FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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Walter Energy, Inc.

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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, 2011

or

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

Commission File Number 001-13711

WALTER ENERGY, INC.

(Exact name of registrant as specified in its charter)

Incorporated in Delaware (State or other jurisdiction of incorporation or organization)	**13-3429953** IRS Employer Identification No.
3000 Riverchase Galleria, Suite 1700, Birmingham, Alabama (Address of principal executive offices)	**35244** (Zip Code)

(205) 745-2000
Telephone Number

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, 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 (§ 232.405 of this chapter) 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 a 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. (Check one): Yes ☐ No ☒

Number of shares of common stock outstanding as of October 31, 2011: **62,439,526**

PART I–FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

WALTER ENERGY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

	September 30, 2011	December 31, 2010
ASSETS		
Cash and cash equivalents	$ 185,146	$ 293,410
Receivables, net	252,482	143,238
Inventories	226,566	97,631
Deferred income taxes	42,287	62,371
Prepaid expenses	63,887	28,179
Other current assets	49,238	10,710
Total current assets	819,606	635,539
Mineral interests, net of accumulated depletion of $91.0 million and $17.6 million, respectively	4,370,073	17,305
Property, plant and equipment, net of accumulated depreciation of $572.3 million and $433.1 million, respectively	1,550,004	772,696
Deferred income taxes	–	149,520
Goodwill	278,425	–
Other long-term assets	153,839	82,705
	$ 7,171,947	$ 1,657,765
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current debt	$ 97,426	$ 13,903
Accounts payable	137,690	70,692
Accrued expenses	238,001	52,399
Accumulated postretirement benefits obligation	25,692	24,753
Other current liabilities	30,358	32,100
Total current liabilities	529,167	193,847
Long-term debt	2,327,313	154,570
Deferred income taxes	1,395,199	–
Accumulated postretirement benefits obligation	464,710	451,348
Other long-term liabilities	348,236	262,934
Total liabilities	5,064,625	1,062,699
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Common stock, $0.01 par value per share:		
Authorized–200,000,000 shares, Issued–62,437,811 and 53,136,977 shares, respectively	624	531
Preferred stock, $0.01 par value per share:		
Authorized–20,000,000 shares, issued–0 shares	–	–
Capital in excess of par value	1,618,832	355,540
Retained earnings	654,539	411,383
Accumulated other comprehensive income (loss):		

Pension and other postretirement benefit plans, net of tax	(162,997)	(172,317)
Unrealized investment loss, net of tax	(1,192)	−
Foreign currency translation adjustment	(266)	−
Unrealized loss on hedges, net of tax	(2,218)	(71)
Total stockholders' equity	2,107,322	595,066
	$ 7,171,947	$ 1,657,765

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

WALTER ENERGY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	For the three months ended September 30, 2011	For the three months ended September 30, 2010
Revenues:		
Sales	$ 685,052	$ 460,163
Miscellaneous income	5,017	4,099
	690,069	464,262
Costs and expenses:		
Cost of sales (exclusive of depreciation and depletion)	425,487	200,498
Depreciation and depletion	63,046	25,905
Selling, general and administrative	43,122	19,703
Postretirement benefits	9,764	10,369
	541,419	256,475
Operating income	148,650	207,787
Interest expense	(27,642)	(4,179)
Interest income	40	175
Other loss	(13,143)	–
Income from continuing operations before income tax expense	107,905	203,783
Income tax expense	31,684	66,811
Income from continuing operations	76,221	136,972
Loss from discontinued operations	–	(757)
Net income	$ 76,221	$ 136,215
Basic income per share:		
Income from continuing operations	$ 1.22	$ 2.59
Discontinued operations	–	(0.02)
Net income	$ 1.22	$ 2.57
Diluted income per share:		
Income from continuing operations	$ 1.21	$ 2.57
Discontinued operations	–	(0.02)
Net income	$ 1.21	$ 2.55
Dividends per share	$ 0.125	$ 0.125

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

WALTER ENERGY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	For the nine months ended September 30,	
	2011	2010
Revenues:		
Sales	$ 1,858,343	$ 1,173,982
Miscellaneous income	13,460	12,951
	1,871,803	1,186,933
Costs and expenses:		
Cost of sales (exclusive of depreciation and depletion)	1,106,008	574,095
Depreciation and depletion	180,830	71,959
Selling, general and administrative	132,525	60,453
Postretirement benefits	30,374	31,099
	1,449,737	737,606
Operating income	422,066	449,327
Interest expense	(63,245)	(13,120)
Interest income	356	633
Other income, net	11,360	–
Income from continuing operations before income tax expense	370,537	436,840
Income tax expense	105,145	141,063
Income from continuing operations	265,392	295,777
Loss from discontinued operations	–	(1,848)
Net income	$ 265,392	$ 293,929
Basic income per share:		
Income from continuing operations	$ 4.45	$ 5.56
Discontinued operations	–	(0.04)
Net income	$ 4.45	$ 5.52
Diluted income per share:		
Income from continuing operations	$ 4.43	$ 5.50
Discontinued operations	–	(0.03)
Net income	$ 4.43	$ 5.47
Dividends per share	$ 0.375	$ 0.35

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

WALTER ENERGY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011 (UNAUDITED)

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	Total	Common Stock	Capital in Excess of Par Value	Comprehensive Income	Retained Earnings	Accumulated Other Comprehensive Income (Loss)
Balance at December 31, 2010	$ 595,066	$ 531	$ 355,540		$411,383	$ (172,388)
Comprehensive income:						
Net income	265,392			$ 265,392	265,392	
Other comprehensive income:						
Change in pension and other postretirement benefit plans, net of tax	9,320			9,320		9,320
Change in unrealized loss on investments, net of tax	(1,192)			(1,192)		(1,192)
Change in unrealized loss on hedges, net of tax	(2,147)			(2,147)		(2,147)
Change in foreign currency translation adjustment	(266)			(266)		(266)
Comprehensive income				$ 271,107		
Stock issued upon the exercise of stock options	8,878	3	8,875			
Dividends paid, $0.375 per share	(22,236)				(22,236)	
Stock-based compensation	7,809		7,809			
Tax benefit from stock-based compensation arrangements	8,946		8,946			
Issuance of common stock in connection with the Western Coal Corp. acquisition	1,224,126	90	1,224,036			
Fair value of replacement stock options and warrants issued in connection with the Western Coal Corp. acquisition	18,844		18,844			
Other	(5,218)		(5,218)			
Balance at September 30, 2011	$2,107,322	$ 624	$1,618,832		$654,539	$ (166,673)

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

WALTER ENERGY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(IN THOUSANDS)

	For the nine months ended September 30, 2011	2010
OPERATING ACTIVITIES		
Net income	$ 265,392	$ 293,929
Loss from discontinued operations	–	1,848
Income from continuing operations	265,392	295,777
Adjustments to reconcile income from continuing operations to net cash flows provided by (used in) operating activities:		
Depreciation and depletion	180,830	71,959
Deferred income taxes	(19,138)	85,703
Gain on investment in Western Coal Corp	(20,553)	–
Other	29,098	(12,553)
Decrease (increase) in current assets, net of effect of business acquisitions:		
Receivables	30,655	(91,783)
Inventories	(1,560)	12,580
Other current assets	19,496	12,839
Increase in current liabilities, net of effect of business acquisitions:		
Accounts payable	24,645	14,966
Accrued expenses and other current liabilities	764	33,584
Cash flows provided by operating activities	509,629	423,072
INVESTING ACTIVITIES		
Additions to property, plant and equipment	(293,377)	(80,230)
Acquisition of Western Coal Corp., net of cash acquired	(2,432,693)	–
Acquisition of HighMount Exploration & Production Alabama, LLC	–	(209,964)
Proceeds from sales of investments	27,325	–
Other	814	(4,105)
Cash flows used in investing activities	(2,697,931)	(294,299)
FINANCING ACTIVITIES		
Proceeds from issuance of debt	2,350,000	–
Borrowings under revolving credit agreement	41,461	–
Repayments on revolving credit agreement	(41,461)	–
Retirements of debt	(165,024)	(19,711)
Dividends paid	(22,236)	(18,654)
Purchases of stock under stock repurchase program	–	(65,438)
Debt issuance costs	(80,027)	–
Other	(1,197)	30,043
Cash flows provided by (used in) financing activities	2,081,516	(73,760)
Cash flows provided by (used in) continuing operations	(106,786)	55,013
CASH FLOWS FROM DISCONTINUED OPERATIONS		
Cash flows used in operating activities	–	(6,146)

Cash flows provided by investing activities	–	3,453
Cash flows provided by (used in) financing activities	–	–
Cash flows used in discontinued operations	–	(2,693)
Effect of foreign exchange rates on cash	(2,013)	–
Net increase (decrease) in cash and cash equivalents	$ (108,799)	$ 52,320
Cash and cash equivalents at beginning of period	$ 293,410	$ 165,279
Add: Cash and cash equivalents of discontinued operations at beginning of period	535	1,254
Net increase (decrease) in cash and cash equivalents	(108,799)	52,320
Less: Cash and cash equivalents of discontinued operations at end of period	–	434
Cash and cash equivalents at end of period	$ 185,146	$ 218,419

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

WALTER ENERGY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) (Continued)
(IN THOUSANDS)

	For the nine months ended September 30,	
	2011	**2010**
SUPPLEMENTAL DISCLOSURES		
Investing Activities:		
Acquisition of Western Coal in 2011 and HighMount in 2010:		
Fair value of assets acquired	$ 5,681,133	$ 217,607
Less: fair value of liabilities assumed	(1,934,931)	(7,643)
fair value of shares of common stock issued	(1,224,126)	–
fair value of stock options issued and warrants	(34,765)	–
gain on investment	(20,553)	–
cash acquired	(34,065)	–
Net cash paid	$ 2,432,693	$ 209,964
Non-cash transactions:		
Financing of one-year property insurance premium	$ –	$ 18,947

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

Note 1−Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Walter Energy, Inc. and its subsidiaries (the "Company") have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011.

As described in Note 2, on April 1, 2011 the Company completed the acquisition of all the outstanding common shares of Western Coal Corp. ("Western Coal"). The accompanying financial statements include the results of operations of Western Coal since April 1, 2011. As a result of the Western Coal acquisition and the change in how our Chief Operating Decision Maker evaluates the business operations, beginning with the second quarter of 2011 the Company has revised its reportable segments by arranging them geographically. The Company now reports all of its operations located in the U.S. under the U.S. Operations segment which includes the Company's previous operating segments of Underground Mining, Surface Mining and Walter Coke. The U.S. Operations segment also includes the West Virginia mining operations acquired through the acquisition of Western Coal. The Company reports its mining operations acquired through the Western Coal acquisition located in Northeast British Columbia (Canada) and South Wales (United Kingdom) under the Canadian and U.K. Operations segment. The Other segment primarily consists of Corporate activities and expenditures. See Note 11 for segment information. Previously reported segment amounts have been restated to conform to the current period presentation.

For the three and nine months ended September 30, 2010 amounts reported in discontinued operations include the results from the Company's closed Homebuilding business and Kodiak Mining Company, LLC.

