

ALLIANCE RESOURCE PARTNERS LP
Form DEF 14A
September 25, 2009

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

ALLIANCE RESOURCE PARTNERS, L.P.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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(1) Amount Previously Paid:

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(4) Date Filed:

September 25, 2009

**NOTICE OF
CONSENT SOLICITATION**

To our Unitholders:

We are soliciting your consent to approve the terms of the Third Amendment (the Third Amendment) to the 2000 Long-Term Incentive Plan, as amended (the Plan), of Alliance Coal, LLC (Alliance Coal), the operating subsidiary of Alliance Resource Partners, L.P., a Delaware limited partnership (we, us, or the Partnership). The Third Amendment would increase the number of common units available for awards under the Plan from 1,200,000 to 3,600,000.

The Board of Directors (the Board) of Alliance Resource Management GP, LLC (MGP), the managing general partner of the Partnership, has unanimously approved the Third Amendment, subject to obtaining the approval of a majority of the holders of our common units, and is recommending that our unitholders approve the Third Amendment. The terms of the Third Amendment and the Plan are described in more detail in the accompanying Consent Solicitation Statement.

Unitholders of record at the close of business on September 15, 2009 are entitled to receive notice of and to vote in the Consent Solicitation. Unitholders holding a majority of our common units outstanding as of the close of business on the record date must vote in favor of the Third Amendment for it to be approved. **THE BOARD OF MGP, OUR MANAGING GENERAL PARTNER, HAS VOTED UNANIMOUSLY TO RECOMMEND THAT THE UNITHOLDERS VOTE TO APPROVE THE THIRD AMENDMENT.**

We are providing you with these Consent Solicitation materials both by sending you this full set of materials, including a paper consent card, and by notifying you of the availability of the materials on the Internet. This Consent Solicitation Statement is available at www.arlp.com/consentsolicitation.

The Third Amendment can only be adopted following the approval of unitholders holding a majority of our common units outstanding as of the close of business on the record date. **YOUR VOTE IS IMPORTANT.** Failure to vote will have the same effect as a vote against the Third Amendment. We encourage you, therefore, to review the enclosed Consent Solicitation Statement and to vote as soon as possible by completing, signing, dating and returning the enclosed consent card by mail, or you may vote by telephone or electronically through the Internet, as further described on the consent card. If you hold your units through an account with a brokerage firm, bank or other nominee, please follow the instructions you receive from them to vote your units.

The Consent Solicitation will expire at, and your consent must be received by, 5:00 p.m., eastern standard time, on October 23, 2009 (the Expiration Date). The Consent Solicitation may be extended by MGP for a specified period of time or on a daily basis until the consents necessary to adopt the Third Amendment have been received. You may revoke your consent at any time up to 5:00 p.m., eastern standard time, on the Expiration Date.

Joseph W. Craft
Director, President and Chief Executive Officer
Alliance Resource Management GP, LLC, as managing
general partner of the Partnership

Alliance Resource Partners, L.P.

1717 SOUTH BOULDER AVENUE, SUITE 400

TULSA, OKLAHOMA 74119

CONSENT SOLICITATION STATEMENT

This Consent Solicitation Statement is being furnished to the holders of common units representing limited partner interest of Alliance Resource Partners, L.P. (ARLP) as of the close of business on September 15, 2009 (the Record Date) in connection with the solicitation (the Solicitation) of consents of the holders of common units to approve the Third Amendment (the Third Amendment) to the 2000 Long-Term Incentive Plan, as amended (the Plan), of Alliance Coal, LLC, the operating subsidiary of ARLP. The Third Amendment would increase the number of common units available for awards under the Plan from 1,200,000 to 3,600,000. This Consent Solicitation Statement and the enclosed form of Consent are being mailed to the unitholders of ARLP on or about September 25, 2009.

The enclosed consent is being solicited on behalf of the Board of Directors of Alliance Resource Management GP, LLC (MGP), the managing general partner of ARLP. The Third Amendment will be voted on by holders of the common units of ARLP. A copy of the Plan, as amended pursuant to the Third Amendment, is attached to this Consent Solicitation Statement as *Appendix A*.

Only unitholders of record at the close of business on the Record Date are entitled to vote on the Third Amendment. Adoption of the Third Amendment requires the receipt of affirmative consents of the holders holding a majority of the common units outstanding.

The Third Amendment has been approved unanimously by the Board of Directors of MGP, as being in the best interests of ARLP and the unitholders. **The Board of Directors of MGP unanimously recommends that you vote FOR the Third Amendment.**

This Solicitation will expire at, and your consent must be received by, 5:00 p.m., eastern standard time, on October 23 (the Expiration Date). MGP may extend this Solicitation for a specified period of time or on a daily basis until the consents necessary to adopt the Third Amendment have been received. You may revoke your consent at any time before 5:00 p.m., eastern standard time, on the Expiration Date.

If you have any questions about this Consent Solicitation Statement, please call Brian L. Cantrell, Senior Vice President and Chief Financial Officer of MGP, (918) 295-7674.

This Consent Solicitation Statement is dated September 25, 2009.

SUMMARY

This summary highlights selected information from this document and may not contain all of the information that is important to you. To understand the Plan fully and for a more complete description of the specific steps necessary for the approval of the Third Amendment, you should read this entire document carefully (including its appendices).

