section 6.b., commencing on January 1, ***** and on each January 1 thereafter (the "Determination Date"), Alliance will determine the percentage change in the index ***** ("*****") by comparing the average of the index values for the ***** calendar quarters preceding the Determination Date to the average of the index values for the ***** calendar quarters preceding the Determination Date. The then existing January 1 Mine Price shall either be (i) increased by the percentage change in the ***** to the extent the percentage change exceeds ***** or (ii) decreased by the percentage change in the ***** to the extent the percentage change is less than *****%.

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d. 1.0 million tons of the annual contract quantity will be subject to an automatic market price reopener every year commencing ***** through and including ***** (each such year being a “Reopener Year”). During the period of ***** through ***** preceding the Reopener Year (“Notice Year”), the Parties shall meet in good faith for the purpose of establishing the price for 1.0 million tons effective ***** of the Reopener Year. The new price shall not be less than *****% or more than *****% of the then current Mine Price. Within that limitation, the Parties intend that the price for the 1.0 million tons effective ***** of the Reopener Year shall be the fair market price, f.o.b. mine, that would be offered during the period of ***** through ***** of the Notice Year for 1.0 million tons of ***** # SO2 coal produced from an underground mine in the Illinois Basin to be delivered by rail commencing effective ***** of the Reopener Year and continuing through a period comparable to the then remaining contract term that applies to the 1.0 million tons for which the new price is being established as provided below (the “Market Price”):

This price reopener provision and price determination methodology shall apply irrespective of whether the Annual Contract Tonnage has or has not been reduced or any price adjustments made pursuant to Subsection 2.b.

After a new price has been determined for the 1.0 million tons effective ***** of the Reopener Year and the Mine Price for the rest of the Annual Contract Tonnage has been adjusted pursuant to Subsections 6.b and 6.c. and Subsection 2.b. if applicable, a weighted average price shall be

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calculated for the full Annual Contract Tonnage to be delivered in the Reopener Year and shall be the Mine Price for that year and such Mine Price shall apply to all coal deliveries for that year. For the sake of clarity and the avoidance of all doubt, TVA and Alliance acknowledge and agree that the new market price for the 1.0 million tons that is determined as a result of the automatic reopener provisions of this Section 6 shall not result in the separate pricing or billing at such new market price with respect to such 1.0 million tons of coal and, instead, such new market price shall be used, and only used, as set forth above to calculate a weighted average per ton price for the Annual Contract Tonnage to be delivered during the Reopener Year, which average per ton price shall be the Mine Price for that year. If the parties are unable to agree on the new price for 1.0 million tons by ***** of the Notice Year, the determination of the new price for the 1.0 million tons will be made as set forth in Subsection 6.e.

e. If the parties are unable to agree on a new price by ***** of the Notice Year as provided in Subsection 6.d, then on ***** of the Notice Year, each party shall provide to the other in writing the party's proposed price for the 1.0 million tons to be effective ***** of the Reopener Year (for each party, its "Proposed Price"). Each party's Proposed Price shall not be less than *****% or more than *****% of the then current Mine Price. At any time prior to a decision by the arbitration panel as set forth below, either party may, by written notice to the other party, accept the other party's Proposed Price and such Proposed Price shall be the price for 1.0 million tons used in the weighted average calculation to determine the new Mine Price effective ***** of the Reopener Year and the arbitration process shall be terminated.

If the parties are unable to agree on the new price, it shall be determined through binding arbitration in the manner set forth herein. The arbitration shall be conducted by a panel of three arbitrators, one arbitrator chosen by TVA, one arbitrator chosen by Alliance, and the third arbitrator (the "Third Arbitrator) chosen by the arbitrators selected by TVA and Alliance. The Third Arbitrator shall be the chair of the panel. The arbitrators shall be knowledgeable and experienced with the coal industry and with coal markets and the Third Arbitrator shall meet the standards of the American Arbitration Association with respect to impartiality and independence. The arbitrators chosen by the parties may be non-neutral and need not meet any standards of impartiality or independence. Neither party nor anyone

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acting on behalf of a party (including an arbitrator appointed by a party) shall communicate with the Third Arbitrator or any candidate for the Third Arbitrator without the presence of the other party. Each party shall select its arbitrator by ***** of the Notice Year. If the arbitrators appointed by TVA and Alliance have not chosen the Third Arbitrator by ***** of the Notice Year, then the parties shall apply to the American Arbitration Association for appointment of the Third Arbitrator.

Fifteen (15) days following the selection or appointment of the Third Arbitrator, each party shall submit in writing to the arbitrators (with a copy to the other party) any information it considers relevant to determination of the Market Price along with a written statement setting forth the party's position and the party's Proposed Price. Fifteen (15) days following any such submittal by a party, the other party may submit to the arbitrators (with a copy to the other party) a written response together with any additional information the party considers relevant to determination of the Market Price. The arbitrators shall consider only the written information submitted by the parties and shall render their decision on or before ***** of the Notice Year. The arbitrators shall select either the Proposed Price submitted by TVA or the Proposed Price submitted by Alliance, whichever the arbitrators determine to be closest to the Market Price.

The decision of the arbitrators shall be by majority vote (each of the three arbitrators having one vote) and shall be final and binding, and each party hereby consents to the entry of judgment by any court having jurisdiction in the matter in accordance with the decision of the arbitrators. The price for the 1.0 million tons effective ***** of the Reopener Year and used in the weighted average calculation to determine the new Mine Price shall be the Proposed Price that is selected by the arbitrators.

Each party shall bear its own legal expenses and fees paid to its selected arbitrator, and the fees of the neutral arbitrator and any other costs of arbitration shall be shared equally between the parties.

f. In calculating the Mine Price pursuant to this Section 6, all percent change calculations shall be at two decimal places and all cost per ton calculations shall be at two decimal places. Illustrative examples of making adjustments to the Mine Price pursuant to this Section 6 are set forth in Exhibit I, attached hereto, and by reference, incorporated herein.

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7. Sampling and Analysis:

Alliance Sampling/Alliance Analysis.

a. Alliance or third party collected samples shall be used for the quality adjustment(s) for each quarter under Section 8, Adjustments for Quality, provided all samples for such quarter meet all criteria below:

(1)***** percent (*****%) of shipments shall have been sampled and analyzed in accordance with the methods described in the latest published edition of the Annual Book of ASTM Standards. Samples must have been collected utilizing mechanical systems meeting ASTM D *****, Collection of a Gross Sample of Coal, which have been shown to be free of statistically significant bias within the past year. The bias testing procedure and precision used must be in accordance with ASTM standards. Systems will be subject to a critical inspection according to ASTM D***** at least every year.

(2) TVA shall have the right to approve any laboratory that performs analyses hereunder, and the laboratory will be subject to inspection and/or audit prior to approval, and annually thereafter if TVA elects to conduct such inspections or audits at TVA's expense. Analysis procedures used should be as follows unless otherwise approved in writing by TVA:

<u>Parameter</u>	<u>Method</u>
Residual Moisture	ASTM D *****
Air Dry Moisture	ASTM D *****
Ash	ASTM D *****
Sulfur	ASTM D *****
Btu	ASTM D *****

(3) Sample analysis (total moisture, ash, sulfur, and Btu) and other data required by TVA to match data with shipment shall be provided to TVA in a format approved by TVA.

(4) The lot size for each sample shall be by barge load for barge coal, by trainload for rail coal, and by daily truck deliveries for truck coal.

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(5) Analysis for each sample shall have been received by TVA by electronic data interchange within seven (7) days of collection of said sample.

(6) The sampling system shall be located in an area acceptable to TVA such that the sample collected for shipment is collected only from coal that is loaded for said shipment.

b. In the event Alliance's mechanical sampling system at an Approved Source Mine is not operating due to mechanical, electrical, or operational failure, Alliance shall immediately notify TVA in writing after which TVA shall have the right to take samples and perform the quality analysis in accordance with the above criteria under this Subsection 7.a. of the coal delivered during the period of time that Alliance's mechanical sampling system is not operational. If TVA does not perform the sampling and analysis for coal delivered during the period which Alliance's sampling system is not operational, the analysis of such shipments shall be deemed to be the weighted average analysis of the previous ***** shipments from such affected Approve Source Mine.

c. Alliance agrees to ensure that all sampling equipment is properly maintained and adjusted so that each sample taken is proportionate and representative of the coal delivered. TVA or its designated representative may, at any and all times and without the necessity of providing prior notice to Alliance, observe any sampling or sample preparation performed by Alliance. Alliance shall furnish the results of bias tests on the sampling system within 30 days of the date of such tests, and the results must be acceptable to TVA. The sample system shall be bias tested (batch interval of all system components), and shown to be free of statistically significant bias, at least every twelve (12) months.

d. Alliance shall divide such samples into at least three parts and place in suitable airtight containers. Alliance will analyze the first part by Alliance's approved laboratory and electronically transmit the results to the Contract Administrator and all other parties designated by the Contract Administrator (TVA location or otherwise) once a week. Except as provided below, Alliance's analysis results obtained on this first part will be utilized by TVA to determine whether or not the coal covered by the sample will be unloaded at the Destination. TVA reserves the right not to unload coal until after all of the appropriate analysis is received. Alliance shall be responsible for any demurrage charges incurred by TVA as a result of Alliance's failure to transmit the analyses when and as required. TVA may reject coal

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based on these analyses in accordance with the terms of this contract. Within twenty-four (24) hours of coal loading, Alliance shall have the second part identified by such sample number analyzed by either Alliance's approved laboratory or an approved third-party laboratory. The analysis results obtained from the second part shall supersede the first part sample results and will be utilized for all contract purposes, including determining the price adjustment required to compensate for the difference between the quality of the coal actually shipped and the contract Typical Analysis. The third part ("referee sample") will be retained by Alliance, for a minimum of sixty (60) days, to be analyzed in accordance with the criteria set forth in Subsection 7.a. by an independent laboratory (to be agreed upon by TVA and Alliance) in the event of a disagreement between the parties regarding the results obtained on either of the other two parts. The results of the referee analysis will be conclusive for both parties in regard to the analysis of the sample in question. The cost of any such referee analysis shall be borne by the party that requested it.