Note 2−Acquisitions

Western Coal Corp. On November 18, 2010 the Company announced its intent to acquire all of the outstanding common shares of Western Coal. Western Coal was a producer of high quality metallurgical coal from mines in Northeast British Columbia (Canada), high quality metallurgical coal and compliant thermal coal from mines located in West Virginia (United States), and high quality anthracite coal from mines located in South Wales (United Kingdom). The acquisition of Western Coal substantially increased the Company's reserves available for future production, the majority of which is high-demand metallurgical coal, and created a diverse geographical footprint with strategic access to high-growth steel-producing countries in both the Atlantic and Pacific basins.

On November 17, 2010 the Company entered into a share purchase agreement with various funds advised by Audley Capital to purchase approximately 54.5 million common shares, or 19.8%, of the outstanding common shares of Western Coal for CAD$11.50 per share in two separate transactions. On December 2, 2010 the Company entered into an arrangement agreement with Western Coal to acquire all the remaining outstanding common shares of Western Coal for CAD$11.50 per share in cash or

Note 2−Acquisitions (Continued)

0.114 of a Walter Energy share, or for a combination thereof at the holder's election, subject to proration.

In January 2011 the Company completed the first transaction to acquire 25,274,745 common shares of Western Coal, or 9.15% of the outstanding shares, from funds advised by Audley Capital. The shares were purchased for $293.7 million in cash and had a fair value of $314.2 million on April 1, 2011. The Company recognized a gain on April 1, 2011 of $20.5 million as a result of remeasuring to fair value the Western Coal shares acquired from Audley Capital which is included in other income in the Condensed Consolidated Statements of Operations for the periods ended September 30, 2011. On April 1, 2011 the Company acquired the remaining outstanding common shares of Western Coal (including the second Audley Capital transaction) for a combination of $2.2 billion in cash and the issuance of 8,951,558 common shares of Walter Energy valued at $1.2 billion. The fair value of Walter Energy's common stock on April 1, 2011 was $136.75 per share based on the closing value on the New York Stock Exchange. The cash portion was funded with part of the proceeds from the new $2.725 billion credit facility discussed in Note 4. All of the outstanding options to purchase Western Coal common shares that were not exercised prior to the acquisition were exchanged for fully-vested and immediately exercisable options to purchase shares of Walter Energy common stock. The Company issued 193,498 stock options in exchange for the Western Coal stock options outstanding as of April 1, 2011. The stock options issued had a fair value of $15.5 million, which was estimated using the Black-Scholes option pricing model. The outstanding warrants of Western Coal were not directly affected by the acquisition. Instead, upon exercise each warrant will entitle the holder to receive cash and shares of Walter Energy common stock that would have been issued if the warrants had been exercised immediately before closing the acquisition.

The purchase consideration has been preliminarily allocated to the assets acquired and liabilities assumed based upon their estimated fair values at the date of acquisition. A full and detailed valuation of the assets and liabilities is being completed with the assistance of an independent third party and certain information and analysis remains pending at this time. Accordingly, the allocation is preliminary and is expected to change as additional information becomes available and is assessed by the Company. The final allocation of the consideration transferred may include adjustment to the fair value estimates of identifiable assets and liabilities, including but not limited to depreciable tangible assets, proven and probable reserves, reserves related to current development projects, value beyond proven and probable reserves, intangible assets and contract-related liabilities after a full review has been completed. The impact of such changes may be material. Fair values were determined using the income, cost and market price valuation methods as deemed appropriate.

Note 2−Acquisitions (Continued)

The following table summarizes the purchase consideration and the preliminary estimated fair values of assets acquired and liabilities assumed (in thousands):

Purchase consideration:	
Cash	$2,173,080
Fair value of shares of common stock issued	1,224,126
Fair value of stock options issued and warrants	34,765
Fair value of consideration transferred	3,431,971
Fair value of equity interest in Western Coal held before the acquisition	314,231
Total consideration	$3,746,202
Fair value of assets acquired and liabilities assumed:	
Cash and cash equivalents	$ 34,065
Receivables	163,668
Inventories	122,012
Other current assets	65,606
Mineral interests	4,399,000
Property, plant and equipment	565,228
Goodwill	277,404
Other long-term assets	54,150
Total assets	5,681,133
Accounts payable and accrued liabilities	$ 180,157
Other current liabilities	75,824
Deferred tax liability	1,576,896
Other long-term liabilities	102,054
Total liabilities	1,934,931
Net assets acquired	$3,746,202

Goodwill is calculated as the excess of the purchase consideration transferred over the fair value of the identifiable assets acquired and liabilities assumed. The factors that contribute to the recognition of goodwill, which may also influence the purchase price allocation, include Western Coal's (i) historical cash flows and income levels, (ii) reputation in its markets, (iii) strength of its management team, (iv) efficiency of its operations, and (v) future cash flows and income growth projections. Goodwill has increased $27.4 million as compared to June 30, 2011 as a result of ongoing adjustments to the estimated fair values of assets acquired and liabilities assumed and purchase consideration assumptions. Goodwill has preliminarily been assigned to the Canadian and U.K. Operations segment and the U.S. Operations segment in the amounts of $253.3 million and $24.1 million, respectively. None of the goodwill is expected to be tax deductible. The Company incurred acquisition costs related to the purchase of approximately $6.1 million and $23.1 million during the three and nine months ended September 30, 2011, respectively, which are included in selling, general and administrative expenses in our Condensed Consolidated Statements of Operations.

Note 2−Acquisitions (Continued)

The amounts of revenues and earnings of Western Coal included in the Company's condensed consolidated statement of operations from the acquisition date in the periods ending September 30, 2011 are as follows (in thousands):

	Three months ended September 30, 2011	Nine months ended September 30, 2011
Revenues	$ 270,295	$ 576,660
Net income	$ 34,684	$ 42,163

The unaudited supplemental pro forma information presented below includes the effects of the Western Coal acquisition as if it had been completed as of January 1, 2010. The pro forma results include (i) the impact of certain estimated fair value adjustments, including additional estimated depreciation and depletion expense associated with the acquired mineral interests and property, plant and equipment and (ii) interest expense associated with debt used to fund the acquisition. The pro forma results for the nine months ended September 30, 2010 include adjustments for the financial impact of certain acquisition related items incurred during the nine months ended September 30, 2011. Accordingly, the following unaudited pro forma financial information should not be considered indicative of either future results or results that might have occurred had the acquisition been consummated as of January 1, 2010 (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Revenues	$ 690,069	$ 698,886	$ 2,096,011	$ 1,749,965
Net income	$ 74,417	$ 141,669	$ 306,643	$ 251,397

North River Mine On May 6, 2011 the Company acquired the North River thermal coal mine in Fayette and Tuscaloosa Counties of Alabama from a subsidiary of Chevron Corporation for approximately $1.1 million in cash and the assumption of certain liabilities totaling approximately $90.9 million, including a $70.0 million below-market coal sales contract liability. The below-market contract has a remaining term of 29 months and such contracts acquired in a business combination are recorded at their fair value and amortized into revenues over the tons of coal sold during the contract term. The Company has preliminarily recognized goodwill of $1.6 million. None of the goodwill is expected to be tax deductible. The purchase consideration has been preliminarily allocated to the assets acquired and liabilities assumed based upon their estimated fair values at the date of acquisition and remains subject to change. The inclusion of this business for the current period did not have a material impact on either the Company's revenues or operating income, and the Company does not expect the results of this business to have a material effect on future operating results.

Note 3−Inventories

Inventories are summarized as follows (in thousands):

	September 30, 2011	December 31, 2010
Coal	$ 166,739	$ 69,110
Raw materials and supplies	59,827	28,521
Total inventories	$ 226,566	$ 97,631

Note 4−Debt

Debt consisted of the following (in thousands):

	September 30, 2011	December 31, 2010	Weighted Average Stated Interest Rate At September 30, 2011	Estimated Final Maturity
2011 term loan A	$ 935,000	$ −	3.285%	2016
2011 term loan B	1,396,500	−	4.00%	2018
2005 term loan	−	136,062		
Other(1)	93,239	32,411	Various	Various
Total debt	2,424,739	168,473		
Less current debt	(97,426)	(13,903)		
Total long-term debt	$ 2,327,313	$ 154,570		

(1) This balance includes capital lease obligations and an equipment financing agreement.

The Company's minimum debt repayment schedule, excluding interest, as of September 30, 2011 is as follows (in thousands):

	Payments Due					
	2011	2012	2013	2014	2015	Thereafter
2011 term loan A	$ 7,500	$ 52,500	$ 82,500	$ 112,500	$ 517,500	$ 162,500
2011 term loan B	3,500	14,000	14,000	14,000	14,000	1,337,000
Other debt	11,408	33,878	25,273	16,993	5,599	88
	$ 22,408	$ 100,378	$ 121,773	$ 143,493	$ 537,099	$ 1,499,588

2005 Credit Agreement, as Amended On April 1, 2011, in connection with the acquisition of Western Coal, the Company repaid all outstanding loans and accrued interest under the 2005 credit agreement, as amended ("2005 Credit Agreement") and it was simultaneously terminated. No penalties were due in connection with the repayments. As of March 31, 2011 the 2005 Credit Agreement included (1) an amortizing term loan facility ("2005 Term Loan") with an initial aggregate principal amount of $450.0 million and (2) a $300.0 million revolving credit facility ("2005 Revolver") which provided for loans and letters of credit. The 2005 Term Loan bore interest at LIBOR plus as much as

Note 4−Debt (Continued)

300 basis points and required quarterly principal payments of $0.4 million through October 3, 2012, at which time the remaining outstanding principal was to be due. The 2005 Revolver bore interest at LIBOR plus as much as 400 basis points and was due to mature on July 2, 2012. The commitment fee on the unused portion of the 2005 Revolver was 0.5% per year for all pricing levels. The Company's obligations under the 2005 Credit Agreement were secured by substantially all of the Company's real, personal and intellectual property.

2011 Credit Agreement On April 1, 2011, the Company entered into a $2.725 billion credit agreement (the "2011 Credit Agreement") to partially fund the acquisition of Western Coal and to payoff all outstanding loans under the 2005 Credit Agreement. The 2011 Credit Agreement consists of (1) a $950.0 million principal amortizing term loan A facility maturing in April 2016, at which time the remaining outstanding principal is due, (2) a $1.4 billion principal amortizing term loan B facility maturing in April 2018, at which time the remaining outstanding principal is due and (3) a $375.0 million multi-currency revolving credit facility ("Revolver") maturing in April 2016, at which time any remaining balance is due. The Revolver provides for operational needs and letters of credit. The Company's obligations under the 2011 Credit Agreement are secured by substantially all of the Company's domestic and foreign real, personal and intellectual property. The 2011 Credit Agreement contains customary events of default and covenants, including among other things, covenants that restrict but do not prevent the ability of the Company and its subsidiaries to incur certain additional indebtedness, create or permit liens on assets, pay dividends and repurchase stock, engage in mergers or acquisitions and make investments and loans. The 2011 Credit Agreement also includes certain financial covenants that must be maintained.

The Revolver, term loan A and term loan B interest rates are tied to LIBOR or the Canadian Dealer Offered Rate ("CDOR"), plus a credit spread ranging from 225 to 300 basis points for the Revolver and term loan A, and 275 to 300 basis points on the term loan B adjusted quarterly based on the Company's total leverage ratio as defined by the 2011 Credit Agreement. The term loan B has a minimum LIBOR floor of 1.0%. The Revolver loans can be denominated in either U.S. dollars or Canadian dollars at the Company's option. The commitment fee on the unused portion of the Revolver is 0.5% per year for all pricing levels. As of September 30, 2011, there were no borrowings outstanding under the Revolver, with $70.5 million outstanding stand-by letters of credit and $304.5 million of availability for future borrowings.