Significant Relationships Referenced in this Consent Solicitation Statement

References to we, us, our or 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 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.

The Partnership

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. At December 31, 2008, we had approximately 686.3 million tons of coal reserves in Illinois, Indiana, Kentucky, Maryland, Pennsylvania and West Virginia. In 2008, we produced 26.4 million tons of coal and sold 27.2 million tons of coal, 90.0% of which was sold to utility plants.

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 and we are constructing a new mining complex in West Virginia. We also operate a coal loading terminal on the Ohio River at Mt. Vernon, Indiana. Our mining activities are conducted in three geographic regions commonly referred to in the coal industry as the Illinois Basin, Central Appalachian and Northern Appalachian regions.

The Long-Term Incentive Plan and the Third Amendment

Equity compensation pursuant to the Plan is a key component of our executive compensation program. The Plan is sponsored by Alliance Coal, the operating subsidiary of the Partnership. Under the Plan, awards may be made of either (a) restricted units or (b) options to purchase common units, although to date, no grants of options have been made. (Under the Plan, a restricted unit is a phantom unit that upon vesting entitles the participant to receive a common unit of ARLP (a Unit) or an equivalent amount of cash.)

Currently, the outstanding unvested Plan awards exceed the Units available for issuance under the Plan by 1,705 Units. We expect reloading of common 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 Plan, will provide sufficient Units to fulfill all outstanding awards. However, there are not sufficient Units available to allow further awards under the Plan. The Third Amendment would increase the number of Units available for awards under the Plan from 1,200,000 to 3,600,000, providing 2,400,000 Units for satisfaction of future Plan awards.

Required Vote

The Third Amendment will be voted on by our unitholders. Adoption of the Third Amendment requires the affirmative consents of the holders of a majority of our common units outstanding as of the close of business on the Record Date.

Recommendation

The compensation of our executive officers is designed to achieve two key objectives: (i) provide a competitive compensation opportunity to allow us to recruit and retain key management talent, and (ii) motivate and reward the executive officers for creating sustainable, capital-efficient growth in distributable cash flow to maximize our distributions to our unitholders. Currently, there are not sufficient Units available to allow further awards under the Plan. Without approval of the Third Amendment, the Partnership will be constrained in its ability to use equity as a component of its compensation program, a result that would put the Partnership at a considerable competitive disadvantage. Accordingly, the Board of Directors of MGP unanimously recommends that you vote FOR the Third Amendment.

Interest of Directors and Executive Officers

Executive officers of MGP and its affiliates will be eligible to receive awards under the terms of the Plan. Accordingly, the executive officers of MGP have a substantial interest in the passage of the Third Amendment.

THE PLAN AND PROPOSED AMENDMENT

Approval of the Third Amendment to the Amended and Restated Alliance Coal, LLC Long-Term Incentive Plan

Alliance Coal, the operating subsidiary of the Partnership, employs the key individuals who perform services for the benefit of the Partnership and sponsors the Plan. Under the Plan, awards may be made of either (a) restricted common units or (b) options to purchase common units, although to date, no awards of options have been made. (Under the Plan, a restricted unit is a phantom unit that upon vesting entitles the participant to receive a Unit or an equivalent amount of cash.) Currently, the outstanding unvested Plan awards exceed the Units available for issuance under the Plan by 1,705 Units. We expect reloading of available Units upon settlement of a portion of the outstanding awards in cash to satisfy tax withholding obligations, as provided in the Plan, will provide sufficient Units to fulfill all outstanding awards. However, there are not sufficient Units available to allow further awards under the Plan.

Proposed Amendments

The Third Amendment to the Plan would increase the number of Units available for awards under the Plan from 1,200,000 to 3,600,000, providing 2,400,000 Units for satisfaction of future Plan awards. The Board of Directors (the Board) of MGP, the managing general partner of ARLP, has unanimously approved the Third Amendment, subject to obtaining the approval of a majority of the holders of our common units, and is recommending that our unitholders approve the Third Amendment. We are seeking Unitholder approval of the Third Amendment in order to comply with NASDAQ Stock Market requirements.

Plan Purposes

The Plan is intended to benefit the Partnership in attracting and retaining selected officers and key employees of Alliance Coal, the Partnership, and their affiliates by enabling such persons to acquire or increase their proprietary interest in the Partnership and encouraging them to perform effectively and to use their best efforts to promote the growth and profitability of the Partnership and its affiliates. Our managing general partner's policy is to award restricted common units pursuant to the Plan to serve as a means of incentive compensation for performance and not primarily as an opportunity for equity participation with respect to our common units.

Plan Provisions

The Plan provides for awards of restricted units, which are phantom or notional units that upon vesting entitle the participant to receive a Unit or an equivalent amount of cash. The Plan also provides for the grant of options to acquire common units, although to date no options have been granted. Options granted under the Plan would be non-statutory options, not intended to meet the requirements of Section 422 of the Internal Revenue Code of 1986, as amended (the Code). Until further guidance is issued under Section 409A of the Code concerning the treatment of partnership options, the current policy of MGP is to not grant options pursuant to the Plan.

The Plan is neither subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended, nor qualified under Section 401(a) of the Code.

Administration. The Plan is administered by the Compensation Committee of the Board (the Committee). The Committee may delegate certain of its powers and duties under the Plan to the Chief Executive Officer of Alliance Coal, but has not done so.