8. Adjustment for Quality.

a. As used in this Section 8, a "Quarterly Average Value" shall mean the weighted average value of the appropriate quality component determined from all samples collected and analyzed in accordance with Section 7 during a calendar quarter based on the tonnage represented by the samples collected and the corresponding analysis.

b. For the coal accepted in each calendar quarter, an adjustment, calculated to the nearest cent per ton and using the Mine Price, shall be applied to the contract price to account for variations in the Quarterly Average Value for as-received Btu/lb. compared to the Typical Analysis for as-received Btu. (See Exhibit II for example of calculations.)

c. For the coal accepted in each calendar quarter, an adjustment, calculated to the nearest tenth of a cent per ton at a rate of either (1) \$ ***** per ton (decrease) for each percentage point the Quarterly Average Value of ash (on an as-received basis) exceeds the Typical Analysis for ash, or (2) \$ ***** per ton (increase) for each percentage point the Quarterly Average Value for ash (on an as-received basis) is less than the Typical Analysis for ash, shall be applied to the contract price. The calculation shall be prorated to cover any fractional percentage. (See Exhibit I for example of calculations.)

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d. For the coal accepted in each calendar quarter, an adjustment, calculated to the nearest tenth of a cent per ton at a rate of either (1) \$***** per ton (decrease) for each percentage point the Quarterly Average Value of moisture exceeds the Typical Analysis for Moisture, or (2) \$***** per ton (increase) for each percentage point the Quarterly Average Value for Moisture is less than the Typical Analysis for Moisture, shall be applied to the contract price. The calculation shall be prorated to cover any fractional percentage. (See Exhibit I for example of calculations.)

e. For coal accepted in each calendar quarter, an adjustment, calculated to the nearest tenth of a cent per ton at a rate of either (1) \$***** per ton (decrease) for each tenth ($\frac{1}{10}$) of a pound per million BTUs the Quarterly Average Value of sulfur dioxide exceeds the Typical Analysis for sulfur dioxide, or (2) \$***** per ton (increase) for each tenth ($\frac{1}{10}$) of a pound per million BTUs the Quarterly Average Value for sulfur dioxide is less than the Typical Analysis of sulfur dioxide, shall be applied to the contract price. The calculation shall be prorated to cover any fractional amount tenth ($\frac{1}{10}$) of a pound. (See Exhibit I for example of calculation).

f. Within forty five (45) days after the end of each calendar quarter, TVA shall submit to Alliance a report showing the Quarterly Average Values and any adjustments determined under this Section 8 of the contract. The number of tons of coal received by TVA during the calendar quarter shall be multiplied by said adjustments, and any resulting amount shall be paid promptly (or credited to the extent of any offsetting debit) to the party to whom it is due. The assessment of adjustments in accordance with the foregoing does not in any way impair TVA's rights under the contract or at law with respect to any failure by Alliance to meet the Typical Analysis that gives rise to such adjustments.

9. **Quality and Specifications.**

a. All coal delivered under this contract will be ***** # SO2 coal, except that TVA shall have the right, by providing Contractor at least 180 days prior written notice, to require that up to ***** tons of the quantity during a designated twelve month period be ***** # SO2 coal, which shall be delivered on a monthly ratable basis during such twelve month period. TVA may give such notice on more than one occasion during the term of the contract, but no part of the affected twelve month periods may overlap.

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b. All *****# SO2 coal delivered under this contract from the Webster County Coal, LLC Mine, Warrior Coal, LLC Mine, or Hopkins County Coal, LLC Mine shall conform to the following Typical Analysis on a quarterly average as determined by sampling and analyses performed in accordance with Section 7, Sampling and Analysis.

	GUARANTEE AND TYPICAL ANALYSIS ¹		REJECTION/SUSPENSION SPECIFICATIONS ³
Lbs. of SO ₂ per million Btu ²	***** lbs.	Not more than	***** Lbs.
Total Moisture	*****%	Not more than	*****%
Sulfur (as-received max.)	*****%	Not more than	*****%
Ash (as-received)	*****%	Not more than	*****%
Btu/lb. (as-received)	*****	Not less than	*****
Ash fusion temperature reducing atmosphere			
Initial	***** °F	Not less than	*****
Softening (H=W))	***** °F	Not less than	***** °F
Hemispherical (H= 1/2W)	***** °F	Not less than	***** °F
Fluid	***** °F	Not less than	***** °F
Volatile Matter (dry basis)	*****%	Not less than	*****%
Grindability (Hardgrove Index)	*****	Not less than	*****
Chlorine (dry basis) ⁴	*****%	Not more than	*****%

- (1) The Typical Analysis shall be used for the quality adjustments under Section 8.
- (2) At 97.5%.
- (3) Failure to comply with any of these specifications, other than the Chlorine specification, shall be a basis for rejections and suspensions or termination pursuant to Subsections 9.f. and 9.g.
- (4) Determination of Chlorine, for Guarantee and Typical Analysis and for Rejection/Suspension Specifications, shall be on a monthly weighted average basis of all *****# SO2

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coal delivered, provided, however, TVA may reject any individual shipment for which the chlorine (dry basis) exceeds *****% for shipments to any plants other than Widows Creek, and for shipments to Widows Creek TVA may reject any individual shipment for which the chlorine (dry basis) exceeds *****%.

c. All *****# SO2 coal delivered under this contract from the White County Coal, LLC Mine shall conform to the following Typical Analysis on a quarterly average as determined by sampling and analyses performed in accordance with Section 7, Sampling and Analysis.

	GUARANTEE AND TYPICAL ANALYSIS¹		REJECTION/SUSPENSION SPECIFICATIONS³
Lbs. of SO ₂ per million Btu ²	***** lbs.	Not more than	***** Lbs.
Total Moisture	*****%	Not more than	*****%
Sulfur (as-received max.)	*****%	Not more than	*****%
Ash (as-received)	*****%	Not more than	*****%
Btu/lb. (as-received)	*****	Not less than	*****
Ash fusion temperature reducing atmosphere			
Initial	***** °F	Not less than	*****
Softening (H=W))	***** °F	Not less than	***** °F
Hemispherical (H= 1/2W)	***** °F	Not less than	***** °F
Fluid	***** °F	Not less than	***** °F
Volatile Matter (dry basis)	*****%	Not less than	*****%
Grindability (Hardgrove Index)	*****	Not less than	*****
Chlorine (dry basis) ⁴	*****%	Not more than	*****%

- (1) The Typical Analysis shall be used for the quality adjustments under Section 8.
- (2) At 97.5%.
- (3) Failure to comply with any of these specifications, other than the Chlorine specification, shall be a basis for rejections and suspensions or termination pursuant to Subsections 9.f. and 9.g.

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(4) Determination of Chlorine, for Guarantee and Typical Analysis and for Rejection/Suspension Specifications, shall be on a monthly weighted average basis of all *****# SO2 coal delivered, provided, however, TVA may reject any individual shipment for which the chlorine (dry basis) exceeds *****% for shipments to any plants other than Widows Creek, and for shipments to Widows Creek TVA may reject any individual shipment for which the chlorine (dry basis) exceeds *****%.

d. All *****# SO2 coal delivered under this contract shall conform to the following Typical Analysis on a quarterly average as determined by sampling and analyses performed in accordance with Section 7, Sampling and Analysis.

	<u>GUARANTEE AND TYPICAL ANALYSIS¹</u>		<u>REJECTION/SUSPENSION SPECIFICATIONS³</u>
Lbs. of SO ₂ per million Btu ²	***** lbs.	Not more than	***** Lbs.
Total Moisture	*****	Not more than	*****%
Sulfur (as-received max.)	*****%	Not more than	*****%
Ash (as-received)	*****%	Not more than	*****%
Btu/lb. (as-received)	*****	Not less than	*****
Ash fusion temperature reducing atmosphere			
Initial Deformation	***** °F	Not less than	*****
Softening (H=W)	***** °F	Not less than	***** °F
Hemispherical (H= 1/2W)	***** °F	Not less than	***** °F
Fluid	***** °F	Not less than	***** °F
Volatile Matter (dry basis)	*****%	Not less than	*****%
Grindability (Hardgrove Index)	*****	Not less than	*****
Chlorine (dry basis)	*****%	Not more than	*****%

(1) The Typical Analysis shall be used for the quality adjustments under Section 8.

(2) At 97.5%.