Note 5−Pension and Other Postretirement Benefits

The components of net periodic benefit cost are as follows (in thousands):

	Pension Benefits		Other Benefits	
	For the three months ended September 30,		For the three months ended September 30,	
	2011	2010	2011	2010
Components of net periodic benefit cost:				
Service cost	$ 1,291	$ 1,105	$ 1,827	$ 753
Interest cost	3,144	3,226	6,206	6,510
Expected return on plan assets	(3,929)	(3,269)	−	−
Amortization of prior service cost (credit)	68	76	(240)	(524)
Amortization of net actuarial loss	2,063	2,231	1,971	3,630
Net periodic benefit cost	$ 2,637	$ 3,369	$ 9,764	$ 10,369

	Pension Benefits		Other Benefits	
	For the nine months ended September 30,		For the nine months ended September 30,	
	2011	2010	2011	2010
Components of net periodic benefit cost:				
Service cost	$ 3,873	$ 3,315	$ 4,333	$ 2,259
Interest cost	9,432	9,678	18,686	19,522
Expected return on plan assets	(11,787)	(9,807)	−	−
Amortization of prior service cost (credit)	204	228	(720)	(1,572)
Amortization of net actuarial loss	6,189	6,693	8,075	10,890
Settlement loss	1,716	−	−	−
Net periodic benefit cost	$ 9,627	$ 10,107	$ 30,374	$ 31,099

The settlement loss shown above is related to the retirement of an executive of the Company and was included in selling, general and administrative expense in the consolidated statements of operations.

Note 6−Comprehensive Income

Comprehensive income is comprised primarily of net income, changes in pension and other postretirement benefits obligations, unrealized gains or losses on investments, gains or losses from the effect of cash flow hedges and foreign currency translation adjustments. Foreign currency translation adjustments are not adjusted for income taxes as they relate to indefinite investments in non-U.S. subsidiaries. Comprehensive income for the three months ended September 30, 2011 and 2010 was $82.0 million and $139.3 million, respectively. Comprehensive income for the nine months ended September 30, 2011 and 2010 was $271.1 million and $303.7 million, respectively.

Note 7−Net Income Per Share

A reconciliation of the basic and diluted net income per share computations for the three and nine months ended September 30, 2011 and 2010 is as follows (in thousands, except per share data):

	For the three months ended September 30,			
	2011		2010	
	Basic	Diluted	Basic	Diluted
Numerator:				
Income from continuing operations	$ 76,221	$ 76,221	$ 136,972	$ 136,972
Loss from discontinued operations	$ −	$ −	$ (757)	$ (757)
Denominator:				
Average number of common shares outstanding	62,414	62,414	52,920	52,920
Effect of dilutive securities:				
Stock awards and warrants(a)	−	345	−	473
	62,414	62,759	52,920	53,393
Income from continuing operations	$ 1.22	$ 1.21	$ 2.59	$ 2.57
Loss from discontinued operations	−	−	(0.02)	(0.02)
Net income per share	$ 1.22	$ 1.21	$ 2.57	$ 2.55

	For the nine months ended September 30,			
	2011		2010	
	Basic	Diluted	Basic	Diluted
Numerator:				
Income from continuing operations	$ 265,392	$ 265,392	$ 295,777	$ 295,777
Loss from discontinued operations	$ −	$ −	$ (1,848)	$ (1,848)
Denominator:				
Average number of common shares outstanding	59,601	59,601	53,224	53,224
Effect of dilutive securities:				
Stock awards and warrants(a)	−	370	−	548
	59,601	59,971	53,224	53,772
Income from continuing operations	$ 4.45	$ 4.43	$ 5.56	$ 5.50
Loss from discontinued operations	−	−	(0.04)	(0.03)
Net income per share	$ 4.45	$ 4.43	$ 5.52	$ 5.47

(a) Stock awards represent the weighted average number of shares of common stock issuable on the exercise of dilutive employee stock options and restricted stock units, less the number of shares of common stock which could have been purchased with the proceeds from the exercise of such stock awards. These purchases were assumed to have been made at the average market price of the common stock for the period. The weighted average number of stock options outstanding for the

Note 7−Net Income Per Share (Continued)

three months ended September 30, 2011 and 2010 totaling 38,083 and 30,755, respectively, were excluded from the calculation above because their effect would have been anti-dilutive. Additionally, the weighted average number of stock options outstanding for the nine months ended September 30, 2011 and 2010 totaling 32,086 and 27,802 respectively, were excluded because their effect would have been anti-dilutive. Outstanding warrants entitle the holder to receive cash and shares of common stock upon exercise.

Note 8−Commitments and Contingencies

Income Tax Litigation

On December 27, 1989, the Company and most of its subsidiaries each filed a voluntary petition for reorganization under Chapter 11 of Title 11 of the United States Code (the "Bankruptcy Proceedings") in the United States Bankruptcy Court for the Middle District of Florida, Tampa Division (the "Bankruptcy Court"). The Company emerged from bankruptcy on March 17, 1995 (the "Effective Date") pursuant to the Amended Joint Plan of Reorganization dated as of December 9, 1994, as modified on March 1, 1995 (as so modified the "Consensual Plan"). Despite the confirmation and effectiveness of the Consensual Plan, the Bankruptcy Court continues to have jurisdiction over, among other things, the resolution of disputed prepetition claims against the Company and other matters that may arise in connection with or related to the Consensual Plan, including claims related to federal income taxes.

In connection with the Bankruptcy Proceedings, the Internal Revenue Service ("IRS") filed a proof of claim in the Bankruptcy Court (the "Proof of Claim") for a substantial amount of taxes, interest and penalties with respect to fiscal years ended August 31, 1983 through May 31, 1994. The Company filed an adversary proceeding in the Bankruptcy Court disputing the Proof of Claim (the "Adversary Proceeding") and the various issues have been litigated in the Bankruptcy Court. An opinion was issued by the Bankruptcy Court in June 2010 as to the remaining disputed issues. The Bankruptcy Court instructed both parties to submit a proposed final order addressing all issues that have been litigated for the tax years 1983 through 1995 in the Adversary Proceeding by late August 2010. At the request of both parties, the Bankruptcy Court granted an extension of time of 90 days from the initial submission date to submit the proposed final order. Additional extensions of time to submit the proposed final order were granted in November 2010, February 2011 and May 2011. At the request of both parties, in September 2011 the Bankruptcy Court granted an additional extension of time until January 5, 2012 to submit the proposed final order.

The amounts initially asserted by the Proof of Claim do not reflect the subsequent resolution of various issues through settlements or concessions by the parties. The Company believes that any financial exposure with respect to those issues that have not been resolved or settled in the Proof of Claim is limited to interest and possible penalties and the amount of tax assessed has been offset by tax reductions in future years. All of the issues in the Proof of Claim, which have not been settled or conceded, have been litigated before the Bankruptcy Court and are subject to appeal but only at the conclusion of the entire Adversary Proceeding.

The Company believes that those portions of the Proof of Claim, which remain in dispute or are subject to appeal, substantially overstate the amount of taxes allegedly owed. However, because of the

Note 8−Commitments and Contingencies (Continued)

complexity of the issues presented and the uncertainties associated with litigation, the Company is unable to predict the ultimate outcome of the Adversary Proceeding.

The IRS completed its audit of the Company's federal income tax returns for the years ended May 31, 2000 through December 31, 2005. The IRS issued 30-Day Letters to the Company in June 2010, proposing changes to tax for these tax years. The Company filed a formal protest with the IRS within the prescribed 30-day time limit for those issues which have not been previously settled or conceded. The IRS filed a rebuttal to the Company's formal protest and the case was assigned to the Appeals Division of the IRS. The Appeals Division convened a hearing on March 8, 2011 and heard arguments from both parties as to issues not settled or conceded for the 2000 through 2005 audit period. At this time, no final resolution has been reached with the Appeals Division pertaining to these matters. The disputed issues in this audit period are similar to the issues remaining in the Proof of Claim and consequently, should the IRS prevail on its positions, the Company believes its financial exposure is limited to interest and possible penalties.

The IRS has begun its audit of the Company's income tax returns filed for 2006 through 2008. Since the IRS examination is in its initial stages, any resulting tax deficiency or overpayment cannot be estimated at this time. During the next year, the statute of limitations for assessing additional income tax deficiencies will expire for certain tax years in several state tax jurisdictions. The expiration of the statute of limitations for these years is expected to have an immaterial impact on the total uncertain income tax positions and net income.

The Company believes that all of its current and prior tax filing positions have substantial merit and intends to defend vigorously any tax claims asserted. The Company believes that it has sufficient accruals to address any claims, including interest and penalties, and as a result, we believe that any potential difference between actual losses and costs incurred and the amounts accrued would be immaterial.

Environmental Matters

The Company is subject to a wide variety of laws and regulations concerning the protection of the environment, both with respect to the construction and operation of its plants, mines and other facilities and with respect to remediating environmental conditions that may exist at its own and other properties.

The Company believes that it is in substantial compliance with federal, state and local environmental laws and regulations. The Company accrues for environmental expenses resulting from existing conditions that relate to past operations when the costs are probable and can be reasonably estimated.

Walter Coke, Inc.

Walter Coke entered into a decree order in 1989 relative to a Resource Conservation Recovery Act ("RCRA") compliance program mandated by the Environmental Protection Agency ("EPA"). A RCRA Facility Investigation ("RFI") Work Plan was prepared which proposed investigative tasks to assess the presence of contamination at the Walter Coke facility. A work plan was approved in 1994 and the Phase I investigations were conducted and completed between 1995 and 1999. Phase II

Note 8−Commitments and Contingencies (Continued)

investigations for the Chemical Plant/Coke Plant and Biological Treatment Facility and Sewers/Land Disposal Areas at the Walter Coke facility were performed in 2000 and 2001 and are complete. At the end of 2004, the EPA re-directed Walter Coke's RFI efforts toward completion of the Environmental Indicator ("EI") determinations for the Current Human Exposures. This EI effort was completed to assist the EPA in meeting goals set by the Government Performance Results Act ("GPRA") for RCRA by 2005. Walter Coke implemented the approved EI sampling plan in April 2005. The EPA approved and finalized the EI determinations for Walter Coke's Birmingham facility in September 2005. In an effort to refocus the RFI, the EPA approved technical comments on the Phase II RFI report and the report submitted as part of the EI effort. A Phase III work plan was submitted to the EPA during the first quarter of 2007. The EPA commented on the Phase III plan and Walter Coke responded. Subsequently, a meeting was held with the EPA during the third quarter of 2007 with the objective of finalization of the Phase III plan. Phase III sampling reports were submitted in March 2009 and June 2009. Beyond the scope of the Phase III activity performed in 2007 through 2009, additional requests by EPA expanded the scope of the project which required additional sampling and testing. In January 2008, as a follow-up to the EI determination, the EPA requested that Walter Coke perform additional soil sampling and testing in the neighborhoods surrounding its facility. Subsequent to EPA's initial request and presentation of a residential sampling plan to EPA by Walter Coke, the plan was finalized and community involvement initiated, with sampling and testing commencing in July 2009. The results of this sampling and testing were submitted to the EPA for review in December 2009. Walter Coke has agreed to remediate 23 properties based on the 2009 sampling and that process was started in July, 2011. The EPA and Walter Coke are in discussions regarding future action and timing under the Phase III RFI plan and any subsequent residential sampling.