Subject to the provisions of the Plan, the Committee is authorized to construe and interpret the Plan, to establish rules for administering the Plan and to make all determinations necessary or appropriate for the

administration of the Plan, including determinations concerning the individuals to whom awards will be granted, the time or times at which awards will be granted, the terms and conditions of the awards, and the number of Units subject to each award. Awards granted under the Plan need not be uniform among participants.

Eligibility. Persons eligible to receive awards under the Plan are non-employee directors of Alliance Coal, if any, and employees of Alliance Coal and its affiliates, as determined by the Committee. An award is not assignable or transferable by a participant other than by will or the laws of descent or, with the consent of the Committee, to a participant's family members, trusts or partnerships.

Securities Subject to the Plan. The equity securities subject to awards under the Plan are ARLP's common units. The number of Units with respect to which awards may be granted under the Plan may not exceed 3,600,000, subject to certain adjustments, as provided below under *Changes in Units*. If an award is forfeited, terminates, or is cancelled without the full number of Units being issued to the participant or the award is paid in cash, then the Units subject to such award, to the extent of such forfeiture, termination, cancellation or payment in cash, will be reloaded and thus available for subsequent award under the Plan. Units deliverable upon exercise of options or the vesting of restricted units may be units acquired in the open market or authorized but previously unissued Units.

Options. Each option granted under the Plan will be evidenced by an option agreement in such form as the Committee prescribes, which sets forth the terms of the option. The Committee shall determine the terms and conditions of any options granted, including the number of units covered by any option, the conditions and limitations applicable to exercise of the option, and the option price. The Plan provides that the option price per Unit may be more or less than the fair market value of a Unit on the date of the option grant. No optionee will have any rights of a Unitholder with respect to any Units covered by an option until the optionee has exercised the option, paid the option purchase price, satisfied any applicable withholding taxes, and been issued such Units.

Restricted Units. A restricted unit is a notional or phantom unit of the Partnership. Restricted units will vest at the end of a period of time as specified by the Committee in the award agreement, and which may be based on the participant's service and may also be based on the achievement of performance targets established by the Committee for that period. If a grantee's employment is terminated for any reason prior to the vesting of his or her restricted units, those restricted units will be automatically forfeited, unless the Committee, in its sole discretion, determines or provides otherwise in the award agreement, such as vesting on a termination due to death or disability. The number of Units actually distributed upon satisfaction of the applicable vesting requirements may be reduced to satisfy the employer's income tax withholding requirements based upon the fair market value of the Units as of the date of such distribution. Awards of restricted units may include, in the Committee's discretion, a contingent right to receive cash distributions (DERs) in an amount equal to the cash distributions the Partnership makes to unitholders during the vesting period of the restricted unit. DERs may be paid directly to the participant, may be credited to a bookkeeping account with or without interest and subject to the vesting terms of the tandem restricted unit, or be subject to other restrictions determined by the Committee.

Changes in Units. If the Committee determines that any transaction involving the Units (including a stock split) affects the Units such that it is appropriate, in order to prevent dilution or enlargement of the benefits intended under the Plan, to make adjustments in the maximum number of Units available for or subject to awards under the Plan, it shall make such adjustments as it deems equitable. The adjustments, if any, determined by the Committee will be final, binding and conclusive.

Change in Control. Upon a change in control, each award outstanding under the Plan will automatically become fully exercisable or vested, as the case may be, upon such event. The Plan defines a change in control as one of the following: (1) any sale, lease, exchange or other transfer of all or substantially all of our assets or our managing general partner's assets to any person; (2) the consolidation or merger of our managing general partner with or into another person pursuant to a transaction in which the outstanding voting interests of our managing general partner are changed into or exchanged for cash, securities or other property, other than any such

transaction where (a) the outstanding voting interests of our managing general partner changed into or exchanged for voting stock or interests of the surviving corporation or its parent and (b) the holders of the voting interests of our managing general partner immediately prior to such transaction own, directly or indirectly, not less than a majority of the voting stock or interests of the surviving corporation or its parent immediately after such transaction; or (3) a person or group being or becoming the beneficial owner of more than 50% of all voting interests of our managing general partner then outstanding.

Sale or Disposition of Significant Assets. In the event ARLP sells or disposes of a significant portion of its assets and as a result a participant's employment is terminated without Cause (as defined in the Plan) or by the participant for a Good Reason (as defined in the Plan), or the participant is no longer employed by an affiliate of ARLP, the participant's outstanding awards shall automatically vest in full.

Amendment and Termination. Subject to applicable laws, the Committee has the power and authority to terminate or amend the Plan. However, no such termination or amendment may materially adversely affect the rights of a participant with respect to outstanding awards under the Plan unless the participant consents to such amendment or modification. Under NASDAQ rules, the Committee may not amend the Plan without the approval of the unitholders if such amendment would (i) materially increase the maximum number of Units issuable thereunder (except for certain adjustments in the event of changes in the Partnership's capital structure as described generally above), (ii) materially modify the eligibility requirements for the grant of awards under the Plan, or (iii) materially increase the benefits accruing to participants under the Plan.

Federal Income Tax Consequences

The following is a general description of the federal income tax consequences of awards granted under the Plan. It is not purported to be complete.