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(3) Failure to comply with any of these specifications shall be a basis for rejections and suspensions or termination pursuant to Subsections 9.f. and 9.h.

e. The coal as-received shall have a top size that falls within the range of ***** inches as a maximum and ***** inches as a minimum with not more than ***** percent (*****%) of the product by weight being less than ***** inch, and the majority of the product by weight being less than ***** inch and with at least ***** percent (*****%) of the product larger than ***** mesh. Such sizes shall be determined by using screens with square openings. Coal shall not exhibit a temperature in excess of *****°F, and it shall be substantially free from mining impurities and scrap such as drill bits, pieces of scrap metal or plate, plastic, rubber, rope, cloth, wire, cable, bone, slate, earth, rock, pyrite, wood, or water, that can be kept out or removed with the exercise of reasonable care during mining, preparation, and loading. It shall be loaded in a manner that will ensure reasonably uniform consistency as to size and quality and shall not contain slurry pond material (washer tailings), gob pile material (mine refuse), petroleum-coke, oxidized coal, or blends of such materials, or create excessive amounts of dust during the unloading and transferring to storage.

f. If any shipment of coal delivered fails to meet any of the applicable Rejection/Suspension Specifications in Subsection(s) 9.b., 9.c., or 9.d. on the basis of laboratory analysis or the requirements of Subsection 9.e. on the basis of visual inspection, or if the chlorine specification for any shipment of *****# SO₂ coal to any plants other than Widows Creek exceeds *****% (dry basis), or if the chlorine specification for any shipment of *****# SO₂ coal to Widows Creek exceeds *****% (dry basis), TVA may reject the shipment of coal at the source, loading point, Destination, or Receiving Plant prior to unloading. TVA's acceptance of any amount of coal which does not meet these requirements shall not constitute a waiver of any right which TVA may have under this contract or as provided by law on account of the delivery of such coal. In case of rejection of any coal in accordance with this section, TVA will immediately notify Alliance of the rejection and of the cause of rejection. In the case of nonconforming coal rejected after loading, unless the cause for rejection is corrected, Alliance shall promptly remove the coal from the carrier's equipment or from TVA premises, as the case may be, at Alliance's expense. Alliance shall reimburse TVA for any additional transportation costs, demurrage, equipment repair or replacement costs, or handling expenses incurred by TVA in connection with any

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such rejection or on account of receipt of such nonconforming coal. TVA shall not be under any obligation or liability to assist Alliance in any corrective actions required to remedy the cause for rejection.

g. If any ***** shipments of coal delivered in any rolling thirty (30) day period fail to meet any of the applicable Rejection/Suspension Specifications stated in Subsection(s) 9.b. or 9.c. (except chlorine) or the requirements of Subsection 9.e. (whether rejected by TVA or not), or the monthly weighted average chlorine (dry basis) for all *****# SO2 coal exceeds *****%, TVA shall have the right to refuse to accept further deliveries of *****# SO2 coal from any or all mine sources authorized under the contract until Alliance provides assurance reasonably satisfactory to TVA that Alliance will comply with the Rejection/Suspension Specifications and the Subsection 9.e. requirements. TVA will immediately notify Alliance, in writing, of the suspension and the cause of suspension. Alliance's assurance must be given in writing within fourteen (14) days after TVA gives notice to Alliance of the beginning of such suspension. If Alliance fails to provide such satisfactory assurance within the time specified or provides such assurance but does not correct the deficiencies that resulted in Alliance's failure to comply with any of the Rejection/Suspension Specifications or the requirements of Subsection 9.e. within fourteen (14) days after giving such assurance, TVA may then terminate Alliance's right to make further deliveries under this contract. However, if TVA has suspended Alliance's right to make further deliveries under the above provision ***** times during any twelve-month period, TVA shall have the immediate right, at its option, upon the ***** such violation occurring within any twelve (12) month period following the ***** such violation, to terminate Alliance's right to make further deliveries under this contract. Alliance shall be responsible for all costs incurred by TVA resulting from Alliance's failure to comply with the contract requirements and TVA's remedy for any resulting deficiency in deliveries shall be in accordance with Section 11, Remedies.

h. If any ***** shipments of coal delivered in any rolling thirty (30) day period fail to meet any of the applicable Rejection/Suspension Specifications stated in Subsection(s) 9.d (whether rejected by TVA or not), TVA shall have the right to refuse to accept further deliveries of *****# SO2 coal from any or all mine sources authorized under the contract until Alliance provides assurance reasonably satisfactory to TVA that Alliance will comply with the Rejection/Suspension Specifications stated in

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Subsection(s) 9.d. TVA will immediately notify Alliance, in writing, of the suspension and the cause of suspension. Alliance's assurance must be given in writing within fourteen (14) days after TVA gives notice to Alliance of the beginning of such suspension. If Alliance fails to provide such satisfactory assurance within the time specified or provides such assurance but does not correct the deficiencies that resulted in Alliance's failure to comply with any of the Rejection/Suspension Specifications stated in Subsection(s) 9.d within fourteen (14) days after giving such assurance, TVA may then terminate Alliance's right to make further deliveries of *****# SO2 coal during the remaining nominated delivery period. Alliance shall be responsible for all costs incurred by TVA resulting from Alliance's failure to comply with the contract requirements and TVA's remedy for any resulting deficiency in deliveries shall be in accordance with Section 11, Remedies.

i. If the normal operations in conformance with the design capabilities of a Receiving Plant cannot be accomplished with the coal delivered hereunder, although the coal complies with the quality and size requirements of this Section 9, TVA may (i) if such Receiving Plant is the only fossil plant receiving coal hereunder, then terminate Alliance's right to make further deliveries, and this contract shall be canceled without further obligation or liability to either party (other than payment obligations for prior performance hereunder); or (ii) if there is more than one Receiving Plant receiving coal hereunder, then reduce the schedule of deliveries and the Annual Contract Tonnage under the contract by the amount that otherwise would have been received at the affected Receiving Plant for the remainder of the contract term . In the event of such a termination or reduction in deliveries and reduction of the Annual Contract Tonnage, Alliance shall have the right of first refusal to supply any replacement coal.

10. Contract Price Adjustments

a. The then current adjusted Mine Price of coal delivered under this contract as specified in Section 6, Price will be subject to adjustment under this Section 10.

b. *****

If the Governmental Imposition occurs after ***** and if the Governmental Imposition directly increases or decreases the cost of supplying coal to TVA hereunder, either party may provide written

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notice of such Governmental Imposition to the other party, including (i) a description of the Governmental Imposition; (ii) an explanation of the effect of the Governmental Imposition on the cost of supplying coal under this Agreement, including but not limited to the cost increase impact of lost productivity due to complying with a Governmental Imposition; (iii) the identification of the effective date of the increase or decrease in cost; and (iv) accurate and detailed information, including any computations or data, reasonably necessary to substantiate the resulting increase or decrease to the Mine Price, and the Mine Price shall be so increased or decreased as of the effective date of the increase or decrease in cost and shall remain in effect until a new Mine Price, determined pursuant to Section 6 after the effective date of such increase or decrease, becomes effective. ***** Any increase or decrease adjustment made under the provisions of this Subsection 10.b. shall be calculated separately on a cents per ton basis at two decimal places. Any adjustment made pursuant to the provisions of this Section 10 shall be subject to TVA's verification and audit as provided in Section 21 of this contract.

c. *****

d. *****

e. Any price increase(s) under this Section 10 shall not include payment for any portion of: Alliance's general and administrative expenses or other corporate and overhead expenses, or indirect costs or expenses; legal expenses; fines for violation of any law or regulation; any taxes, fees, or assessments not levied directly on the mining or production of coal; or costs of or related to any Federal, State, or local sales taxes, use taxes, income taxes, property taxes, franchise or privilege taxes, employment taxes, gross receipts taxes, ad valorem taxes (on real and personal property).

f. Alliance agrees that, in the event TVA reimburses Alliance under this Section 10 for a cost incurred by Alliance and it is later determined that Alliance is entitled to recover such cost from a third party, at TVA's written request, Alliance shall use reasonable efforts to recover such cost and upon such recovery shall reimburse TVA for amounts previously paid by TVA based on said cost. Reasonable costs incurred by Alliance in pursuing such recovery at TVA's request shall be reimbursed by TVA; provided that where Alliance and/or other purchasers from Alliance also receive a benefit from pursuing such recovery, the cost thereof shall be equitably shared.

g. *****

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11. **Remedies.**

a. This Subsection 11.a. does not apply to a situation where another contract provision provides a different procedure, such as Subsection(s) 9.f., 9.g., 9.h. and 9.i., Subsections 11.b. and 11.c., and Section 15. If either party in good faith believes that the other has failed to comply with any term or condition of this contract, the party shall give the other oral notice, to be followed by written confirmation, of any such violation.

(i) If Alliance fails to correct a curable contract violation within ten (10) days of first notice, TVA shall have the right to suspend Alliance's right to make further deliveries until Alliance provides adequate assurance to TVA that Alliance will comply with all provisions of this contract, such assurance to be given in writing within ten (10) days after such suspension. If Alliance fails to provide such adequate assurance within the time specified or timely provides such satisfactory assurance but Alliance does not correct the curable contract violation(s) within ten (10) days after giving such assurance, TVA shall have the right, but not the obligation, to terminate Alliance's right to make further deliveries under this contract.

(ii) In the case of a contract violation by Alliance that is not curable (including, but not limited to, violations of Section 5, Source, of this contract or of Section 26, Officials Not to Benefit, upon providing notice as described above, TVA shall have the immediate right, but not the obligation, to terminate, or suspend for up to thirty (30) days, Alliance's right to make further deliveries under this contract. If TVA suspends Alliance's right to make further deliveries, then, upon expiration of said thirty-day period, TVA shall either direct Alliance to continue performance of this contract or terminate Alliance's right to make further deliveries.

(iii) If TVA fails to correct a curable contract violation within ten (10) days of written notice, Alliance shall have the right to suspend TVA's right to receive further deliveries until TVA provides adequate assurance to Alliance that TVA will comply with all provisions of this contract, such assurance to be given in writing within ten (10) days after such suspension. If TVA fails to provide such adequate assurance within the time specified or timely provides such satisfactory assurance but TVA does not correct the curable contract violation(s) within ten (10) days after giving such assurance,

Alliance shall have the right, but not the obligation, to terminate TVA's right to receive further deliveries under this contract.

b. If in any Contract Year, Alliance fails to schedule or deliver the annual contract quantity of coal hereunder and such failure is not excused pursuant to Subsection 4.b. or by TVA's failure to perform, the following shall apply:

- (i) if the deficiency resulting from such failure is less than or equal to five percent (5%) of the annual contract quantity, it shall be scheduled and delivered in the following Contract Year at the Mine Price in effect during the Contract Year of such deficiency;
- (ii) if the deficiency resulting from such failure is greater than five percent (5%) but less than or equal to fifteen percent (15%) of the annual contract quantity, TVA shall have the right to recover damages for such failure as provided in Subsection 11.d. based on the full amount of the deficiency; and
- (iii) if the deficiency resulting from such failure is greater than fifteen percent (15%) of the annual contract quantity, TVA shall have the right to exercise the remedies provided in Subsection 11.a. and recover damages as provided in Subsection 11.d.