The Company has incurred costs to investigate the presence of contamination at the Walter Coke facility and to define remediation actions to address this environmental liability in accordance with the agreements reached with the EPA under the RFI and the residential soil sampling conducted by Walter Coke in the neighborhoods surrounding its facility. At September 30, 2011, the Company has an amount accrued that is probable and can be reasonably estimated for the costs to be incurred to identify and define remediation actions, as well as to perform certain remedial tasks which can be quantified, in accordance with the agreements reached and proposals that continue to be coordinated with the EPA to date. The amount of this accrual is not material to the financial statements. While it is probable that the Company will incur additional future costs to remediate environmental liabilities at the Walter Coke facility, the amount of these costs cannot be reasonably estimated at this time. Because the RCRA compliance program is in the study phase, until the studies are complete the Company is unable to fully estimate the cost of remediation activities that will be required. Although no assurances can be given that the Company will not be required in the future to make material expenditures relating to the Walter Coke site or other sites, management does not believe at this time that the cleanup costs, if any, associated with these sites will have a material adverse effect on the financial condition of the Company, but such cleanup costs could be material to results of operations in a future reporting period. The Company and Walter Coke were named in a suit filed by Louise Moore on April 26, 2011 (Louise Moore v. Walter Energy, Inc. and Walter Coke, Inc., Case No. 2:11-CV-01391) in the federal District Court for the Northern District of Alabama. This is a putative civil class action alleging state law tort claims arising from the alleged presence on properties of substances, including arsenic, BaP, and other hazardous substances, allegedly as a result of current

Note 8−Commitments and Contingencies (Continued)

and/or historic operations in the area conducted by the companies and/or their predecessors. This action is still in the earliest stages of litigation. On June 6, 2011, the plaintiff filed an amended complaint eliminating Walter Energy as a defendant and amending the claims alleged against Walter Coke to relate to Walter Coke's alleged conduct for the period commencing after March 2, 1995. Based on initial evaluation, management believes that both procedural and substantive defenses are available to the Company and Walter Coke expects to vigorously defend this matter. No specific dollar value has been claimed in the suit's demand for monetary damages. On June 20, 2011, Walter Coke filed a Motion to Dismiss which, was heard on October 28, 2011. As of the date of filing this report on Form 10-Q a ruling has not been received.

Maple Coal Company

Maple Coal Company ("Maple") was the subject of a compliance order issued against its water discharge permit in April, 2007 by the West Virginia Department of Environmental Protection ("WVDEP"). This order provided that Maple would have until April 5, 2010 to comply with certain water quality-based effluent limitations for selenium concentrations in discharges from its mining operations.

Maple sought a permit modification to extend the selenium compliance date beyond April 5, 2010. That permit modification application was denied by the WVDEP. Maple appealed that denial to the West Virginia Environmental Quality Board ("EQB"), which issued a Stay of those limits, to be effective until it had issued a ruling. The Kanawha County (West Virginia) Circuit Court also issued Stay Orders, preventing the selenium effluent limits in Maple's National Pollutant Discharge Elimination System ("NPDES") permit from taking effect until the exhaustion of all appeals from the WVDEP denial and the conclusion of the WVDEP's civil enforcement action.

The EQB ruled against Maple's appeal. Maple has filed an appeal of these rulings (consolidated into one case) with the Fayette County (West Virginia) Circuit Court. In connection with this administrative appeal, Maple has also obtained a Stay Order from the Fayette County Circuit Court, suspending the effective date of the selenium limits in its NPDES permit pending the outcome of that appeal. The parties to that appeal agreed to defer briefing, pending negotiation of a comprehensive settlement of all such issues (discussed below) and the Court entered an order suspending the briefing schedule.

In a related action, in June, 2010 the WVDEP instituted a civil enforcement action against Maple seeking to enforce effluent limits for non-selenium parameters found in the Maple permit, asserting violations of various in-stream water quality standards, and alleging a violation of the April 5, 2007 selenium compliance order. Maple has filed an Answer and is contesting the claims of the WVDEP in that matter, but anticipates entering into a comprehensive Consent Decree with the WVDEP as a means of resolving that case and the EQB case mentioned above.

In a second related action, in January, 2011 three environmental interest groups filed a Clean Water Act citizen's suit against Maple, seeking more than $14 million in civil penalties for selenium violations since April, 2010 and injunctive relief in the form of mandatory treatment plant installations. The plaintiffs filed a Motion for Partial Summary Judgment on Jurisdiction and Liability, and Maple filed a Cross-Motion for Summary Judgment. On September 2, 2011, the Court issued a Memorandum

Note 8−Commitments and Contingencies (Continued)

Opinion and Order (the "Sept. 2 Order") granting, in part, and denying, in part, both motions. In partially granting Maple's motion, the Court held that the plaintiffs' members had not shown a sufficient connection to establish standing to bring a claim as to discharges from one of the outlets under the Maple NPDES Permit at issue. The Court upheld jurisdiction over claims based on discharges from one of the outlets, and found that the plaintiffs were entitled to summary judgment on liability as to past and continuing selenium discharges from that outlet. The plaintiffs recently filed a Motion to Amend Judgment, asking the Court to reverse its Sept. 2 Order as to their dismissed claims, and briefing on that motion is ongoing. A trial on civil penalties for past violations and injunctive relief to address continuing violations at the remaining outlet is scheduled for May, 2012.

In addition, these same plaintiffs recently served a second Notice of Intent to Sue under the Clean Water Act, alleging that Maple Coal is liable for having caused selenium water quality standard violations authorized under a different NPDES permit. Maple is evaluating that Notice and will not be required to submit a response to it until November 21, 2011.

At present the likelihood of an unfavorable outcome as to the EQB case, the WVDEP civil enforcement action, and/or the federal court citizens' suit is neither remote nor probable and no opinion can be offered regarding the likelihood of the WVDEP or the citizens suit plaintiffs succeeding in these actions. As such, the Company has not made a provision for these claims in its consolidated financial statements. Regardless of the manner of their disposition, however, civil penalties, mandatory treatment facility costs, and other costs that may ultimately be incurred as a result of these proceedings could be material.

Securities Class Action

In November, 2009, Western Coal Corp. was named as a defendant in a statement of claim issued by a plaintiff who seeks leave of the Ontario Courts to proceed with a securities class action. This claim also named Western Coal Corp.'s former President and director, John Hogg, and two of its non-executive directors, John Brodie and Robert Chase, as defendants.

The plaintiff subsequently delivered an amended claim that added new allegations that seeks to have the amended claim certified as a class action separately from the proposed securities class action allegations. The new allegations focused on certain transactions the plaintiff claims were oppressive and unfair to the interests of shareholders. The amended claim included additional defendants of Western Coal Corp.'s former Chairman, John Byrne, its remaining non-executive directors John Conlon and Charles Pitcher, Audley European Opportunities Master Fund Limited, Audley Capital Management Limited, and Audley Advisors LLP.

The proposed securities claims allege that those persons who acquired or disposed of Western Coal Corp. shares between November 14, 2007 and December 10, 2007 should be entitled to recover $200 million for general damages and $20 million in punitive damages. The plaintiff alleges that Western Coal Corp's consolidated financial statements for the second quarter of fiscal 2008 and the accompanying news release issued on November 14, 2007 misrepresented the financial condition and that Western Coal Corp. failed to make full, plain and true disclosure of all material facts and changes.

The plaintiff's oppression claims are advanced in respect of security holders in the period between April 26, 2007 and July 13, 2009. The claims are that the defendants caused Western Coal Corp. to

Note 8−Commitments and Contingencies (Continued)

enter into transactions that had a dilutive effect on the interests of shareholders. The damages associated with these alleged dilutive effects have not been developed or quantified.

The plaintiff's motions to proceed with securities claims and also to certify the securities and oppression claims as class actions were rescheduled to allow the plaintiff additional time to answer the Company's position. This has now been done. The hearing dates are set for June 2012.

Western Coal Corp. and the other named defendants continue to, and will vigorously defend the allegations. They maintain that there is no merit to the claims and that the damages are without foundation and excessive. Accordingly, the Company has made no provision for the claims in its financial statements.

Miscellaneous Litigation

The Company and its subsidiaries are parties to a number of other lawsuits arising in the ordinary course of their businesses. The Company records costs relating to these matters when a loss is probable and the amount can be reasonably estimated. The effect of the outcome of these matters on the Company's future results of operations cannot be predicted with certainty as any such effect depends on future results of operations and the amount and timing of the resolution of such matters. While the results of litigation cannot be predicted with certainty, the Company believes that the final outcome of such other litigation will not have a materially adverse effect on the Company's consolidated financial statements.

Commitments and Contingencies−Other

In the opinion of management, accruals associated with contingencies incurred in the normal course of business are sufficient. Resolution of existing known contingencies is not expected to significantly affect the Company's financial position and results of operations.

Undistributed Foreign Earnings

The Company has not provided U.S. income taxes and foreign withholding taxes on the undistributed earnings of foreign subsidiaries as of September 30, 2011 because it intends to indefinitely reinvest such earnings outside the U.S. If this intent changes, additional income tax expense would likely be recorded due to the differential in tax rates between the U.S. and the international jurisdictions as the Company repatriates such foreign subsidiary earnings. If these foreign earnings were to be repatriated in the future, the related U.S. tax liability on such repatriation may be partially reduced by any foreign income taxes previously paid on these earnings. As of September 30, 2011 the cumulative amount of earnings upon which U.S. income taxes have not been provided is approximately $42 million.

Ridley Terminal Services Agreement

In connection with the acquisition of Western Coal, the Company assumed a terminal services agreement (the "Agreement") with Ridley Terminals Inc. located in British Columbia. The Agreement contains minimum throughput obligations each calendar year through December 31, 2020. If the Company does not meet its minimum throughput obligation, the Company shall pay Ridley Terminals a

Note 8−Commitments and Contingencies (Continued)

contractually specified amount per metric ton for the difference between the actual throughput and the minimum throughput requirement. The Company expects to meet future minimum throughput requirements and as such no liability has been established at September 30, 2011.

Note 9−Derivative Financial Instruments

Interest Rate Swaps

On June 27, 2011, the Company entered into an interest rate swap agreement with a notional value of $450.0 million. The objective of the swap is to protect against the variability in expected future cash flows attributable to changes in the benchmark interest rate related to interest payments required under the 2011 Credit Agreement. The interest rate on the debt is subject to change due to fluctuations in the benchmark interest rate of 3-month LIBOR. The structure of the hedge is a three year amortizing interest rate swap based on a 1.17% fixed rate with fixed rate and floating rate payment dates effective July 18, 2011. The hedge will be settled upon maturity and is being accounted for as a cash flow hedge. Changes in the fair value of the hedge that take place through the date of maturity are reported in accumulated other comprehensive income (loss) and reclassified into earnings in the same period or periods during which the hedged transactions affect earnings.

On December 30, 2008, the Company entered into an interest rate hedge agreement with a notional value of $31.5 million. The objective of the hedge is to protect against the variability in expected future cash flows attributable to changes in the benchmark interest rate related to 62 of the 64 monthly interest payments required under an equipment financing arrangement for a new longwall shield system entered into on October 21, 2008. The interest rate on the debt is subject to change due to fluctuations in the benchmark interest rate of 1-month LIBOR. The structure of the hedge is a 62 month amortizing interest rate swap based on a 5.59% fixed rate with fixed rate and floating rate payment dates effective February 1, 2009. The hedge will be settled upon maturity and is being accounted for as a cash flow hedge. Changes in the fair value of the hedge that take place through the date of maturity are reported in accumulated other comprehensive income (loss) and reclassified into earnings in the same period or periods during which the hedged transactions affect earnings.