Options granted under the Plan are non-statutory options under the Code. There are no federal income tax consequences to optionees, ARLP or its affiliates upon the grant of an option under the Plan. Generally, upon the exercise of options, optionees will recognize ordinary compensation income in an amount equal to the excess of the fair market value of the Units at the time of exercise over the purchase price of the option. Special rules apply to options that do not comply with Section 409A of the Code. The Committee does not intend to grant options that do not comply with Code Section 409A. Alliance Coal generally will be entitled to a corresponding federal income tax deduction at the same time.

Upon vesting and payment of a restricted unit, the participant will receive compensation income equal to the amount of cash received or, if paid in Units, equal to the then fair market value of a Unit. DERs will also be taxable compensation to the participant when paid to the participant. Alliance Coal generally will be entitled to a corresponding federal income tax deduction at the same time.

Upon the sale of Units acquired under the Plan, a participant generally will have gain or loss (which may consist of both ordinary and capital gain and loss elements depending upon ARLP's taxable income and loss during the period in which the Units were held). The participant's adjusted tax basis in the Units will be the amount of ordinary income recognized by the participant at the time of exercise of the option or vesting of the restricted unit, adjusted for subsequent ARLP gains or losses and distributions.

Awards Granted Under the Plan

Currently, the outstanding unvested Plan awards exceed the Units available for issuance under the Plan by 1,705 Units. We expect reloading of available Units upon settlement of a portion of the outstanding awards in cash to satisfy tax withholding obligations, as provided in the Plan, will provide sufficient Units to fulfill all outstanding awards. However, there are not sufficient Units available to allow further awards under the Plan. If the Third Amendment is approved, the total number of Units available for awards will be increased from 1,200,000 to 3,600,000, providing 2,400,000 Units for satisfaction of future awards.

New Plan Benefits

No awards have been made under the Plan that cannot be fulfilled without unitholder approval of the Third Amendment. Because awards under the Plan are discretionary, it is not possible at present to accurately predict the number of awards or the persons to whom awards will be made in the future under the Plan. The most recently granted awards, which are subject to vesting in 2012, include approximately 150,000 Units and approximately 120 participants.

The last sales price of the Partnership's Units on September 15, 2009, was \$35.20 per Unit.

Equity Compensation Plan Information

The following table sets forth information as of September 15, 2009 with respect to existing compensation plans under which the Partnership's equity securities are authorized for issuance.

Plan Category	Number of units to be issued upon exercise/vesting of outstanding options, warrants and rights	Weighted- average exercise price of outstanding options, warrants and rights	Number of units remaining available for future issuance under equity compensation plans
Equity compensation plans approved by unitholders:			
Long-Term Incentive Plan	332,845	N/A	(1,705)(1)

- (1) The currently outstanding unvested Plan awards exceed the Units available for issuance under the Plan by 1,705 Units; however, we expect reloading of available Units upon settlement of a portion of the outstanding awards in cash to satisfy tax withholding obligations will provide sufficient Units to fulfill all outstanding awards.

THE CONSENT SOLICITATION

Voting Securities, Record Date and Outstanding Common Units

This Solicitation is being made pursuant to the provisions of Section 13.4 of the Second Amended and Restated Agreement of Limited Partnership of the Partnership (the Partnership Agreement) and is subject to the conditions in this Consent Solicitation Statement and the accompanying form of Consent. No meeting of our unitholders is contemplated to be held for the purpose of considering the Third Amendment. Only record holders of common units at the close of business on the Record Date will be taken into account for the purpose of determining whether the requisite approval of the Third Amendment has been obtained. Each unitholder entitled to vote has one vote for each unit outstanding in such unitholder's name.

On the Record Date, there were a total of 36,661,029 common units outstanding, which were held by approximately 137 unitholders.

Consent and Revocation of Consent

MGP will accept forms of Consent at any time before 5:00 p.m., eastern standard time, on the Expiration Date, which is October 23, 2009. The enclosed form of Consent, when properly completed and returned, will constitute a unitholder's consent, or the withholding of consent, to the approval of the Third Amendment in accordance with the instructions contained therein. If a unitholder executes and returns a form of Consent and does not specify otherwise, the common units represented by such form of Consent will be voted for approval of the Third Amendment in accordance with the recommendation of MGP.

A unitholder who has executed and returned a form of Consent may revoke it at any time before 5:00 p.m., eastern standard time, on the Expiration Date by (i) executing and returning a form of Consent bearing a later date, or (ii) filing written notice of such revocation with the Secretary of MGP stating that the form of Consent is revoked. Any such written notice or later dated form of Consent should be sent to the principal executive offices of the Partnership at 1717 South Boulder Avenue, Suite 400, Tulsa, Oklahoma 74119, Attention: R. Eberley Davis, Senior Vice President, General Counsel and Secretary.

Required Vote

The Third Amendment requires the approval of holders of a majority of our outstanding common units as of the close of business on the Record Date.

Because the approval of holders of a majority of our outstanding common units is required to approve the Third Amendment, **not returning the form of consent, abstaining or, for common units held in street name, not instructing brokers to return the form of consent (a broker non-vote)**, will have the same effect as a vote against the Third Amendment.