The remedies provided in this Subsection 11.b. and Subsection 11.d. shall be TVA's sole and exclusive remedies for Alliance's unexcused failure to deliver the quantity of coal required under this contract.

c. If in any Contract Year, TVA fails to schedule or accept the annual contract quantity of coal hereunder and such failure is not excused pursuant to Subsection 4.b. or by Alliance's failure to perform, the following shall apply:

- (i) if the deficiency resulting from such failure is less than or equal to five percent (5%) of the annual contract quantity, it shall be scheduled and delivered in the following Contract Year at the Mine Price in effect during the Contract Year of such deficiency;
- (ii) if the deficiency resulting from such failure is greater than five percent (5%) but less than or equal to fifteen percent (15%) of the annual contract quantity, Alliance shall have the right to recover damages for such failure as provided in Subsection 11.e. based on the full amount of the deficiency; and

-
- (iii) if the deficiency resulting from such failure is greater than fifteen percent (15%) of the annual contract quantity, Alliance shall have the right to exercise the remedies provided in Subsection 11.a. and recover damages as provided in Subsection 11.e.

The remedies provided in this Subsection 11.c. and Subsection 11.e. shall be Alliance's sole and exclusive remedies for TVA's unexcused failure to accept delivery of the quantity of coal required under this contract.

d. Subject to Subsection 11.f., Alliance shall be responsible for all costs or damages incurred by TVA resulting from Alliance's failure to comply with the contract requirements. TVA may, at its option, purchase in the open market or by contract or otherwise procure coal to replace all or any part of that which Alliance has failed to deliver, except as provided in Subsection b. of Section 4, Variations, Delays, and Interruptions in Deliveries Due to Circumstances of Force Majeure, or that as to which Alliance's right to deliver was terminated or suspended. Alliance shall be liable to TVA for the excess cost occasioned by such purchase(s) and any other loss or damage caused by Alliance's breach of the contract, including, but without limitation to, liability incurred by TVA with respect to the transportation or other handling of the coal. In addition to all other means of recovery, TVA may deduct any such excess costs and damages from any amount otherwise due Alliance under this contract or otherwise.

Unless TVA determines that the following method of calculating damages is not practical and TVA notifies Alliance in writing that TVA's damages will be calculated in some other commercially reasonable manner, (1) the weighted average price of the offered coal used for replacement coal purposes (of comparable quality under one or more contracts) which TVA purchases at the next awarding of term or spot contracts for delivery to the Receiving Plants as would be required to replace coal which was scheduled for delivery under this contract after the date Alliance's right to make deliveries under this contract was terminated shall be deemed to be the price of coal purchased as replacement coal for Alliance's account; and (2) for unexcused deficiencies occurring before termination or contract expiration, the weighted average price of coal (of comparable quality under one or more contracts) which TVA receives under spot contracts in the week following each such deficiency (or if none, then the first sale under spot contract following each such deficiency), for delivery to any plant in the TVA system, as

equals the quantity of Alliance's deficiency shall be deemed to be the price of coal purchased as replacement coal for Alliance's account. If no spot coal was purchased before contract termination or expiration, TVA shall determine damages for all unexcused deficiencies in the manner provided in item (1) above, whether such deficiencies accrued before or after termination or expiration. The remedies provided in Subsection 11.b. and this Subsection 11.d. shall be TVA's sole and exclusive remedies for Alliance's unexcused failure to deliver the quantity of coal required under this contract.

e. Subject to Subsection 11.f., TVA shall be responsible for all costs or damages incurred by Alliance resulting from TVA's failure to comply with the contract requirements. Alliance may, at its option, sell in the open market or by contract or otherwise sell all or any part of the coal which TVA has failed to purchase, except as provided in Subsection b. of Section 4, Variations, Delays, and Interruptions in Deliveries, or that as to which TVA's right to purchase was terminated or suspended. TVA shall be liable to Alliance for the loss occasioned by such sale(s) and any other loss or damage caused by TVA's breach of the contract, including, but without limitation to, liability incurred by Alliance with respect to the transportation or other handling of the coal. In addition to all other means of recovery, Alliance may deduct any such excess costs and damages from any amount otherwise due TVA under this contract or otherwise.

Unless Alliance determines that the following method of calculating damages is not practical and Alliance notifies TVA in writing that Alliance's damages will be calculated in some other commercially reasonable manner, (1) the weighted average price of coal (of comparable quality under one or more contracts) which Alliance sells at the next awarding of term or spot contracts for the sale of coal as would be required to replace coal which was scheduled for delivery under this contract after the date TVA's right to purchase coal under this contract was terminated shall be deemed to be the price of coal sold as replacement coal for TVA's account; and (2) for unexcused deficiencies occurring before termination or contract expiration, the weighted average price of coal (of comparable quality under one or more contracts) which Alliance sells under spot contracts in the week following each such deficiency (or if none, then the first sale under spot contract following each such deficiency), shall be deemed to be the price of coal sold as replacement coal for TVA's account. If no spot coal was sold before contract termination or expiration, Alliance shall determine damages for all unexcused deficiencies in the manner

provided in item (1) above, whether such deficiencies accrued before or after termination or expiration. The remedies provided in Subsection 11.c. and this Subsection 11.e. shall be Alliance's sole and exclusive remedies for TVA's unexcused failure to accept delivery of the quantity of coal required under this contract.

f. NEITHER PARTY SHALL BE LIABLE TO THE OTHER FOR ANY SPECIAL, INDIRECT, OR CONSEQUENTIAL DAMAGES ARISING OUT OF THE PERFORMANCE OR NON-PERFORMANCE OF THIS AGREEMENT, INCLUDING, WITHOUT LIMITATION, LOSS OF PROFITS OR OVERHEAD, WHETHER BASED UPON BREACH OF CONTRACT, NEGLIGENCE OR OTHER LEGAL THEORY, AND REGARDLESS OF THE FAULT OR THE CONCURRENT NEGLIGENCE OF THE PARTIES.

12. Notices.

Unless otherwise provided for in the contract, any contractual notice required to be given to either party shall be given by registered, certified, or first-class mail, electronic facsimile, or e-mail, or overnight private delivery service (e.g., FedEx) to the intended party at the following address or at such changed address as may from time to time be designated in a notice similarly delivered or mailed. Notice by registered, certified, or first-class mail shall be deemed to have been received three (3) business days following the day it was sent, subject to confirmation of successful delivery. Notice by overnight private delivery service (e.g., FedEx) shall be deemed to have been received on the first business day following the day it was sent, subject to confirmation of successful delivery. Notice by electronic facsimile or e-mail shall be deemed to have been received by the close of the business day on which it was transmitted (unless transmitted after close of the business day of the recipient in which case it shall be deemed received at the close of the next business day) or such earlier time as is confirmed by the receiving party. Communications by electronic facsimile or e-mail shall be confirmed by depositing, within two business days following the day the communication was sent by electronic facsimile or e-mail, a copy of the same in the post office for transmission by registered, certified, or first-class mail, or provided to a private overnight delivery service (e.g., FedEx), in an envelope properly addressed as follows:

In the case of Alliance to:
General Manager – Contract Administration
Alliance Coal, LLC
1717 South Boulder Avenue-Suite 400
Tulsa, Oklahoma 74119-4886
Phone: 918-295-7619
Electronic facsimile: 918-295-7360
E-mail: brad.shellenberger@arlp.com

In the case of TVA to:
Contract Administrator- Connie Gazaway
Tennessee Valley Authority
Fossil Fuels
1101 Market Street, MR 2A-C
Chattanooga, Tennessee 37402-2801
Phone: 423-751-3247
E-mail: csgazaway@tva.gov

Notice sent by electronic facsimile or e-mail shall remain valid even if the same is not confirmed by the dispatch of a mailed or overnight private delivery service copy of such communication, provided the receipt of such e-mail or electronic facsimile communication is confirmed by the receiving party.

Either party may, by written notice to the other, change the representative or the address to which such notices and communications are to be sent.

13. Shipping Notices.

a. For all coal shipped under this contract, Alliance shall forward to the Contract Administrator and all other parties (TVA location or otherwise) as designated by the Contract Administrator a daily notification as to coal shipped. This shipping notice must include the contract number, Release number, traffic control numbers, railcar/barge/truck numbers, origin, name of mine, size of coal, shipping date, and such other relevant information as TVA may from time to time require. TVA shall have the right to require Alliance to transmit all of the above-referenced information via electronic data transfer direct to TVA's computer system. Alliance's system must be compatible with TVA's computer system.

b. Alliance must take whatever steps are necessary to ensure that shipping notices are received by the Contract Administrator and all other parties as designated by the Contract Administrator at least 48 hours prior to arrival of the coal at the Destination. The Destination will not unload coal until a correct shipping notice is received, and Alliance will be responsible to carrier or TVA for any demurrage charges resulting from delays due to late or incomplete notification.