Interest Rate Cap

On June 27, 2011, the Company entered into an interest rate cap agreement related to interest payments required under the 2011 Credit Agreement with a notional value of $255.0 million. The objective of the cap is to protect against the variability in expected future cash flows attributable to changes in the benchmark interest rate above 2.00%. The interest rate on the debt is subject to change due to fluctuations in the benchmark interest rate of 3-month LIBOR. The structure of the hedge is a three year amortizing interest rate cap based on a strike price of 2.00% with fixed rate and floating rate payment dates effective July 7, 2011. The hedge will be settled upon maturity and is being accounted for as a cash flow hedge. Changes in the fair value of the hedge that take place through the date of maturity are reported in accumulated other comprehensive income (loss) and reclassified into earnings in the same period or periods during which the hedged transactions affect earnings.

Note 9−Derivative Financial Instruments (Continued)

Natural Gas Hedge

Revenues derived from the sale of natural gas are subject to volatility based on changes in market prices. In order to reduce the risk associated with natural gas price volatility, on June 7, 2011 the Company entered into a one year swap contract to hedge 4.2 million MMBTUs of natural gas sales beginning in July 2011 and ending June 2012, at a price of $5.00 per MMBTU. The swap agreement will hedge approximately 35% of anticipated natural gas sales from July 2011 until June 2012. The hedge will be settled upon maturity and is being accounted for as a cash flow hedge. Changes in the fair value of the hedge that take place through the date of maturity are reported in accumulated other comprehensive income (loss) and reclassified into earnings in the same period or periods during which the hedged transactions affect earnings.

The following table presents the fair values of the Company's derivative instruments as well as the classification on the Condensed Consolidated Balance Sheets (in thousands). See Note 10 for additional information related to the fair values of our derivative instruments.

	September 30, 2011	December 31, 2010
Asset derivatives designated as cash flow hedging instruments:		
Natural gas hedge(1)	$ 3,106	$ −
Interest rate cap(2)	476	−
Total asset derivatives	$ 3,582	$ −
Liability derivatives designated as cash flow hedging instruments:		
Interest rate swaps(3)	$ 7,152	$ 386

(1) Included in other current assets in the Condensed Consolidated Balance Sheets as of September 30, 2011.

(2) As of September 30, 2011 $157 thousand is included in other current assets and $319 thousand is included in other long-term assets in the Condensed Consolidated Balance Sheets.

(3) As of September 30, 2011 $2.3 million is included in other current liabilities and $4.9 million is included in other long-term liabilities in the Condensed Consolidated Balance Sheets. As of December 31, 2010 the balance was included in other long-term liabilities in the Condensed Consolidated Balance Sheets.

The following tables present the gains and losses from derivative instruments for the three and nine months ended September 30, 2011 and 2010 and their location within the Condensed

Note 9−Derivative Financial Instruments (Continued)

Consolidated Financial Statements (in thousands). The Company utilizes only cash flow hedges that are considered highly effective.

	Gain (loss) recognized in accumulated other comprehensive income, net of tax		Gain (loss) reclassified from accumulated other comprehensive income (loss) to earnings		Gain (loss) recognized in earnings	
	Three months ended September 30,		Three months ended September 30,		Three months ended September 30,	
Derivatives designated as cash flow hedging instruments	2011	2010	2011	2010	2011	2010
Natural gas hedges(1)	$ 984	$ (114)	$ 844	$ 757	$ −	$ −
Interest rate swaps(2)	(4,054)	(73)	(73)	(90)	−	−
Interest rate cap(2)	1,636	−	−	−	−	−
Total	$ (1,434)	$ (187)	$ 771	$ 667	$ −	$ −

(1) Amounts recorded in miscellaneous income in the Condensed Consolidated Statements of Operations

(2) Amounts recorded in interest expense in the Condensed Consolidated Statements of Operations

	Gain (loss) recognized in accumulated other comprehensive income, net of tax		Gain (loss) reclassified from accumulated other comprehensive income (loss) to earnings		Gain (loss) recognized in earnings	
	Nine months ended September 30,		Nine months ended September 30,		Nine months ended September 30,	
Derivatives designated as cash flow hedging instruments	2011	2010	2011	2010	2011	2010
Natural gas hedges(1)	$ 1,765	$ 232	$ 844	$ 2,027	$ −	$ −
Interest rate swaps(2)	(4,207)	(288)	(226)	(285)	−	−
Interest rate cap(2)	295	−	−	−	−	−
Total	$ (2,147)	$ (56)	$ 618	$ 1,742	$ −	$ −

(1) Amounts recorded in miscellaneous income in the Condensed Consolidated Statements of Operations

(2) Amounts recorded in interest expense in the Condensed Consolidated Statements of Operations

Note 10−Fair Value of Financial Instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A three level hierarchy has been established for valuing assets and liabilities based on how transparent (observable)

Note 10−Fair Value of Financial Instruments (Continued)

the inputs are that are used to determine fair value, with the inputs considered most observable categorized as Level 1 and those that are the least observable categorized as Level 3. Hierarchy levels are defined as follows:

Level 1: Quoted prices in active markets for identical assets and liabilities;

Level 2: Quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar instruments in markets that are not active; and

Level 3: Unobservable inputs that are supported by little or no market data which require the reporting entity to develop its own assumptions.

The following table presents information about the Company's assets and liabilities that are measured at fair value on a recurring basis as of September 30, 2011 and indicate the fair value hierarchy of the valuation techniques utilized to determine such values. For some assets, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. When this is the case, the asset is categorized based on the level of the most significant input to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment and considers factors specific to the assets being valued.

	September 30, 2011			
	Fair Value Measurements Using			
(in thousands)	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Equity securities, trading	$ 5,995	$ −	$ −	$ 5,995
Equity securities, available-for-sale	10,902	−	−	10,902
Interest rate cap	−	476	−	476
Natural gas hedge	−	3,106	−	3,106
Total assets	$ 16,897	$ 3,582	$ −	$ 20,479
Liabilities:				
Interest rate swaps	$ −	$ 7,152	$ −	$ 7,152

Below is a summary of the Company's valuation techniques for Level 1 and Level 2 financial assets and liabilities:

Equity securities− As of September 30, 2011 the Company held equity investments in other current assets classified as trading and available-for-sale. Changes in the fair value of trading securities are recorded in other income (loss) and determined using observable market prices. For the three and nine months ended September 30, 2011 a loss of $13.1 million and $9.2 million, respectively, was recorded related to trading securities held at the reporting date. Changes in the fair value of available-for-sale securities are recorded in accumulated other comprehensive income (loss) and determined using observable market prices.

Note 10−Fair Value of Financial Instruments (Continued)

Interest rate cap−The fair value of the interest rate cap was determined using quoted dealer prices for similar contracts in active over-the-counter markets.

Natural gas hedge−The fair value of the natural gas hedge was determined using quoted dealer prices for similar contracts in active over-the-counter markets.

Interest rate swaps−The fair value of interest rate swaps were determined using quoted dealer prices for similar contracts in active over-the-counter markets.

The following methods and assumptions were used to estimate the fair value for which the fair value option was not elected:

Cash and cash equivalents, receivables and accounts payable−The carrying amounts reported in the balance sheet approximate fair value.

Debt− On April 1, 2011, the Company entered into a $2.725 billion credit agreement to partially fund the acquisition of Western Coal and to pay off all outstanding loans under the 2005 Credit Agreement (see Note 4). Debt associated with the Company's 2011 term loan A and term loan B in the amount of $935.0 million and $1.397 billion at September 30, 2011, respectively, are carried at cost. There were no outstanding borrowings under the revolving credit facility at September 30, 2011. The estimated fair value of the Company's term loan A and term loan B was $911.6 million and $1.346 billion at September 30, 2011, respectively, based on similar transactions and yields in an active market for similarly rated debt.

Note 11−Segment Information

The Company's reportable segments are strategic business units arranged geographically which have separate management teams. The business units have been aggregated into three reportable segments following the Western Coal acquisition described in Note 1. These reportable segments are U.S. Operations, Canadian and U.K. Operations, and Other. Both the U.S. Operations and Canadian and U.K. Operations reportable segments primary business is that of mining and exporting metallurgical for the steel industry. Beginning in the second quarter of 2011 the Company reports its U.S. operations under the U.S. Operations segment which includes Walter Energy's historical operating segments of Underground Mining, Surface Mining and Walter Coke as well as the results, since the date of acquisition, of the West Virginia mining operations acquired through the acquisition of Western Coal on April 1, 2011. The Company reports the results of its mining operations acquired through the Western Coal acquisition located in Northeast British Columbia (Canada) and South Wales (United Kingdom) under the Canadian and U.K. Operations segment, since the April 1, 2011 date of acquisition. The Other segment primarily includes corporate expenses. Previously reported segment amounts have been restated to conform to the current period presentation.

The accounting policies of the segments are the same as those described in Note 2 of the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form-10K for the fiscal year ended December 31, 2010. The Company evaluates performance primarily based on operating income of the respective business segments.

Note 11−Segment Information (Continued)

Summarized financial information of the Company's reportable segments is shown in the following table (in thousands):

	For the three months ended September 30, 2011	For the three months ended September 30, 2010
Revenues:		
U.S. Operations	$ 467,130	$ 463,478
Canadian and U.K. Operations	222,681	−
Other	258	784
Total Revenues	$ 690,069	$ 464,262
Segment operating income (loss):		
U.S. Operations	$ 112,867	$ 215,518
Canadian and U.K. Operations	50,195	−
Other	(14,412)	(7,731)
Operating income	148,650	207,787
Less interest expense, net	(27,602)	(4,004)
Other loss	(13,143)	−
Income from continuing operations before income tax expense	107,905	203,783
Income tax expense	31,684	66,811
Income from continuing operations	$ 76,221	$ 136,972
Depreciation and depletion:		
U.S. Operations	$ 46,732	$ 25,733
Canadian and U.K. Operations	16,124	−
Other	190	172
Total	$ 63,046	$ 25,905
Capital Expenditures:		
U.S. Operations	$ 41,435	$ 35,147
Canadian and U.K. Operations	115,426	−
Other	99	43
Total	$ 156,960	$ 35,190

Note 11−Segment Information (Continued)

	For the nine months ended September 30, 2011	2010
Revenues:		
U.S. Operations	$ 1,381,918	$ 1,184,783
Canadian and U.K. Operations	488,256	−
Other	1,629	2,150
Total Revenues	$ 1,871,803	$ 1,186,933
Segment operating income (loss):		
U.S. Operations	$ 420,511	$ 477,010
Canadian and U.K. Operations	62,643	−
Other	(61,088)	(27,683)
Operating income	422,066	449,327
Less interest expense, net	(62,889)	(12,487)
Other income, net	11,360	−
Income from continuing operations before income tax expense	370,537	436,840
Income tax expense	105,145	141,063
Income from continuing operations	$ 265,392	$ 295,777
Depreciation and depletion:		
U.S. Operations	$ 114,170	$ 71,623
Canadian and U.K. Operations	66,089	−
Other	571	336
Total	$ 180,830	$ 71,959
Capital Expenditures:		
U.S. Operations	$ 126,543	$ 76,008
Canadian and U.K. Operations	166,837	−
Other	(3)	4,222
Total	$ 293,377	$ 80,230

	September 30, 2011	December 31, 2010
Identifiable Assets:		
U.S. Operations	$ 1,141,890	$ 1,021,534
Canadian and U.K. Operations	5,537,155	−
Other	492,902	636,231
Total	$ 7,171,947	$ 1,657,765

Note 12−New Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board ("FASB") issued an accounting standard update that requires companies to present the components of net income and other comprehensive income either in a single continuous statement or as two separate but consecutive statements. The accounting standard update eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity, and is effective for interim and annual periods beginning after December 15, 2011. The adoption of this accounting standard update will not have an impact on the Company's operating results or financial position as it only requires a change in the format of our current presentation of comprehensive income.