MGP, its executive officers, directors and affiliates owned 16,142,225 common units as of the Record Date (approximately 44.0 percent of our outstanding common units), and each executive officer and director of MGP who holds common units has advised MGP that he intends to consent, as to the common units he owns, to the Third Amendment. Therefore, in addition to the common units held by MGP, its executive officers, directors and affiliates, the consent of holders of an additional 2,188,290 common units is required to approve the Third Amendment. For further information concerning the ownership of common units by MGP's affiliates, executive officers and directors, see Security Ownership of Certain Beneficial Owners and Management on page 25.

Solicitation of Consents

The cost of soliciting consents will be borne by the Partnership. The Partnership has made no arrangements and has no understanding with any independent dealer, salesman or other person regarding the solicitation of

consents hereunder, and no person has been authorized by the Partnership to give any information or to make any representation in connection with the solicitation of consents to the Third Amendment, other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized. In addition to solicitations by mail, consents may be solicited by directors, officers and other employees of MGP, who will receive no additional compensation therefore.

Notice to Unitholders

MGP will notify unitholders of the results of this Solicitation promptly after the Expiration Date.

Your Consent is important, regardless of the number of common units you own. Accordingly, please complete, sign and return your Consent promptly.

INTEREST OF DIRECTORS AND EXECUTIVE OFFICERS

IN THE THIRD AMENDMENT

Executive officers of MGP and its affiliates will be eligible to receive awards under the terms of the LTIP. Accordingly, the executive officers of MGP have a substantial interest in the passage of the Third Amendment. Currently there are no determinable awards to be made to the executive officers under the LTIP.

EXECUTIVE COMPENSATION

In connection with our solicitation of your consent to implement the Third Amendment, Securities and Exchange Commission rules require us to provide executive compensation information for our most recently completed fiscal year similar to the information we provide annually in our Annual Report on Form 10-K. Because the year ended December 31, 2008 is our most recently completed fiscal year, the Executive Compensation section of this Consent Solicitation Statement substantially mirrors the Executive Compensation section set forth in our Annual Report on Form 10-K as filed with the Securities and Exchange Commission on March 2, 2009.

Compensation Discussion and Analysis

Introduction

The Committee oversees the compensation of our managing general partner's executive officers, including the President and Chief Executive Officer, our principal executive officer, the Senior Vice President and Chief Financial Officer, our principal financial officer, and the three most highly compensated executive officers for 2008, each of whom is named in the Summary Compensation Table (collectively, the Named Executive Officers). The discussion below reflects decisions, philosophy and executive compensation that were determined by a prior composition of the Committee. The current Committee has reviewed and shares the philosophy described below, and it will continue to evaluate and update that philosophy to ensure that our compensation objectives remain relevant to enhancing our performance and that our Named Executive Officers' compensation continues to achieve that end.

The Named Executive Officers are employees of our operating subsidiary, Alliance Coal. Some of the Named Executive Officers devote a portion of their time to the business of one or more related parties and, to the extent they do so, Alliance Coal is reimbursed for such services by those related parties pursuant to an administrative services agreement. We do not have employment agreements with any of our Named Executive Officers.

Compensation Objectives and Philosophy

The compensation of our Named Executive Officers is designed to achieve two key objectives: (i) provide a competitive compensation opportunity to allow us to recruit and retain key management talent, and (ii) motivate and reward the executive officers for creating sustainable, capital-efficient growth in distributable cash flow to maximize our distributions to our unitholders. In making decisions regarding executive compensation, the Committee reviews current compensation levels of other companies in the coal industry and other peers, considers our President and Chief Executive Officer's assessment of each of the other executives, and uses its discretion to determine an appropriate total compensation package of base salary and short-term and long-term incentives. The Committee intends for each executive officer's total compensation to be competitive in the market place and to effectively motivate the individual. Based upon its review of our overall executive compensation program, the Committee believes the program is appropriately applied to our managing general partner's executive officers and is necessary to attract and retain the executive officers who are essential to our continued development and success, to compensate those executive officers for their contributions and to enhance unitholder value. Moreover, the Committee believes the total compensation opportunities provided to our managing general partner's executive officers create alignment with our long-term interests and those of our unitholders. As a result, we do not maintain stock ownership requirements for our Named Executive Officers.

Setting Executive Compensation

Role of the Committee

The Committee discharges the Board's responsibilities relating to our managing general partner's executive compensation program. The Committee oversees our compensation and benefit plans and policies, administers

our incentive bonus and equity participation plans, and reviews and approves annually all compensation decisions relating to our Named Executive Officers. The Committee is empowered by the Board and by the Committee's charter to make all decisions regarding compensation for the Named Executive Officers without ratification or other action by the Board. The Committee has the authority to secure services for executive compensation matters, legal advice, or other expert services, both from within and outside the company. While the Committee is empowered to delegate all or a portion of its duties to a subcommittee, it has not done so. The Committee is composed of all of our directors who have been determined to be independent by the Board in accordance with applicable NASDAQ Stock Market, LLC and SEC regulations.

Role of Executive Officers

Each year, the President and Chief Executive Officer submits recommendations to the Committee for adjustments to the salary, bonuses and long-term equity incentive awards payable to Named Executive Officers, excluding himself. The President and Chief Executive Officer bases his recommendations on his assessment of the executive's performance, experience, demonstrated leadership, job knowledge and management skills. Historically, and in 2008, the Committee and the President and Chief Executive Officer have been substantially aligned on decisions regarding compensation of the Named Executive Officers. As executive officers are promoted or hired during the year, the President and Chief Executive Officer makes compensation recommendations to the Committee and works closely with the Committee to ensure that all compensation arrangements for executive officers are consistent with our compensation philosophy and are approved by the Committee. At the direction of the Committee, the President and Chief Executive Officer and the Senior Vice President, General Counsel and Secretary attend certain meetings and work sessions of the Committee.