14. Transportation.

a. Transportation and cost of transportation from the f.o.b. point of sale to the Destination shall be the responsibility of TVA. Title to the coal and risk of loss and damage shall pass to TVA at the f.o.b. origin point of sale. TVA reserves the right to specify reasonable limitations on the type and size of transportation equipment, the method of transportation (including trainload lots where lots are necessary to provide the lowest transportation rate possible), and the exact routing to be used. TVA may reject any shipment made in disregard of such specifications.

b. For all coal to be delivered hereunder, it shall be Alliance's responsibility to load the coal into carrier's rail cars and to furnish loading devices which shall be suitable and fit for the purpose. Alliance shall be governed by carrier's instructions regarding the height and distribution of the load, weight of cargo, and other instructions which carrier deems necessary for safe transportation. Alliance shall allow carrier's inspection of loaded equipment to assure compliance with carrier's loading instructions.

c. For all coal shipped, it shall be Alliance's responsibility to visually inspect the transportation equipment prior to each loading and ascertain that the equipment is empty and suitable for loading. Any equipment found mechanically unsound for loading or contaminated with material shall not be loaded. Alliance shall not load any railcars with open doors. Alliance shall be responsible for all costs incurred by TVA, including the cost of any coal lost in transit, resulting from Alliance's failure to comply with these requirements.

d. For all coal purchased for delivery by rail, Alliance shall be responsible for loading each car to the appropriate capacity as required by the rail carrier. In addition, each trainload shipment tendered under this contract shall be loaded to the minimum trainload weight as required by the

rail carrier. Alliance's account will be charged with any charges assessed to TVA because of Alliance's failure to observe any minimum weight loading requirements. The gross weight of each car shall not exceed the maximum allowed by the carrier. If cars are found to be loaded in excess of such maximum, it shall be Alliance's responsibility to correct the load at Alliance's expense, including but not limited to, Alliance's payment to the carrier of a per car switching charge, as well as any demurrage charges which may accrue while the car or cars await correction in load.

e. For all coal purchased hereunder, Alliance shall be responsible for any demurrage that accrues at any loading point as a result of Alliance not being prepared to load the coal. The carrier shall invoice Alliance and Alliance shall pay said carrier for all origin demurrage charges which accrue at the loading point(s). Alliance agrees to comply with the terms and conditions of TVA's rail transportation agreement(s) with respect to loading, so long as such terms and conditions are provided to Alliance in advance and are in accordance with industry standards.

f. The explicit obligation of this contract is that it will be performed in accordance with all applicable laws. Therefore, transportation of coal by Alliance to rail loading facilities shall comply with applicable highway laws and regulations governing the weight of vehicles. If Alliance fails to comply with such laws or regulations, TVA shall have the same rights provided under Section 9, Quality and Specifications, for failure to meet the requirements thereof, including but not limited to the right to reject coal delivered in overweight trucks. To insure compliance with this provision and to help protect the roads and highways, TVA may require that Alliance furnish a copy of the "certified" truck weight ticket. Regardless of the actual weight of any truck coal received, the maximum gross weight that can be recorded for a single truck will be limited to the applicable maximum weight enforced by law. Any weight exceeding that maximum weight may be deducted from the total weight of coal used for payment purposes.

g. TVA reserves the right to ship to any plant or other location any coal purchased hereunder. For coal purchased f.o.b. railcar, TVA may, by giving prior written notice to Alliance as soon as possible but not later than thirty (30) days in advance, change the transportation mode of delivery and/or direct deliveries to another location, and if such change in mode causes an increase or decrease in loading costs borne by Alliance in performing this contract, an adjustment shall be made in the contract

price to reflect the changes in such costs. TVA may change the Destination or Receiving Plant at any time without the necessity of providing notice to Alliance, although prior written notice shall be provided at least thirty (30) days in advance if the transportation mode of delivery is changed.

h. Alliance shall make commercially reasonable efforts to treat the coal with freeze control agents or other additives as directed by TVA. TVA shall reimburse Alliance for the actual cost of materials, plus ten percent as reimbursement for application costs, as applicable for application of the freeze control agents or other additives.

i. Alliance warrants that it shall have good and marketable title to coal and shall provide such coal to TVA, free and clear of all claims, liens, security interests, encumbrances, or an interest therein or thereto by any person arising prior to the transfer of title to TVA. Alliance shall indemnify, defend, and hold harmless TVA from any and all claims arising from the failure of this warranty.

15. **Payments, Invoices.**

Payments under this contract are subject to the provisions of the Prompt Payment Act (31 U.S.C. Sections 3901-3907). Payments as are provided for in the contract or by law will be made by Electronic Fund Transfer (EFT). EFTs will be made not more than thirty (30) calendar days after the later of (1) receipt of a proper invoice(s) by TVA at the Accounts Payable Department, P.O. Box 15500, Knoxville, Tennessee 37901-5500 or (2) receipt and unloading of the coal at the Destination. In preparing invoices, Alliance shall multiply the number of tons delivered by the Mine Price applicable at the f.o.b. point of delivery plus or minus any adjustments that have been made effective under contract provisions.

For purposes of this provision only, "proper invoice" shall mean a numbered and dated invoice containing the complete name of Alliance, agent's name (if any), contract number, Release number, Destination, total amount due, correct weights (as defined below), traffic control number, shipping date, mine at which the coal was produced, together with any documentation required to be submitted therewith by any other provision of the contract.

For freeze conditioning invoices, or invoices for anything other than the tons delivered at the Mine Price, the invoices should be mailed, faxed, or e-mailed to the Contract Administrator using the notification information in Section 12.

16. **Weights.**

Coal will be weighed or measured by TVA, Alliance, or independent laboratory technician (using scales or other appropriate method approved by TVA) at the location where samples are collected for payment purposes. Except as specifically provided below, Alliance-provided weights will be used for contract purposes where this contract provides that Alliance samples are used for payment purposes, and TVA's weights will be used for contract purposes when this contract provides that TVA's samples are used for payment purposes. When Alliance-provided weights are used, said weight will be reported to TVA by electronic facsimile or as designated by the Contract Administrator for each shipment of coal hereunder. TVA shall have the right to have a representative present, at TVA's sole risk and expense, at any and all times and without the necessity of providing prior notice to Alliance, during TVA loadings to observe determination of weights. Alliance shall notify TVA immediately upon the occurrence of inaccurate weighing or absence of actual weighing. Alliance shall confirm such notification in writing to TVA within seven (7) working days of the date of each such occurrence. Such confirmation shall identify each affected coal shipment by contract number, Release number, shipping point, traffic control number, shipping date, and car/barge/truck number(s). Alliance's account shall be adjusted for any coal inaccurately weighed, or not weighed, such adjustment to be made at whatever time such occurrence(s) becomes known to TVA.

All scales and weighing devices used by Alliance to determine the governing weight of coal shall be certified by the appropriate regulatory authority or a railroad and shall be material tested annually by an independent third party at Alliance's expense. Such scales and weighing devices shall comply with the National Institute of Standards and Technology Handbook 44 and shall be installed, maintained, and operated according to manufacturers' recommendations.

If Alliance-provided weights are to be used, and Alliance fails to provide proper weights, TVA weights will be the means by which the weight of coal sold, delivered, and purchased hereunder shall be determined. Alliance shall reimburse TVA for any cost or expense charged to or incurred by TVA as a result of the absence of proper weights from Alliance, and TVA may elect to have TVA's sampling and analysis govern for quality adjustment purposes as to any coal not properly weighed by Alliance.

While TVA may not undertake to weigh all coal received, it may at its option check weigh any coal received. In the event invoiced weights exceed TVA weights by more than one and one-half percent (1.5%) per month, TVA's weights will govern.

Scale tests shall be performed more often than annually if reasonably requested by TVA. TVA shall be responsible for the cost of additional (more than annual) requested tests unless the results thereof show that the scale failed to conform to certification standards, in which event Alliance shall be responsible for such costs.

If Alliance's weighing devices or methods are determined by said independent third party to be in error over 0.5%, an appropriate adjustment shall be made, either upward or downward, to the affected weights and related invoices and payments. Such adjustments shall be made retroactively to a date midway between the date on which the weighing devices were last tested and calibrated and the date on which the inaccuracy in weighing methods or devices was first questioned and prospectively until the date on which the weighing methods and devices are corrected.

If scales at the applicable mine determine the weight for less than all of the railcars in a single trainload lot, then the average railcar weight for the last three trainload lots to TVA, for trains that contained railcars all of the same capacity as the unweighed cars, shall be determined by dividing the trainload lots' weight by the number of railcars in the trainload lots. The average railcar weight shall be multiplied by the number of railcars in the unweighed or partially unweighed trainload lot to determine the trainload lot weight.

17. Contract Administrator/Contracting Officer.

The Manager of Coal Acquisition and Supply has designated the Contract Administrator who administers this contract for TVA to act on behalf of TVA for all purposes in the administration of this contract, such designation to continue until revoked or modified by the Manager of Coal Acquisition and Supply. The Contract Administrator shall serve as TVA's "Contracting Officer" with respect to matters arising under terms of this contract that provide for action by the Contracting Officer.

18. Governing Law and Venue.

a. TVA is a corporate agency and instrumentality of the United States and this Contract shall be governed by and construed under Federal law. In the event Federal law does not provide a rule of decision for any particular disagreement, the law of the State of Tennessee shall apply; provided, however, in no event shall Tennessee's choice of law provisions apply. Unless otherwise agreed in writing, the parties shall continue to perform their obligations under this contract during the pendency of any dispute and shall not interfere with, restrict, or discourage such continuing performance, and shall continue to make undisputed payments in accordance with the terms of this contract.

b. The parties will use their best efforts to resolve disputes informally at the lowest possible levels of decision making, and consensual alternative dispute resolution processes may be used. The parties agree that any lawsuit between them that asserts a claim or claims arising out of or related to this Contract (whether sounding in contract, tort, or otherwise) shall be filed and litigated to conclusion only in the United States District Court for the Eastern District of Tennessee, and each party hereby consents to the jurisdiction and venue of that court for all such lawsuits. The Parties further agree that in any such litigation each will stipulate to have a United States Magistrate Judge conduct any and all proceedings in the litigation in accordance with 28 U.S.C. § 636(c) and Fed. R. Civ. P. 73, and each will waive any right it may have to a trial by jury.

c. This clause is not a "disputes" clause within the meaning of the Contract Disputes Act, 41 U.S.C. §§ 601-613, and this Contract is not subject to that Act.