In September 2011, the FASB issued an accounting standard update that requires employers that participate in multiemployer pension plans to provide additional quantitative and qualitative disclosures. The amended disclosures provide users with more detailed information about an employer's involvement and related commitments associated with multiemployer pension plans and are effective for annual periods ending after December 15, 2011. The Company participates in a multiemployer pension plan for certain employees. The Company is currently evaluating the disclosure requirements of this accounting standard update and such additional disclosures will be included within our Form 10-K for the year ending December 31, 2011.

Note 13−Subsequent Event

On October 31, 2011 the Company prepaid $50.0 million of term loan debt.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS, FINANCIAL CONDITION AND LIQUIDITY AND CAPITAL RESOURCES

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

This report includes statements of our expectations, intentions, plans and beliefs that constitute "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 and are intended to come within the safe harbor protection provided by those sections. These statements, which involve risks and uncertainties, relate to analyses and other information that are based on forecasts of future results and estimates of amounts not yet determinable and may also relate to our future prospects, developments and business strategies. We have used the words "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "predict," "project," "should" and similar terms and phrases, including references to assumptions, in this report to identify forward-looking statements. These forward-looking statements are made based on expectations and beliefs concerning future events affecting us and are subject to uncertainties and factors relating to our operations and business environment, all of which are difficult to predict and many of which are beyond our control, that could cause our actual results to differ materially from those matters expressed in or implied by these forward-looking statements. These risks and uncertainties include, but are not limited to:

Deteriorating conditions in the financial markets;

Global economic crisis;

Market conditions beyond our control;

Prolonged decline in the price of coal;

Decline in global steel demand;

Our customer's refusal to honor or renew contracts;

Title defects preventing us from (or resulting in additional costs for) mining our mineral interests;

Concentration of our coal and gas producing mineral interests in limited number of areas subjects us to risk;

Weather patterns and conditions affecting production;

Geological, equipment and operational risks associated with mining;

Unavailability of cost-effective transportation for our coal;

Significant increase in competitive pressures;

Significant cost increases and delays in the delivery of purchased components;

Availability of adequate skilled employees and other labor relations matters;

Greater than anticipated costs incurred for compliance with environmental liabilities;

Our ability to attract and retain key personnel;

Future regulations that increase our costs or limit our ability to produce coal;

New laws and regulations to reduce greenhouse gas emissions that impact the demand for our coal reserves;

Adverse rulings in current or future litigation;

Inability to access needed capital;

- Downgrade in our credit rating;
- Our ability to identify suitable acquisition candidates to promote growth;
- Our ability to successfully integrate acquisitions, including the recent acquisition of Western Coal Corp.;
- Volatility in the price of our common stock;
- Our ability to pay regular dividends to stockholders;
- Potential suitors could be discouraged by our stockholder rights agreement;
- Our exposure to indemnification obligations; and
- Other factors, including the other factors discussed in Item 1A, "Risk Factors," in our Annual Report on Form 10-K for the year ended December 31, 2010 and as updated by any subsequent Form 10-Qs or other documents that are on file with the Securities and Exchange Commission.

You should keep in mind that any forward-looking statement made by us in this Interim Report on Form 10-Q or elsewhere speaks only as of the date on which we make it. New risks and uncertainties come up from time to time, and it is impossible for us to predict these events or how they may affect us. We have no duty to, and do not intend to, update or revise the forward-looking statements in this Interim Report on Form 10-Q after the date of this Interim Report on Form 10-Q, except as may be required by law. In light of these risks and uncertainties, you should keep in mind that any forward-looking statement made in this Interim Report on Form 10-Q or elsewhere might not occur.

ORGANIZATION

This discussion should be read in conjunction with the condensed consolidated financial statements and notes thereto of Walter Energy, Inc. and its subsidiaries, particularly Note 11 of "Notes to Condensed Consolidated Financial Statements," which provides our revenues and operating income by reportable segment.

As fully discussed in Note 2 to the "Notes to Condensed Consolidated Financial Statements," on April 1, 2011 we completed the acquisition of Western Coal Corp. ("Western Coal"). The accompanying summary operating results include the results of operations of Western Coal since April 1, 2011. As a result of the Western Coal acquisition, beginning with the second quarter of 2011 we have revised our reportable segments by arranging them geographically. We now report all of our operations located in the U.S. under the U.S. Operations segment which includes our previous operating segments of Underground Mining, Surface Mining and Walter Coke. The U.S. Operations segment also includes the West Virginia mining operations acquired through the acquisition of Western Coal. We report our mining operations acquired through the Western Coal acquisition located in Northeast British Columbia (Canada) and in South Wales (United Kingdom) under the Canadian and U.K. Operations segment. Previously reported segment amounts have been restated to conform to the current period presentation.

RESULTS OF OPERATIONS

Summary Operating Results of Continuing Operations for the Three Months Ended September 30, 2011 and 2010

(in thousands)	For the three months ended September 30, 2011			
	U.S. Operations	Canadian and U.K. Operations	Other	Total
Sales	$ 464,710	$ 220,208	$ 134	$ 685,052
Miscellaneous income	2,420	2,473	124	5,017
Revenues	467,130	222,681	258	690,069
Cost of sales (exclusive of depreciation and depletion)	280,483	144,805	199	425,487
Depreciation and depletion	46,732	16,124	190	63,046
Selling, general and administrative	16,944	11,557	14,621	43,122
Postretirement benefits	10,104	−	(340)	9,764
Operating income (loss)	$ 112,867	$ 50,195	$ (14,412)	148,650
Interest expense, net				(27,602)
Income tax expense				(31,684)
Other loss				(13,143)
Income from continuing operations				$ 76,221

(in thousands)	For the three months ended September 30, 2010			
	U.S. Operations	Canadian and U.K. Operations	Other	Total
Sales	$ 459,817	$ −	$ 346	$ 460,163
Miscellaneous income	3,661	−	438	4,099
Revenues	463,478	−	784	464,262
Cost of sales (exclusive of depreciation and depletion)	200,367	−	131	200,498
Depreciation and depletion	25,733	−	172	25,905
Selling, general and administrative	11,053	−	8,650	19,703
Postretirement benefits	10,807	−	(438)	10,369
Operating income (loss)	$ 215,518	$ −	$ (7,731)	207,787
Interest expense, net				(4,004)
Income tax expense				(66,811)
Income from continuing operations				$ 136,972

(in thousands)	U.S. Operations	Canadian and U.K. Operations	Other	Total
	Dollar variance for the three months ended September 30, 2011 versus 2010			
Sales	$ 4,893	$ 220,208	$ (212)	$ 224,889
Miscellaneous income	(1,241)	2,473	(314)	918
Revenues	3,652	222,681	(526)	225,807
Cost of sales (exclusive of depreciation and depletion)	80,116	144,805	68	224,989
Depreciation and depletion	20,999	16,124	18	37,141
Selling, general and administrative	5,891	11,557	5,971	23,419
Postretirement benefits	(703)	–	98	(605)
Operating income (loss)	$ (102,651)	$ 50,195	$ (6,681)	(59,137)
Increase in interest expense, net of interest income				(23,598)
Decrease in income tax expense				35,127
Increase in other loss				(13,143)
Income from continuing operations				$ (60,751)

Overview

Our income from continuing operations for the three months ended September 30, 2011 was $76.2 million, or $1.21 per diluted share, which compares to $137.0 million, or $2.57 per diluted share, for the three months ended September 30, 2010. In the three months ended September 30, 2011, revenues increased $225.8 million and operating income decreased $59.1 million versus the same period in 2010. Revenue increases in the third quarter were primarily generated by the addition of the Canadian and U.K. Operations segment and the West Virginia mining operations within the U.S. Operations segment as a result of the April 1, 2011 Western Coal acquisition. Increased revenues were also due to the acquisition of the North River thermal coal mine in Alabama on May 6, 2011 as described below. Excluding these acquisitions, third quarter 2011 revenues decreased by $85.4 million as compared to the same period last year primarily due to lower hard coking coal sales volumes, partially offset by higher average hard coking coal selling prices. Operating income decreased due to higher production costs on lower sales volumes within the U.S., partially offset by the impact of the Western Coal acquisition. EBITDA for the third quarter of 2011 was $198.6 million compared to $233.7 million in the third quarter of 2010. A reconciliation of net income to EBITDA is presented in Liquidity and Capital Resources below.

U.S. Operations

Hard coking coal sales totaled 1.2 million metric tons in the third quarter of 2011, a decrease as compared to 1.6 million metric tons during the third quarter of 2010 due to lower production volumes. The average selling price in the third quarter of 2011 was $259.38 per metric ton, a 13.3% increase over the average selling price of $228.94 per metric ton for the same period in 2010. Metallurgical coal production totaled 1.3 million metric tons in the third quarter of 2011, a decline of 23.0% from the same period in the prior year as lower production in Alabama due to difficult geology more than offset the addition of hard coking coal production from the West Virginia mining operations. In October 2011 our Alabama production began increasing as we began to move past the primary area where the difficult geology recently constrained our cutting rates.

Beginning in November 2011 we anticipate the commencement of a new third longwall at our Alabama underground mining operations which will improve production capacity in the fourth quarter. We expect to have three longwalls in operation through the first quarter of 2012 at which time one of our existing longwalls will be decommissioned.

Thermal coal sales totaled 1.3 million metric tons in the third quarter of 2011 compared to 0.3 million metric tons during the same period in 2010. The increase was primarily due to sales of the recently acquired West Virginia and North River mining operations. The average selling price in the third quarter of 2011 was $70.35 per metric ton, down 14.6% from the average selling price of $82.39 per metric ton for the same period in 2010. Lower average pricing was the result of lower prices for tons sold by the North River mine. Thermal coal production totaled 1.3 million metric tons in the third quarter of 2011, as compared to 0.3 million metric tons during the same period in 2010. The increase was due to the addition of the West Virginia and North River mining operations.

Canadian and U.K. Operations

The operations of the Canadian and U.K. Operations segment were acquired during the second quarter of 2011 and therefore there are no comparable results from the prior year and we have therefore limited our comparison to the second and third quarters of 2011. While production improved slightly during the third quarter of 2011 as compared to the second quarter, sales and production volumes growth was delayed by the lingering effects of adverse weather conditions experienced during the second quarter of 2011 and delays in the issuance of mining permits.