Role of Compensation Consultants

The Committee engaged Mercer (US) Inc. (Mercer) as an outside compensation consultant to assist it in collecting and analyzing peer group compensation information and in assessing the competitiveness of our compensation program for 2008. Mercer took instructions from and reported to the Chairman of the Committee. Mercer reviewed published survey data and peer group proxy information, and provided a comparative analysis of competitive practices regarding base salaries, short-term incentives, total cash compensation, long-term incentives and total direct compensation.

Mercer analyzed multiple survey sources published by Mercer and Watson Wyatt, reflecting industrial organizations where possible, to determine market pay practices. Mercer's proxy analysis included industry peers Peabody Energy Corp, CONSOL Energy Inc., Arch Coal, Inc., Massey Energy Company, Alpha Natural Resources Inc., Foundation Coal Holdings Inc., Patriot Coal Corp., International Coal Group Inc., James River Coal Company and Westmoreland Coal Company. Mercer also reviewed proxy information of master limited partnership or regional peers Penn Virginia Resource Partners, L.P., Natural Resource Partners, L.P., Williams Companies, ONEOK Partners, Magellan Midstream Partners, Atlas America and SemGroup Energy Partners. This peer group was selected by Mercer, reviewed by the President and Chief Executive Officer, and approved by the Committee.

Use of Peer Group Comparisons and Survey Data

The Committee believes that it is important to review and compare our performance with that of peer companies in the coal industry, and reviews the composition of the peer group annually. In setting executive compensation for 2008, the Committee reviewed the compensation information compiled by Mercer. The Committee uses the peer group and survey data as a point of reference for comparative purposes, but it is not the determinative factor for the compensation of our Named Executive Officers. The Committee exercises discretion in determining the nature and extent of the use of comparative pay data.

Consideration of Equity Ownership

Two of our Named Executive Officers Mr. Craft, President and Chief Executive Officer, and Mr. Wesley, Executive Vice President are evaluated and treated differently with respect to compensation than our other Named Executive Officers. Each of Messrs. Craft and Wesley and their respective trusts or other related entities own significant equity positions in AHGP, which owns MGP, the incentive distribution rights in ARLP and, as of December 31, 2008, 42.4% of ARLP's outstanding common units. Because of these ownership positions, the interests of each of Messrs. Craft and Wesley are directly aligned with those of our unitholders. Mr. Craft has not received an increase in base salary since 2002 and did not receive a STIP bonus or LTIP award in 2006, 2007 or 2008. Mr. Wesley has not received an increase in base salary since 2005, did not receive a STIP bonus in 2006 or 2007 and did not receive an LTIP award in 2007 or 2008.

Compensation Components

Overview

The principal components of compensation for our Named Executive Officers include:

base salary;

annual cash incentive bonus awards under the STIP; and

awards of restricted common units under the LTIP.

The relative amount of each component is not based on any formula, but rather is based on the recommendation of the President and Chief Executive Officer, subject to the discretion of the Committee to make any modifications it deems appropriate.

Each of our Named Executive Officers also receives supplemental retirement benefits through the Supplemental Executive Retirement Plan (SERP). In addition, all of the executive officers are entitled to customary benefits available to all of our employees, including group medical, dental, and life insurance and participation in our profit sharing and savings plan. Our profit sharing and savings plan is a defined contribution plan and includes an employer matching contribution of 75% on the first 3% of eligible compensation (as defined by the IRS) contributed by the employee, an employer non-matching contribution of 0.75% of eligible compensation, and an employer supplemental contribution of 5% of eligible compensation.

Base Salary

When reviewing base salaries, the Committee's policy is to consider the individual's experience, tenure and performance, the individual's level of responsibility, the position's complexity and its importance to us in relation to other executive positions, our financial performance, and competitive pay practices. The Committee also considers comparative compensation data of companies in our peer group and the recommendation of the President and Chief Executive Officer of our managing general partner. Base salaries are reviewed annually to ensure continuing consistency with market levels, and adjustments to base salaries reflect movement in the competitive market as well as individual performance.

Annual Cash Incentive Bonus Awards

Our Short-Term Incentive Plan (STIP) is designed to assist us in attracting, retaining and motivating qualified personnel by rewarding management, including the Named Executive Officers, and selected other salaried employees with cash awards for our achieving an annual financial performance target. The annual performance target is recommended by the President and Chief Executive Officer and approved by the Committee, typically in January of each year. The performance measure is subject to equitable adjustment in the sole discretion of the Committee to reflect the occurrence of any significant events during the year.

The performance target historically has been EBITDA-derived, with items added or removed from the EBITDA calculation to ensure that the performance target reflects the pure operating results of the core mining

business. (EBITDA is defined as net income before net interest expense, income taxes, depreciation, depletion and amortization and minority interest.) The aggregate cash available for awards under the STIP each year is dependent on our actual financial results for the year compared to the annual performance target, and it increases in relationship to our adjusted EBITDA exceeding the minimum threshold. The Committee may determine satisfactory results and adjust the size of the pay-out pool in its sole discretion. For 2008, the Committee approved a minimum financial performance target of \$198.4 million in EBITDA from current operations, normalized by excluding any charges for unit-based compensation expense, and we exceeded the target.