19. Clean Air Act and Other Environmental Requirements.

In the event of enactment, implementation, amendment, or enforcement of the Clean Air Act, as amended (the “CAA”), or any other applicable federal, state, or local air pollution control or any other applicable environmental law, rule, or requirement (including the judgment, order, or directive of any court or governmental authority with respect to the CAA or any other environmental law) which causes the continued use of the coal purchased under this contract to be inconsistent with (i) TVA’s air pollution control or other environmental strategies, as they may be modified for meeting such air pollution control or environmental requirements, or (ii) an administrative, regulatory, or judicial order, TVA may cancel this contract with no further obligation or liability hereunder or at law by giving Alliance one hundred eighty (180) days’ advance notice of such cancellation. In the case of inconsistency with TVA’s air pollution control or other environmental strategies, the parties will attempt to renegotiate the contract during such notice period to provide for delivery of coal that will be of a quality consistent with TVA’s new air pollution control or other environmental strategies. In the event the parties do not reach agreement on such a renegotiated contract within the 90-day notice period, the cancellation notice given by TVA shall remain in effect and the contract shall terminate at the end of such period. In no event will TVA be obligated to divert deliveries from any affected Receiving Plant(s) to any alternate coal-fired fossil plant in TVA’s system. As used in this Section 19, environmental laws and environmental strategies can include, but are not limited to, matters related to the CAA, the Clean Water Act, the storage and disposition of coal combustion by-products (coal ash and slag), and any Federal, State, or local laws dealing with the environment and/or the environmental impact of the operation of TVA plant(s) receiving coal under this contract.

20. Credit Evaluation and Performance Assurance

20.1 Guaranty. Concurrent with the execution of this contract, Alliance shall furnish Performance Assurance for the protection of TVA in the form of a Guaranty from Alliance Resource Partners, L.P. (“ARLP”) (Guarantor), the parent company of Alliance, in a form attached hereto as

Exhibit III. TVA may request an increase in the Guaranty or additional Performance Assurance if the dollar amount of this contract is increased due to either an extension in the term and/or increase in the contract quantity.

20.2 Material or Adverse Change in Alliance's Financial Condition.

a. As a condition of this contract, TVA shall have the right to deliver a written demand to Alliance, within seven (7) business days of any Material Adverse Change in ARLP's financial condition. For the purposes of this Contract, a Material Adverse Change in ARLP's financial condition shall consist of the following:

b. Senior unsecured debt rating of ARLP's subsidiary Alliance Resource Operating Partners, L.P. ("AROP") is below the level of BB- as defined by Fitch Ratings. ARLP shall provide TVA with a copy of AROP's Fitch Ratings report on at least an annual basis, a copy of any new rating for AROP issued by Fitch Ratings and written notice to TVA at any time a credit rating is no longer issued on AROP by Fitch Ratings.

c. If there is a Material Adverse Change in ARLP's financial condition, TVA may require Alliance to provide Performance Assurance, as outlined in Subsection 20.5, within five (5) business days, in an amount and form approved by TVA. If Alliance fails to provide Performance Assurance, then Alliance may be deemed to be in default under the terms of this Contract.

d. The Performance Assurances shall remain intact until (a) AROP's senior unsecured debt ratings returns to the Fitch Ratings level set forth in Subsection 20.2 b. or (b) the Contract has expired, whichever occurs first.

20.3 Material or Adverse Change in TVA's Financial Condition.

a. As a condition of this contract, Alliance shall have the right to deliver a written demand to TVA, within seven (7) business days of any Material Adverse Change in TVA's financial condition. With respect to TVA, and for the purposes of this Contract, a Material Adverse Change shall consist of the following:

b. Senior unsecured debt ratings, by each of the three following rating services, are below the levels of, BB- as defined by Standard & Poor's, Ba3 as defined by Moody's Investor Service,

and BB- as defined by Fitch Ratings, or such credit ratings are no longer issued on an annual basis by each of the these three rating services.

c. If there is a Material Adverse Change in TVA's financial condition, Alliance may require TVA to provide Performance Assurance, as outlined in Subsection 20.5, within five (5) business days, in an amount and form approved by Alliance. If TVA fails to provide Performance Assurance, then TVA may be deemed to be in default under the terms of this Contract.

d. The Performance Assurances shall remain intact until (a) TVA's senior unsecured debt ratings returns to at least two of the three debt rating levels set forth in Subsection 20.3 b. or (b) the Contract has expired, whichever occurs first.

20.4 Ongoing Credit Evaluation & Monitoring. Both ARLP and TVA shall, upon request, provide the following to the requesting party, provided the financial information is not publicly available on its website or on EDGAR:

a. Financial Statements:

1. Annual report on Form 10-K for the last three (3) preceding fiscal years
2. Form 10-Q for the most recent fiscal period.

20.5 Types of acceptable Performance Assurance ("Performance Assurance"). The types of Performance Assurance that may be required by either TVA or Alliance include, but are not limited to:

a. Letter of Credit – an irrevocable Letter of Credit issued by a domestic financial institution that has a long-term unsecured debt rating by Standard & Poor's of A- or higher, or by Moody's Investors Service of A3 or higher

b. Cash Deposit

c. Various combinations of the foregoing or other performance assurance as determined by the requesting party

20.6 In the event the parties hereto fail to agree on the form and/or amount of Performance Assurance or different terms of payment within ten (10) business days of receipt of the requesting party's

request for Performance Assurance, then the requesting party shall have the right to withhold or suspend deliveries, or terminate this Agreement, which rights shall be the requesting party's sole and exclusive remedies. The parties hereby acknowledge such sole and exclusive remedy rights are in lieu of any and all other rights pertaining or related to the right to demand Performance Assurance that either party may have under this Contract or law.

20.7 Notwithstanding anything to the contrary set forth in Section 20 hereinabove, a Material Adverse Change shall not be deemed to have occurred with respect to Alliance or its Guarantor, ARLP, in the event during the term of this Agreement TVA's failure to take delivery of its minimum tonnage obligations under this Agreement or any other contract with Alliance or Alliance's coal producing affiliates is a contributing cause to the Material Adverse Change in ARLP's financial condition.

21. Verification of Data, Inspection of Records and Mine Sources.

TVA, its employees, agents, or representatives, shall have the right, after prior notice and at a reasonable time to inspect Alliance's or, if applicable, its producer's records and mines and related facilities to verify the accuracy of the data supplied by Alliance to support its request for price adjustments or to establish Alliance's actual cost change under section 10, Contract Price Adjustments, and for purposes of determining Alliance's compliance with the provisions of this contract. Information obtained by TVA, its employees, agents, or representatives, in examining Alliance's or its producer's records or inspecting Alliance's or its producer's mines shall not be disclosed to third parties without Alliance's consent, unless disclosure is ordered by a court of competent jurisdiction, is made for purposes of any litigation or proceeding (judicial, administrative, or investigatory) involving this contract, or is otherwise required by law.

22. Coal Mining Reclamation and Conservation Requirements.

The following TVA reclamation and conservation requirements are applicable to all contracts for the purchase of coal:

22.1 TVA Policy On Areas From Which Coal Will Be Procured: Coal Mining - Land and Water Resource Protection. TVA accepts no coal mined from locations in or near areas officially designated by state or federal agencies, or identified by TVA, as wild or scenic river areas, wild, wilderness, natural, scenic, public recreation areas or under study pursuant to legislative authority for any such official designation, except where special circumstances exist. No coal will be accepted from locations in or near areas designated under legislative authority as potential sites for the above uses unless, after coordination with the appropriate agencies, TVA determines that the coal can be mined without substantially adversely affecting the area's potential for such use. In such cases and also in cases involving offerings of coal from mines in or near other visually important areas such as major highways or population centers, special provisions designed to protect aesthetic values may be incorporated in the purchase contracts. No coal will be accepted from areas in which, in TVA's judgment, mining would adversely affect a public water supply and such adverse effect cannot be avoided by proper reclamation.

22.2 Alliance agrees that all sources of coal delivered shall be in full compliance with all state and federal reclamation laws, including the Surface Mining Control and Reclamation Act of 1977 and all regulations issued thereunder. A violation of any such law or regulation that materially impairs Alliance's ability to perform its obligations under this contract and is not promptly remedied shall constitute a breach of contract, entitling TVA to exercise its remedies as provided for in this contract or by law. TVA will not accept coal mined from any source, stockpile, or otherwise during any period when the source is subject to a cessation order issued by the Office of Surface Mining and Reclamation (OSM) or any state reclamation enforcement agency for violation of reclamation requirements ("Cessation Order"), and in the event that any Approved Source Mine or Alternate Source Mine is subject to such Cessation Order for a period of one hundred eighty (180) consecutive days, TVA may, thereafter, elect to terminate this contract upon, upon thirty days prior written notice to Alliance

22.3 Coal which is not delivered due to such cessation order or suspension shall not be considered excusable, and TVA may purchase replacement coal for Alliance's account. If, upon appeal by Alliance under OSM's or the appropriate state's regulations, a cessation order is held to have been

improperly issued, Alliance shall not be liable for the cost of replacement coal, and any coal not delivered due to the order or suspension may, at Alliance's option, be canceled or rescheduled upon delivery terms reasonably acceptable to TVA. This constitutes Alliance's exclusive remedy against TVA in the event of a wrongful issuance of a cessation order by OSM or a state agency.

22.4 TVA reserves the right to require and Alliance agrees to perform over and above the requirements specified by law any special or additional reclamation work which TVA deems necessary to ensure that the mining operation complies with TVA's overall policy for protection and enhancement of the environment. Any such special or additional reclamation work shall be subject to the approval of the U.S. Office of Surface Mining, or a related agency having jurisdiction over the matter. TVA agrees to compensate Alliance for the performance of such work in an amount to be mutually agreed upon before the commencement of work. No work performed by Alliance shall be deemed special or additional reclamation work for the purposes hereof unless it is so designated in writing by the Contract Administrator.

22.5 TVA, its agents, and assigns shall have the right to enter upon any of the land affected by Alliance's mining operation, at any time and without the necessity of giving notice, for any purpose related to enforcing these reclamation and conservation requirements or to observe mining or reclamation completed or in progress. Alliance shall also provide reasonable access to its mining operations for TVA's field inspections staff, during normal business hours, with respect to any matter related to this contract.