Metallurgical coal sales in the third quarter of 2011 from the Canadian and U.K. Operations segment totaled 356,000 metric tons of hard coking coal at an average selling price of $276.56 per metric ton and 562,000 metric tons of low-vol PCI coal at an average selling price of $209.12 per metric ton. Metallurgical coal sales in the second quarter of 2011 from the Canadian and U.K. Operations segment totaled 476,000 metric tons of hard coking coal at an average selling price of $262.35 per metric ton and 645,000 metric tons of low-vol PCI coal at an average selling price of $207.92 per metric ton.

The Canadian and U.K. Operations segment produced a total of 371,000 metric tons of hard coking coal in the third quarter of 2011 as compared to 347,000 metric tons of hard coking coal during the second quarter of 2011. Low-vol PCI coal production during the third quarter of 2011 from the Canadian and U.K. Operations segment totaled 587,000 metric tons as compared to production of 495,000 metric tons during the second quarter of 2011.

In December 2011, the Ridley terminal used by our Canadian operations will be affected by the commissioning of an upgraded rail-car dumping system, which is the first stage towards a doubling of the annual capacity of the terminal to 24 million metric tons. The commissioning is anticipated to prevent the unloading of rail-cars for approximately 21 days and is expected to affect the timing of some sales at year-end. Project work at our Willow Creek mine coal handling and preparation plant upgrades will be coordinated with the coal terminal upgrade, where possible, to minimize our downtime and advance the project completion date. The coal handling and preparation plant upgrades will likely be executed in two phases with expected completion early in the first quarter of 2012.

Our connector road project was substantially commissioned near the end of the 2011 third quarter and truck hauling volumes on the road have continued to increase early in the fourth quarter. The connector road connects the Brule mine to the Willow Creek mine where Brule's coal is processed and loaded at the rail load-out facility. The new connector road reduces the hauling distance as compared to the previous route from just over 62 miles down to 37 miles. It is anticipated that the connector road will also allow us to increase our payload capacity resulting in lower transportation costs.

Our Canadian mines are continuing with expansion plans and initiatives designed to improve our long-term production. We intend to increase the annual production from the current approximately four million metric tons to approximately five million metric tons in 2012.

Outlook and Strategic Initiatives

Industry Overview

The long-term demand for metallurgical coal within all of our geographic markets remains strong despite concerns expressed around monetary issues in Europe and slow growth in the U.S. economy. During the short-term, the industry has experienced some customers requesting deferred shipments. We are focused on the long-term contractual market and anticipate two shipments originally scheduled for the fourth quarter of 2011 to be deferred to the first quarter of 2012 as a result of customer stocking issues.

Acquisition of Western Coal

On April 1, 2011 we completed the acquisition of all of the outstanding common shares of Western Coal for a total purchase price of approximately $3.7 billion. Western Coal is a producer of high quality metallurgical coal from mines in Northeast British Columbia (Canada), high quality metallurgical coal and compliant thermal coal from mines located in West Virginia (United States), and high quality anthracite coal in South Wales (United Kingdom). The acquisition of Western Coal transformed the Company into the leading, publicly traded 'pure-play' metallurgical coal producer in the world with strategic access to high-growth steel-producing countries in Asia, South America and Europe. We have significant reserves available for future production, the majority of which is high-demand metallurgical coal, with a diverse geographical footprint.

Blue Creek Coal Leases and North River Mine Acquisition

On May 6, 2011 we acquired mineral rights for approximately 68 million metric tons of recoverable Blue Creek metallurgical coal reserves to the northwest of our existing Alabama mines from a subsidiary of Chevron Corporation. The mineral leases are expected to form the core of what is a planned new underground metallurgical coal mine. In addition, we acquired Chevron Corporation's existing North River thermal coal mine in Fayette and Tuscaloosa Counties of Alabama. The acquisition of the North River mine is expected to be neutral to slightly accretive to earnings in the first year.

2011 Fourth Quarter Business Outlook

We currently expect fourth quarter 2011 consolidated sales of hard coking coal to be within the range of 2.1 million and 2.3 million metric tons, and production of hard coking coal to be within the range of 2.2 million and 2.4 million metric tons. Sales of low-vol PCI are expected to be in the range of 450,000 and 530,000 metric tons, and production of low-vol PCI is expected to be in the range of 580,000 and 650,000 metric tons. We anticipate consolidated fourth quarter 2011 operating income to be between $190 million and $230 million, net income between $120 million and $150 million and earnings per share between $1.91 and $2.39.

Summary of Third Quarter Consolidated Results of Continuing Operations

Revenues for the three months ended September 30, 2011 were $690.1 million, an increase of $225.8 million from $464.3 million in the same period in 2010. The increase in revenues was attributable to the addition of the Canadian and U.K. Operations segment and the West Virginia mining operations within our U.S. Operations segment as a result of the Western Coal acquisition and the acquisition of the North River mine. These recently acquired operations contributed revenues of $311.2 million during the third quarter of 2011 offsetting a decline in revenues from our Alabama underground mining operations.

Cost of sales, exclusive of depreciation and depletion, increased $225.0 million to $425.5 million as compared to the third quarter of 2010, primarily as a result of the addition of the Canadian and U.K. Operations segment, the West Virginia mining operations and the North River mine which accounts for $211.6 million, or 94.0%, of the increase. The remaining $13.4 million increase is primarily due to difficult geology at our Alabama underground mining operations which continued to adversely impact costs and production volumes during the third quarter.

Depreciation and depletion expense for the three months ended September 30, 2011 was $63.0 million, an increase of $37.1 million compared to the same period in 2010. The increase is primarily attributable to the addition of the Canadian and U.K. Operations segment, the West Virginia mining operations within our U.S. Operations segment and the acquisition of the North River mine, which increased depreciation and depletion expense by $33.2 million.

Selling, general and administrative expense increased $23.4 million for the three months ended September 30, 2011 as compared to the same period in 2010, primarily attributable to an increase of $17.7 million resulting from the addition of the Canadian and U.K. Operations segment and the West Virginia mining operations within our U.S. Operations segment. The remainder of the increase is primarily the result of $6.1 million of costs associated with the acquisition of Western Coal.

Interest expense, net of interest income for the three months ended September 30, 2011 was $27.6 million, an increase of $23.6 million compared to the same period in 2010. The increase reflects interest on borrowings of $2.35 billion on April 1, 2011 to fund a portion of the Western Coal acquisition.

The loss of $13.1 million in other income for the three months ended September 30, 2011 is primarily attributable to losses on the sale and remeasurement to fair value of equity investments.

The effective tax rates for the three months ended September 30, 2011 and 2010 were 29.4% and 32.8%, respectively. Our effective tax rate declined as compared to 2010 primarily as the result of a lower foreign jurisdiction effective tax rate, from the acquisition of Western Coal, in comparison to our domestic effective tax rate.

The current and prior year period results also include the impact of factors discussed in the following segment analysis.

Segment Analysis

U.S. Operations

Our U.S. Operations segment reported revenues of $467.1 million in the third quarter of 2011, an increase of $3.7 million from the same period last year. The increase in revenues during the third quarter of 2011 as compared to the same period in 2010 was due to the addition of the West Virginia and North River mining operations to the segment. Excluding the West Virginia and North River mining operations, third quarter 2011 revenues decreased by $84.8 million as compared to the same period in 2010 primarily due to lower hard coking sales volumes at the Alabama underground operations, partially offset by higher average hard coking coal selling prices. Average selling price improvements were primarily the result of higher average contract pricing for the quarter, partially offset by sales of 607,000 carryover tons with lower 2011 second quarter pricing. The lower production at the Alabama underground operations in the third quarter of 2011 as compared to the third quarter of 2010 reflects difficult geological conditions associated with a squeeze at our No.7 mine. Hard coking coal sales volumes during the third quarter of 2011 were constrained by hard coking coal availability resulting from the production issues at the Alabama underground mines. Statistics for U.S. Operations are presented in the following table:

	Three months ended September 30,	
	2011	2010
Average hard coking coal selling price(1) (per metric ton)	$ 259.38	$ 228.94
Tons of hard coking coal sold(1) (in thousands)	1,232	1,638
Average thermal coal selling price (per metric ton)	$ 70.35	$ 82.39
Tons of thermal coal sold (in thousands)	1,302	269

(1) Includes sales of both coal produced and purchased coal.

U.S. Operations reported operating income of $112.9 million in the third quarter of 2011, compared to $215.5 million in the same period in 2010. The $102.6 million decrease in operating income was primarily due to lower sales volumes and higher cost of sales as a result of higher production costs caused by geology issues and higher royalties and freight costs. In addition, we sold a higher mix of lower margin thermal coal associated with the recently acquired North River and West Virginia operations. These declines were partially offset by higher average hard coking coal pricing during the third quarter of 2011 as compared to the same period in 2010.

Canadian and U.K. Operations

Our Canadian and U.K. Operations segment reported revenues of $222.7 million and operating income of $50.2 million for the third quarter of 2011. As the operations of the segment were acquired during the second quarter of 2011, there are no comparable results from the prior year.

The ongoing effects of adverse weather conditions experienced during the second quarter of 2011 and delays in the issuance of mining permits adversely impacted third quarter sales and production volumes as well as production costs including transportation costs. Statistics for Canadian and U.K. Operations are presented in the following table:

	Three months ended September 30, 2011
Average hard coking coal selling price (per metric ton)	$ 276.56
Tons of hard coking coal sold (in thousands)	356
Average low-vol PCI coal selling price (per metric ton)	$ 209.12
Tons of low-vol PCI coal sold (in thousands)	562
Average thermal coal selling price (per metric ton)	$ 111.13
Tons of thermal coal sold (in thousands)	35

Summary Operating Results of Continuing Operations for the Nine Months Ended September 30, 2011 and 2010

(in thousands)	For the nine months ended September 30, 2011 U.S. Operations	Canadian and U.K. Operations	Other	Total
Sales	$ 1,375,586	$ 482,007	$ 750	$ 1,858,343
Miscellaneous income	6,332	6,249	879	13,460
Revenues	1,381,918	488,256	1,629	1,871,803
Cost of sales (exclusive of depreciation and depletion)	772,963	331,698	1,347	1,106,008
Depreciation and depletion	114,170	66,089	571	180,830
Selling, general and administrative	42,880	27,826	61,819	132,525
Postretirement benefits	31,394	−	(1,020)	30,374
Operating income (loss)	$ 420,511	$ 62,643	$ (61,088)	422,066
Interest expense, net				(62,889)
Income tax expense				(105,145)
Other income, net				11,360
Income from continuing operations				$ 265,392

(in thousands)	For the nine months ended September 30, 2010 U.S. Operations	Canadian and U.K. Operations	Other	Total
Sales	$ 1,173,315	$ −	$ 667	$ 1,173,982
Miscellaneous income	11,468	−	1,483	12,951
Revenues	1,184,783	−	2,150	1,186,933
Cost of sales (exclusive of depreciation and depletion)	573,967	−	128	574,095
Depreciation and depletion	71,623	−	336	71,959
Selling, general and administrative	29,762	−	30,691	60,453
Postretirement benefits	32,421	−	(1,322)	31,099
Operating income (loss)	$ 477,010	$ −	$ (27,683)	449,327
Interest expense, net				(12,487)
Income tax expense				(141,063)
Income from continuing operations				$ 295,777

(in thousands)	Dollar variance for the nine months ended September 30, 2011 versus 2010 U.S. Operations	Canadian and U.K. Operations	Other	Total
Sales	$ 202,271	$ 482,007	$ 83	$ 684,361
Miscellaneous income	(5,136)	6,249	(604)	509
Revenues	197,135	488,256	(521)	684,870
Cost of sales (exclusive of depreciation and depletion)	198,996	331,698	1,219	531,913
Depreciation and depletion	42,547	66,089	235	108,871
Selling, general and administrative	13,118	27,826	31,128	72,072
Postretirement benefits	(1,027)	−	302	(725)
Operating income (loss)	$ (56,499)	$ 62,643	$ (33,405)	(27,261)
Increase in interest expense, net of interest income				(50,402)
Decrease in income tax expense				35,918
Increase in other income, net				11,360
Income from continuing operations				$ (30,385)

Summary of Year to Date Consolidated Results of Continuing Operations

Revenues for the nine months ended September 30, 2011 were $1.9 billion, an increase of $684.9 million from $1.2 billion in the same period in 2010. The increase in revenues was primarily attributable to the addition of the Canadian and U.K. Operations segment and the West Virginia and North River mining operations within our U.S. Operations segment. These recently acquired operations contributed $641.3 million of the increase. The remainder of the increase was driven by higher hard coking coal pricing from our U.S. Operations, partially offset by lower hard coking coal sales volumes.