Payments for individual executive officers each year are determined by and in the discretion of the Committee. As it does when reviewing base salaries, in determining individual payments the Committee considers its assessment of the individual's performance, comparative compensation data of companies in our peer group and the recommendation of the President and Chief Executive Officer. The compensation expense associated with STIP awards is recognized in the year earned, with the cash awards payable in the first quarter of the following calendar year. Termination of employment of an executive officer for any reason prior to payment of a cash award will result in forfeiture of any right to the award, unless and to the extent waived by the Committee in its discretion.

Equity Awards under the LTIP

Equity compensation pursuant to the LTIP is a key component of our executive compensation program. Our LTIP is sponsored by Alliance Coal. Under the LTIP, grants may be made of either (a) restricted units or (b) options to purchase common units, although to date, no grants of options have been made. The Committee has authority to determine the participants to whom restricted units are granted, the number of restricted units to be granted to each such participant, and the conditions under which the restricted units may become vested, including the duration of any vesting period. Annual grant levels for designated participants (including the Named Executive Officers) are recommended by our managing general partner's President and Chief Executive Officer, subject to review and approval by the Committee. Amounts realized from prior grants, including amounts realized due to changes in the value of our common units, are not considered in setting grant levels or other compensation for Named Executive Officers.

Restricted units granted under the LTIP vest at the end of a stated period from the grant date (which is currently approximately three years for all outstanding restricted units), provided we achieve an aggregate performance target for that period. The performance target is based on a normalized EBITDA measure, with that measure typically being the same as the STIP measure for the year of the grant. The target, however, requires achieving an aggregate performance level for the three-year period as compared to aggregate budgeted performance for that period. Historically, we have issued grants under the LTIP at the beginning of each year, with the exceptions of new employees who begin employment with us at some other time and job promotions that may occur at some other time. In 2008, we also issued grants in October in lieu of issuing grants at the beginning of 2009. The compensation expense associated with LTIP grants is recognized over the vesting period in accordance with SFAS No. 123R.

Our managing general partner's policy is to grant restricted common units pursuant to the LTIP to serve as a means of incentive compensation for performance and not primarily as an opportunity for equity participation with respect to our common units. Therefore, no consideration will be payable by the plan participants upon receipt of the common units. Common units to be delivered upon the vesting of restricted units or to be issued upon exercise of a unit option will be acquired by us in the open market at a price equal to the then prevailing price, or will be units already owned or newly issued by us, or any combination of the foregoing. If we issue new common units upon payment of the restricted units or unit options instead of purchasing them, the total number of common units outstanding will increase.

Restricted Units. Restricted units will vest at the end of a period of time as determined by the Committee, which is currently approximately three years after the grant date for all outstanding restricted

units, provided we achieve the aggregate performance target for that period. However, if a grantee's employment is terminated for any reason prior to the vesting of any restricted units, those restricted units will be automatically forfeited, unless the Committee, in its sole discretion, determines otherwise. The number of units actually distributed upon satisfaction of the applicable vesting requirements is reduced to cover the minimum statutory income tax withholding requirement for each individual participant based upon the fair market value of the common units as of the date of distribution. Pursuant to the distribution equivalent rights provision of the LTIP, all grants of restricted units include the contingent right to receive quarterly cash distributions in an amount equal to the cash distributions we make to unitholders during the vesting period.

Unit Options. We have not made any grants of unit options. The Committee, in the future, may decide to make unit option grants to employees and directors on terms determined by the Committee. When granted, unit options will have an exercise price set by the Committee which may be above, below or equal to the fair market value of a common unit on the date of grant. If a grantee's employment is terminated for any reason prior to the vesting of any unit options, those unit options will be automatically forfeited, unless the Committee, in its sole discretion, provides otherwise.

Grant Timing. The Committee does not time, nor has the Committee in the past timed, the grant of long-term equity incentive awards in coordination with the release of material non-public information. Instead, long-term equity incentive awards are granted only at the time or times dictated by our normal compensation process as developed by the Committee.

Effect of a Change in Control. Upon a change in control as defined in the LTIP, all awards of restricted units and options under the LTIP shall automatically vest and become payable or exercisable, as the case may be, in full. In this regard, all restricted periods shall terminate and all performance criteria, if any, shall be deemed to have been achieved at the maximum level. The LTIP defines a change in control as one of the following: (1) any sale, lease, exchange or other transfer of all or substantially all of our assets or our managing general partner's assets to any person; (2) the consolidation or merger of our managing general partner with or into another person pursuant to a transaction in which the outstanding voting interests of our managing general partner are changed into or exchanged for cash, securities or other property, other than any such transaction where (a) the outstanding voting interests of our managing general partner are changed into or exchanged for voting stock or interests of the surviving corporation or its parent and (b) the holders of the voting interests of our managing general partner immediately prior to such transaction own, directly or indirectly, not less than a majority of the voting stock or interests of the surviving corporation or its parent immediately after such transaction; or (3) a person or group being or becoming the beneficial owner of more than 50% of all voting interests of our managing general partner then outstanding.