22.6 TVA will not accept coal from sources mined under the 16-2/3 percent exemption allowed under P.L. 95-87, unless it can be documented that the source will be mined and reclaimed to the performance standards established under P.L. 95-87, and furthermore, that the operation has the concurrence of the coal mining and regulatory (primacy) authority established by this law in the state from which the coal is to be mined.

23. Intentionally Omitted.

24. Nonassignability; Subcontracts; Designation and Termination of Agent.

24.1 Neither party shall assign this contract without prior written consent of the other party, and any consent to an assignment shall not be construed as a waiver of this provision with regard to any subsequent assignment. TVA shall not sell, resell, or otherwise transfer coal purchased under this contract to any third party (ies).

24.2 Notwithstanding the foregoing, either party, upon thirty (30) days written notice and without the need for consent from the other party (and without relieving itself from any liability hereunder), may (a) transfer, pledge, encumber or assign this contract or the accounts, revenues or proceeds hereof in connection with any financing or other financial arrangement or (b) transfer or assign this contract to a company owned or controlled by the assignor or the assignor's parent holding company, provided however, that in each such case (i) any such assignee shall agree in writing to be bound by the terms and conditions hereof, and (ii) no such assignment shall in any way relieve the assignor from liability for full performance under this contract. Further, either party may transfer or assign this contract to any person or entity succeeding to all or substantially all of the assets of such party, upon receiving approval from the other party as given in its sole discretion.

24.3 No designation of any agent by Alliance to submit invoices, receive payments, or take any other action in connection with the performance or administration of this contract shall be effective or recognized by TVA until Alliance has given written notice of such designation and TVA has given Alliance specific written notice of its approval thereof.

24.4 If Alliance notifies TVA in writing of the termination of any agent that Alliance may have previously designated to administer this contract on its behalf, TVA may thereafter rely on such notice of termination in all dealings with Alliance or a successor agent.

25. **Waivers.**

No waiver of any breach of this contract shall be held to be a waiver of any other breach. Unless a remedy is expressly designated as exclusive, all remedies afforded under the contract shall be in addition to every other remedy provided herein or by law.

26. **Officials Not To Benefit.**

No member of or delegate to Congress or Resident Commissioner, or any officers, employee, special Government employee, or agent of TVA shall be admitted to any share or part of this contract or to any benefit that may arise therefrom unless it be made with a corporation for its general benefit; nor shall Alliance offer or give, directly or indirectly, to any officer, employee, special Government employee, or agent of TVA any gift, gratuity, favor, entertainment, loan, or any other thing of monetary value, except as provided in 5 C.F.R. part 2635. Breach of this provision shall constitute a material breach of this contract and TVA shall have the right to exercise all remedies provided in this contract or at law.

27. **Small Business Policy.**

The requirements of 15 U.S.C § 637(d) are incorporated by reference.

28. **Liquidated Damages for Subcontracting Plans.**

28.1 Failure to make a good-faith effort to comply with the subcontracting plan, as used in this clause, means a willful or intentional failure to perform in accordance with the requirements of the subcontracting plan approved under 15 U.S.C. 637(d) or willful or intentional action to frustrate the plan.

28.2 Performance shall be measured by applying the percentage goals to the total actual subcontracting dollars or, if a commercial plan is involved, to the pro rata share of actual subcontracting dollars attributable to Government contracts covered by the commercial plan. If, at contract completion, or in the case of a commercial plan, at the close of the fiscal year for which the plan is applicable, Alliance

as failed to meet its subcontracting goals and the Contracting Officer decides in accordance with Subsection 28.3 that Alliance failed to make a good-faith effort to comply with its subcontracting plan, Alliance shall pay TVA liquidated damages in an amount equal to the actual dollar amount by which Alliance failed to achieve each subcontract goal.

28.3 Before the Contracting Officer makes a final decision that Alliance has failed to make such good-faith effort, the Contracting Officer shall give Alliance written notice specifying the failure and permitting Alliance to demonstrate what good-faith efforts have been made. Failure to respond to the notice may be taken as an admission that no valid explanation exists. If, after consideration of all the pertinent data, the Contracting Officer finds that Alliance failed to make a good-faith effort to comply with the subcontracting plan, the Contracting Officer shall issue a final decision to that effect and require that Alliance pay the government liquidated damages as provided in paragraph b. of this section.

28.4 With respect to commercial plans, i.e., company-wide or division-wide subcontracting plans, the Contracting Officer of the agency that originally approved the plan will exercise the functions of the Contracting Officer under this clause on behalf of all agencies that awarded contracts covered by that commercial plan.

28.5 Alliance shall have the right of appeal, under the section in this contract titled DISPUTES, from any final decision of the Contracting Officer.

28.6 Unless a sole and exclusive remedy is otherwise specifically provided for herein, liquidated damages shall be in addition to any other remedies that either party may have, subject to Subsection 11.f.

29. **Affirmative Action and Equal Opportunity.**

To the extent applicable, this contract incorporates by reference the "Equal Opportunity" for Special Disabled Veterans and Veterans of the Vietnam Era clause, 41 C.F.R. § 60-250.5; the "Equal Opportunity for Workers with Disabilities" clause, 41 C.F.R. § 60-741.5; and the "Equal Opportunity" clause, 41 C.F.R. § 60-1.4.

30. **Safety and Health.**

All sources supplying coal purchased under this contract shall be in full compliance with the Federal Mine Safety and Health Act of 1977 and regulations issued thereunder, except for any non-compliance that does not materially impair Alliance's ability to perform its obligations hereunder. Failure to comply shall constitute a breach of contract, permitting TVA to exercise its remedies under this contract or as provided by law.

31. **Environmentally Acceptable Facilities; Clean Air and Water.**

Alliance hereby stipulates and agrees as follows:

(1) Alliance certifies that performance of this contract will not involve the use of any facility or facilities which have given rise to a conviction under Section 113(c) of the Clean Air Act (42 U.S.C. 7413(c)) or Section 309(c) of the Federal Water Pollution Control Act (33 U.S. C. 1319 (c)).

(2) Alliance will comply with all the requirements of Section 114 of the Clean Air Act and Section 308 of the Federal Water Pollution Control Act relating to inspection, monitoring, entry, reports, and information, as well as all other requirements specified in Section 114 and Section 308 of the Clean Air Act and the Federal Water Pollution Control Act, respectively, and all regulations and guidelines issued thereunder in its performance of this contract.

(3) Alliance will notify TVA of any conviction under Section 113(c) of the Clean Air Act or Section 309(c) of the Federal Water Pollution Control Act involving a facility to be utilized for this contract.

32. Certification for Contracts, Grants, Loans, and Cooperative Agreements.

Alliance's representative, by signing this contract, certifies, to the best of his or her knowledge and belief, that:

(1) No Federal appropriated funds have been paid or will be paid by or on behalf of Alliance to any person for influencing or attempting to influence an officer or employee of any agency, a member of Congress, an officer or employee of Congress, or an employee of a member of Congress in connection with the awarding of this contract or the extension, continuation, renewal, amendment, or modification of this contract.

(2) If any funds other than Federal appropriated funds have been paid or will be paid to any person for influencing or attempting to influence an officer or employee of any agency, a member of congress, an officer or employee of Congress, or an employee of a member of Congress in connection with this Agreement, Alliance shall complete and submit Standard Form-LLL, "Disclosure of Lobbying Activities," in accordance with its instructions.

This certification is a material representation of fact upon which reliance was placed when this contract was made or entered into. Submission of this certification is a prerequisite for making or entering into this contract imposed by 31 U.S.C. 1352. Any person who makes an expenditure prohibited under paragraph (1) of this clause or who fails to file or amend the disclosure form required to be filed or amended by paragraph (2) of this clause shall be subject to civil penalties as provided for by 31 U.S.C. 1352.

33. Interpretation.

The terms of this contract have been arrived at after mutual negotiation by the parties and, therefore, it is the intention of the parties that its terms not be construed against any party by reason of the fact that it was drafted by or substantially drafted by one of the parties.

34. Business Ethics and Compliance Requirements

(a) Definitions - As used in this Section 34 -

“Agent” means any individual, including a director, officer, employee, or an independent contractor authorized to act on behalf of Alliance.

“Principal” means an officer, director, owner, partner, or a person having primary management or supervisory responsibilities within a business entity (e.g., general manager; plant manager; head of a subsidiary, division, or business segment; and similar positions).

“Subcontract” means any contract entered into by a subcontractor to furnish supplies or services for performance of a prime contract or a subcontract.

“Subcontractor” means any supplier, distributor, vendor, or firm that furnished supplies or services to or for a prime contractor or another subcontractor.

(b) Code of Business Ethics and Conduct - (1) Alliance maintains a “Policy Statement on Conflicts of Interest and Irregularities” and will make a copy of the policy available to each employee engaged in performance of the contract.

(2) Alliance shall (i) exercise due diligence to prevent and detect criminal conduct; and (ii) otherwise promote an organizational culture that encourages ethical conduct and a commitment to compliance with the law.

(c) Disclosure Requirements - (1) Alliance shall timely disclose , in writing, to TVA’s Office of Inspector General, with a copy to the Contracting Officer, whenever, in connection with the award, performance, or closeout of this contract or any subcontract thereunder, Alliance has credible evidence that a principal, employee, agent, or subcontractor of Alliance has committed (A) a violation of Federal criminal law involving fraud, conflict of interest, bribery, or gratuity violations found in title 18 of the United States Code; or (B) a violation of the civil False Claims Act (31 U.S.C. §§ 3729-3733); provided that if Alliance has credible evidence that the Contracting Officer is implicated in such violation of Federal criminal law, the written disclosure shall be made to TVA’s Office of Inspector General, with a copy to The Executive Vice President of Power Supply and Fuels

(2) TVA, to the extent permitted by law and regulation, will safeguard and treat information obtained pursuant to Alliance disclosure as confidential where Alliance has marked the information as “confidential”, “proprietary”, “sensitive”, or with words of similar meaning and effect. To the extent permitted by law and regulation, such information will not be released by TVA to the public pursuant to a Freedom of Information Act request, 5 U.S.C. § 552, without prior notification to Alliance. TVA may transfer documents provided by Alliance to any department or agency within the Executive Branch if the information relates to matters within the organization’s jurisdiction.