Amendments and Termination. Our Board or the Committee may, in its discretion, terminate the LTIP at any time with respect to any common units for which a grant has not previously been made. Except as required by the rules of the exchange on which the common units may be listed at that time, our Board or the Committee may alter or amend the LTIP in any manner from time to time; provided, however, that no change in any outstanding grant may be made that would materially impair the rights of the participant without the consent of the affected participant. In addition, our Board or the Committee may, in its discretion, establish such additional compensation and incentive arrangements as it deems appropriate to motivate and reward our employees.

Supplemental Executive Retirement Plan

We maintain the SERP to help attract and motivate key employees, including the Named Executive Officers. The SERP is sponsored by Alliance Coal. Participation in the SERP aligns the interest of each Named Executive Officer with the interests of our unitholders because all allocations made to participants under the SERP are made in the form of phantom common units of ARLP. The Committee approves the SERP participants and their percentage allocations, and can amend or terminate the plan at any time.

Under the terms of the SERP, participants are entitled to receive on December 31 of each year an allocation of phantom units having a fair market value equal to his or her percentage allocation multiplied by the sum of base salary and cash bonus received that year, then reduced by any supplemental contribution that was made to our defined contribution profit sharing and savings plan for the participant that year. A participant's cumulative notional phantom unit account balance earns the equivalent of common unit distributions. The calculated distributions are added to the notional account balance in the form of additional phantom units. All amounts granted under the SERP vest immediately and are paid out upon the participant's termination or death in cash equal to then current fair market value of the phantom units credited to the participant's notional account under the SERP. The fair market value of a phantom unit is the average closing price of our common units for the ten trading days immediately preceding the applicable allocation or distribution date.

Upon any recapitalization, reorganization, reclassification, split of common units, distribution or dividend of securities on common units, or consolidation or merger, or sale of all or substantially all of our assets or other similar transaction which is effected in such a way that holders of common units are entitled to receive (either directly or upon subsequent liquidation) cash, securities or assets with respect to or in exchange for common units, the Committee shall, in its sole discretion (and upon the advice of financial advisors as may be retained by the Committee), immediately adjust the notional balance of phantom units in each Named Executive Officer's SERP account to equitably credit the fair value of the change in the common units and/or the distributions (of cash, securities or other assets) received or economic enhancement realized by the holders of the common units.

An executive officer who participates in the SERP shall be entitled to receive an allocation under the SERP for the year in which his employment is terminated on the occurrence of any of the following events:

- (1) the executive officer's employment is terminated other than for cause;
- (2) the executive officer terminates employment for good reason;
- (3) a change of control of us or our managing general partner occurs and, as a result, an executive officer's employment is terminated (whether voluntary or involuntary);
- (4) death of the executive officer;
- (5) attaining retirement age of 65 years for any executive officer; and
- (6) incurring a total and permanent disability, which shall be deemed to occur if an executive officer is eligible to receive benefits under the terms of the long-term disability program maintained by us.

This allocation for the relevant year in which an executive officer's termination occurs shall equal the executive officer's eligible compensation for such year (including any severance amount, if applicable) multiplied by his percentage allocation under the SERP, reduced by any supplemental contribution that was made to our defined contribution profit sharing and savings plan for the participant that year.

Trading in Derivatives

It is MGP's policy that directors and all officers, including the Named Executive Officers, may not purchase or sell options on ARLP's common units.

Committee Report

The Committee has submitted the following report for inclusion in this Consent Solicitation Statement:

Our Committee has reviewed and discussed the Compensation Discussion and Analysis contained in this Consent Solicitation Statement with management. Based on our Committee's review of and the discussions with management with respect to the Compensation Discussion and Analysis, our Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Consent

Solicitation Statement.

The foregoing report is provided by the following directors, who constitute all the members of the Committee:

Members of the Committee:

John H. Robinson, Chairman

Michael J. Hall

John P. Neafsey

Wilson M. Torrence

Notwithstanding anything to the contrary set forth in any of our previous filings under the Securities Act or the Exchange Act, that incorporate future filings, in whole or in part, the foregoing Committee Report shall not be deemed to be filed with the SEC or incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that we specifically incorporate it by reference.

Summary Compensation Table for 2008

Name and Principal Position	Year	Salary (2)	Bonus (3)	Unit Awards (4)	Option Awards (1)	Non-Equity Incentive Plan Compensation (5)	Change in Pension Value and	All Other Compensation (6)	Total
							Nonqualified Deferred Earnings (1)		
Joseph W. Craft III, President, Chief Executive Officer and Director	2008	\$ 334,828	\$	\$	\$	\$	\$	\$ 181,459	\$ 516,287
	2007	334,828		372,000				205,989	912,817
	2006	334,828		1,066,400				302,821	1,704,049
Brian L. Cantrell, Senior Vice President	2008	218,619		205,230		170,000		82,192	676,041
	2007	210,000		183,028		100,000		64,208	557,236
Chief Financial Officer	2006	202,115		241,573		125,000		68,825	637,513
R. Eberley Davis Senior Vice President, General Counsel and Secretary	2008	236,369	70,000	149,340		180,000		80,846	716,555
Robert G. Sachse, Executive Vice President-Marketing	2008	261,971		216,084		190,000		98,962	767,017
	2007	250,000	185,000	150,483		110,000		92,326	787,809
Charles R. Wesley,	2008	236,280		94,558		200,000			