(d) Nothing in this Section 34 shall be construed as (i) requiring Alliance to waive its attorney-client privilege or the protections afforded by the attorney work product doctrine; (ii) requiring any officer, director, owner, or employee of Alliance, including a sole proprietor, to waive his or her attorney client privilege or Fifth Amendment rights; (iii) restricting Alliance from conducting an internal investigation, or defending a proceeding or dispute arising under the contract or related to a potential or disclosed violation.

(e) Subcontracts - (1) Alliance shall include the substance of this Section 34, including this paragraph (e), in subcontracts issued in connection with this contract that have a value in excess of five million dollars (\$5,000,000) and a performance period of more than one hundred twenty (120) days; and (2) In altering this Section 34 to identify the appropriate parties, all disclosures of violation of the civil False Claims Act or of Federal criminal law shall be directed to TVA's Office of Inspector General, with a copy to the Contracting Officer; provided that if a subcontractor has credible evidence that the Contracting Officer is implicated in such violation of Federal criminal law, the written disclosure shall be made to TVA's Office of Inspector General, with a copy to The Executive Vice President of Power Supply and Fuels.

35. Entire Agreement, Amendments.

a. This contract embodies the entire agreement between TVA and Alliance and supersedes all other communications, either oral or written. The parties shall not be bound by, or be liable for any statement, representation, promise, inducement or understanding not set forth in writing in this contract. All prior understandings, terms, or conditions are deemed to be merged in this Agreement. No amendments or modifications of this contract shall be valid or of any force or effect unless such modification or amendment is incorporated into the contract in writing in accordance with Subsection b. below.

b. No term, provision, covenant, or condition of this contract or of any amendment or supplement to this contract may be terminated, amended, modified, or compliance therewith waived (either generally or in a particular instance, retroactively or prospectively) except by an instrument or instruments in writing executed by TVA and Alliance. For the avoidance of all doubt, this contract or any amendment or supplement to this contract may not be terminated, amended, modified or compliance therewith waived by any oral statement or oral agreement or understanding of the parties or by any exchange of e-mail communications between the parties or by any combination of such oral statements and e-mail communications.

36. Contract Components.

Appendix A (Coal Producer’s Statement(s) and Specific Location Map(s)); Exhibit I (Example Calculation of Price Adjustment Pursuant to Section 6); Exhibit II (Example Calculation of Price Adjustment for Quality Variations); and the Subcontracting Plan are attached hereto and made a part hereof.

IN WITNESS WHEREOF, the parties hereto have caused this agreement to be executed as of the aforesaid date by their duly authorized representatives.

WITNESS:

/s/ Timothy J. Whelan

Alliance Coal, LLC

By: /s/ Robert G. Sachse
Signature

Title: Executive Vice President

WITNESS:

/s/ J. Michael Hendon

Tennessee Valley Authority

By: /s/ Ben A. Jones
Signature

Title: Fuel Buyer

EXHIBIT I

TVA Alliance Price Calculation Example for Illustrative Purposes Only

***** INDICATES MATERIAL THAT HAS BEEN OMITTED AND FOR WHICH CONFIDENTIAL TREATMENT HAS BEEN REQUESTED. ALL SUCH OMITTED MATERIAL HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO RULE 24b-2 UNDER THE SECURITIES AND EXCHANGE ACT OF 1934, AS AMENDED.

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EXHIBIT II

EXAMPLE CALCULATION OF PRICE ADJUSTMENT
FOR QUALITY VARIATIONS

Assume:	Typical Analysis	Qtrly. Avg. Value
Btu/lb. (as-received)	*****	*****
Ash (as-received)	*****%	*****%
Total Moisture	*****%	*****%
SO2 in lbs./mmBtu at 97.5%	*****	*****

Total Tons Received equals *****

Price equals \$*****

Ash Adjustment Increase/Decrease is \$***** per percentage point

Moisture adjustment increase/decrease is \$***** per tenth of a percent

SO2 adjustment increase/decrease is \$***** per tenth of a lb.

Btu example for Subsection 8.b.

Btu Adjustment = $\frac{(\text{Quarterly Average Value} - \text{Typical Analysis}) \times \text{Price}}{\text{Typical Analysis}}$

Btu Adjustment = $\frac{(\text{*****} - \text{*****}) \times \$\text{*****}}{\text{*****}}$

Btu Adjustment Increase = \$***** per ton

Ash example for Subsection 8.c.

Ash Adjustment decrease = (Quarterly Average Value—Typical Analysis) X Adjustment

Ash Adjustment decrease = (***** - *****) X \$*****

Ash Adjustment decrease = \$***** per ton

Moisture example for Subsection 8.d.

Moisture Adjustment decrease = (Quarterly Average Value – Typical Analysis) X Adjustment

Moisture Adjustment decrease = ((***** - *****) X \$*****

Moisture Adjustment decrease = \$***** per ton.

SO2 example for Subsection 8.e.

SO2 Adjustment increase = (Quarterly Average Value – Typical Analysis) X Adjustment

SO2 Adjustment increase = ((***** - *****) X *****) X \$*****

SO2 Adjustment increase = \$***** per ton.

***** INDICATES MATERIAL THAT HAS BEEN OMITTED AND FOR WHICH CONFIDENTIAL TREATMENT HAS BEEN REQUESTED. ALL SUCH OMITTED MATERIAL HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO RULE 24b-2 UNDER THE SECURITIES AND EXCHANGE ACT OF 1934, AS AMENDED.

APPENDIX A
COAL PRODUCER'S STATEMENT AND SPECIFIC LOCATION MAP

Hopkins County Coal, LLC.

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**TENNESSEE VALLEY AUTHORITY
SUBCONTRACTING REPORT – GOALS**

COMPLETE THIS FORM FOR CONTRACT INDIVIDUAL SUBCONTRACTING PLANS

CONTRACT NAME: Alliance Coal, LLC
ADDRESS: 1717 S. Boulder Ave, Suite 400, Tulsa, OK 74119

CONTRACT NUMBER:

Planned Goals for Program
Percent of Contract
Expenditures -
GOALS

Of the amount billed TVA on this contract:

(a) Percentage for OTHER SMALL BUSINESS Concerns Subcontracts	14.0	%	
(b) Percentage for SMALL DISADVANTAGED BUSINESS (SDB) Concerned Subcontracts	0.10	%	
(c) Percentage for SMALL WOMAN-OWNED BUSINESS (SWB) Concerned Subcontracts	1.0	%	
* Percentage for Qualified HUB Zone Business (HUB) Concerns Subcontracts			
(d)	0.2	%	
*(e) Percentage for SMALL Veteran-Owned Business (SVB) Concerns	0.9	%	

Subcontracting Administrator: Brad Shellenberger
Telephone: 918-295-7619
E-mail Address: Brad.shellenberger@arlp.com

Date: 8-11-2009

* Planned reporting Periods: 1st Quarter - October 1, to December 31
2nd Quarter - January 1, to March 31,
3rd Quarter - April 1, to June 30,
4th Quarter - July 1, to September 30,

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Section 3: EX-31.1 (CERTIFICATION OF JOSEPH W. CRAFT III, PRESIDENT AND CEO, PURSUANT TO SECTION 302)

Exhibit 31.1

CERTIFICATION

I, Joseph W. Craft III certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Alliance Resource Partners, L.P.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

- c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusion about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the quarterly period ended September 30, 2009 that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 6, 2009

/s/ Joseph W. Craft III

Joseph W. Craft III

President, Chief Executive Officer and Director

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Section 4: EX-31.2 (CERTIFICATION OF BRIAN L. CANTRELL, SVP AND CFO, PURSUANT TO SECTION 302)

Exhibit 31.2

CERTIFICATION

I, Brian L. Cantrell, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Alliance Resource Partners, L.P.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusion about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the quarterly period ended September 30, 2009 that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 6, 2009

/s/ Brian L. Cantrell

Brian L. Cantrell

Senior Vice President and Chief Financial Officer

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Section 5: EX-32.1 (CERTIFICATION OF JOSEPH W. CRAFT III, PRESIDENT AND CEO, PURSUANT TO SECTION 906)

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Alliance Resource Partners, L.P. (the "Partnership") on Form 10-Q for the three and nine months ended September 30, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Joseph W. Craft III, President and Chief Executive Officer of Alliance Resource Management GP, LLC, the managing general partner of the Partnership, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Partnership.

By: /s/ Joseph W. Craft III

Joseph W. Craft III

*President and Chief Executive Officer of
Alliance Resource Management GP, LLC
(the managing general partner of Alliance
Resource Partners, L.P.)*

Date: November 6, 2009

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate document. A signed original of this written statement required by Section 906 has been provided to the Partnership and will be retained by the Partnership and furnished to the Securities and Exchange Commission or its staff upon request.

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Section 6: EX-32.2 (CERTIFICATION OF BRIAN L. CANTRELL, SVP AND CFO, PURSUANT TO SECTION 906)

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Alliance Resource Partners, L.P. (the "Partnership") on Form 10-Q for the three and nine months ended September 30, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Brian L. Cantrell, Senior Vice President and Chief Financial Officer of Alliance Resource Management GP, LLC, the managing general partner of the Partnership, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Partnership.

By: /s/ Brian L. Cantrell

Brian L. Cantrell

*Senior Vice President and
Chief Financial Officer of Alliance
Resource Management GP, LLC
(the managing general partner of Alliance
Resource Partners, L.P.)*

Date: November 6, 2009

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate document. A signed original of this written statement required by Section 906 has been provided to the Partnership and will be retained by the Partnership and furnished to the Securities and Exchange Commission or its staff upon request.

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