Cost of sales, exclusive of depreciation and depletion, was $1.1 billion for the nine months ended September 30, 2011, a 92.6% increase from $574.1 million for the same period in 2010, primarily as a result of the addition of the Canadian and U.K. Operations segment and the West Virginia and North River mining operations within our U.S. Operations segment, which accounted for 86.0% of the increase. The remainder of the increase was attributable to increased production costs at our Alabama underground mining operations, primarily due to difficult geology conditions during the second and third quarters of 2011, difficult weather conditions during the second quarter of 2011 and higher royalties and freight costs during the first nine months of 2011. Cost of sales, exclusive of depreciation and depletion, represented 59.1% of revenues for the nine months ended September 30, 2011 versus 48.4% of revenues for the same period in 2010.

Depreciation and depletion expense for the nine months ended September 30, 2011 was $180.8 million, an increase of $108.9 million compared to the same period in 2010. The addition of the Canadian and U.K. Operations segment and the West Virginia and North River mining operations in our U.S. Operations segment represents $92.3 million of the increase. The remainder of the increase is primarily due to higher depreciation and depletion in our U.S. Operations resulting from the acquisition of the Walter Black Warrior Basin coal bed methane operations on May 28, 2010.

Selling, general and administrative expense increased $72.1 million for the nine months ended September 30, 2011 as compared to the same period in 2010, mostly attributable to $39.1 million due to the addition of the Canadian and U.K. Operations segment and the West Virginia and North River mining operations in our U.S. Operations segment, $23.1 million of costs associated with the acquisition of Western Coal and increased in professional fees.

Other income for the nine months ended September 30, 2011 is primarily attributable to a gain of $20.5 million recognized on April 1, 2011 as a result of remeasuring to fair value the Western Coal shares acquired from Audley Capital in January 2011, partially offset by a net loss on the sale and remeasurement to fair value of other equity investments.

Interest expense, net of interest income for the nine months ended September 30, 2011 was $62.9 million, an increase of $50.4 million compared to the same period in 2010. The increase reflects interest on borrowings of $2.35 billion on April 1, 2011 to fund a portion of the Western Coal acquisition.

The effective tax rates for the nine months ended September 30, 2011 and 2010 were 28.4% and 32.3%, respectively. Our effective tax rate for the nine months ended September 30, 2011 declined primarily as the result of a lower foreign jurisdiction effective tax rates in foreign operations obtained through the acquisition of Western Coal, in comparison to our domestic U.S. effective tax rate on all 2010 pretax net income. In addition, the tax expense for the nine months ended September 30, 2010 included a one-time tax charge of $20.7 million related to the elimination of the favorable tax treatment of Medicare Part D subsidies due to the passage of the Health Care Reform Act in March 2010, as well as a one-time tax benefit of $17.4 million related to unconventional fuel source credits for the Walter Coke operations for the years 2006 through 2009.

The current and prior year period results also include the impact of factors discussed in the following segment analysis.

Segment Analysis

U.S. Operations

Our U.S. Operations segment reported revenues of $1.4 billion for the nine months ended September 30, 2011, an increase of $197.1 million from the same period last year. The increase in revenues was primarily due to the addition of the West Virginia and North River mining operations acquired in the second quarter of 2011 which added $153.1 million in revenues to the segment, however at lower gross margins than those of the legacy operations. Increased revenues were also due to higher average selling prices for hard coking coal, partially offset by lower hard coking coal sales volumes. The lower hard coking coal sales volumes during the first nine months of 2011 as compared to the same period in 2010 reflects lower production at our Alabama underground mines due to geology issues during the second and third quarters of 2011 and weather related issues in the second quarter of 2011. Statistics for U.S. Operations are presented in the following table:

	Nine months ended September 30,	
	2011	2010
Average hard coking coal selling price(1) (per metric ton)	$ 235.15	$ 194.86
Tons of hard coking coal sold(1) (in thousands)	4,265	4,777
Average thermal coal selling price(1) (per metric ton)	$ 73.88	$ 82.01
Tons of thermal coal sold(1) (in thousands)	2,637	842

(1) Includes sales of both coal produced and purchased coal.

U.S. Operations reported operating income of $420.5 million for the nine months ended September 30, 2011, compared to $477.0 million in the same period in 2010. The $56.5 million decrease in operating income was primarily due to the increase in cost of sales, a higher mix of lower margin thermal coal sales, and increased depreciation and depletions and selling, general and administrative expenses associated with the recently acquired North River and West Virginia operations. Cost of sales increased as a result of increased production costs at our Alabama underground operations primarily due to difficult geological conditions and higher thermal coal sales volumes as well as higher royalties and freight costs.

Canadian and U.K. Operations

Results for the nine months ended September 30, 2011 include the results from our Canadian and U.K. Operations segment since the April 1, 2011 date of acquisition. Our Canadian and U.K. Operations segment reported revenues of $488.3 million and operating income of $62.6 million during the nine months ended September 30, 2011. As the operations of the segment were all acquired during the second quarter of 2011, there are no comparable nine month segment results from the prior year.

Second quarter results were adversely impacted by challenging weather conditions, permit delays at the Willow Creek mine, delays in the commissioning of the Falling Creek Connector Road and higher mining ratios in our Northeast British Columbia mining operations, which impacted sales and production volumes as well as production and transportation costs. The lingering effects of the adverse weather conditions experienced during the second quarter, delays in the commissioning of the Falling Creek Connector Road and delays in the issuance of mining permits continued to adversely impact third quarter sales and production volumes as well as production and transportation costs. Statistics for Canadian and U.K. Operations are presented in the following table:

	Nine months ended September 30, 2011	
Average hard coking coal selling price (per metric ton)	$	268.43
Tons of hard coking coal sold (in thousands)		832
Average low-vol PCI coal selling price (per metric ton)	$	208.47
Tons of low-vol PCI coal sold (in thousands)		1,206
Average thermal coal selling price (per metric ton)	$	113.65
Tons of thermal coal sold (in thousands)		61

FINANCIAL CONDITION

Cash and cash equivalents decreased by $108.3 million from $293.4 million at December 31, 2010 to $185.1 million at September 30, 2011, resulting primarily from the use of $293.7 million in cash in January 2011 to acquire approximately 25.3 million common shares of Western Coal and capital expenditures during the nine months ended September 30, 2011 of $293.4 million. Offsetting these uses of cash was $509.6 million in cash flows provided by operating activities during the nine months ended September 30, 2011. See additional discussion in the Statement of Cash Flows section that follows.

Net receivables and inventories increased by $109.2 million and $128.9 million at September 30, 2011 as compared to December 31, 2010, respectively, primarily due to the acquisition of Western Coal and the North River Mine during the second quarter of 2011. See Note 2 of the "Notes to Condensed Consolidated Financial Statements" in this Form 10-Q for further details around these acquisitions.

Net mineral interests were $4.4 billion at September 30, 2011 as compared to $17.3 million at December 31, 2010. The increase was due to the April 1, 2011 acquisition of Western Coal. Net property, plant and equipment was $1.6 billion at September 30, 2011, an increase of $777.3 million from December 31, 2010, primarily due to additions of $565.2 million as a result of the Western Coal acquisition and capital expenditures during the nine months ended September 30, 2011 of $293.4 million, partially offset by depreciation expense.

Accrued expenses and accounts payable were $238.0 million and $137.7 million at September 30, 2011, an increase of $185.6 million and $67.0 million from December 31, 2010, respectively, primarily due to the acquisition of Western Coal and the North River Mine during the second quarter of 2011.

Deferred income tax liabilities were $1.4 billion at September 30, 2011 primarily due to the acquisition of Western Coal.

LIQUIDITY AND CAPITAL RESOURCES

Overview

Our principal sources of short-term funding are our existing cash balances, operating cash flows and borrowings under our revolving credit facility. Our principal source of long-term funding is our bank term loans entered into on April 1, 2011 as discussed below.

Based on current forecasts and anticipated market conditions, we believe that funding generated from operating cash flows and available sources of liquidity will be sufficient to meet substantially all operating needs, to make planned capital expenditures and to make all required interest and principal payments on indebtedness for the next twelve to eighteen months. However, our operating cash flows and liquidity are significantly influenced by numerous factors including prices of coal, coal production, costs of raw materials, interest rates and the general economy. Although we have experienced improvement in the market for our products, renewed deterioration of economic conditions or deteriorating mining conditions could adversely impact our operating cash flows. Additionally, although financial market conditions have improved there remains volatility and uncertainty, limited availability of credit, potential counterparty defaults, sovereign credit concerns and commercial and investment bank stress. While we have no indication that the uncertainty in the financial markets would impact our current credit facility or current credit providers, the possibility does exist.

2005 Credit Agreement, as Amended

On April 1, 2011, in connection with the acquisition of Western Coal, we repaid all outstanding loans and accrued interest under the 2005 credit agreement, as amended ("2005 Credit Agreement") and it was simultaneously terminated. No penalties were due in connection with the repayments. As of March 31, 2011 the 2005 Credit Agreement included (1) an amortizing term loan facility ("2005 Term Loan") with an initial aggregate principal amount of $450.0 million and (2) a $300.0 million revolving credit facility ("2005 Revolver") which provided for loans and letters of credit. The 2005 Term Loan bore interest at LIBOR plus as much as 300 basis points and required quarterly principal payments of $0.4 million through October 3, 2012, at which time the remaining outstanding principal was to be due. The 2005 Revolver bore interest at LIBOR plus as much as 400 basis points and was due to mature on July 2, 2012. The commitment fee on the unused portion of the 2005 Revolver was 0.5% per year for all pricing levels. Our obligations under the 2005 Credit Agreement were secured by substantially all of the Company's real, personal and intellectual property.

2011 Credit Agreement

On April 1, 2011, we entered into a $2.725 billion credit agreement (the "2011 Credit Agreement") to partially fund the acquisition of Western Coal and to pay off all outstanding loans under the 2005 Credit Agreement. The 2011 Credit Agreement consists of (1) a $950.0 million principal amortizing term loan A facility maturing in April 2016, at which time the remaining outstanding principal is due, (2) a $1.4 billion principal amortizing term loan B facility maturing in April 2018, at which time the remaining outstanding principal is due and (3) a $375.0 million multi-currency revolving credit facility ("Revolver") maturing in April 2016, at which time any remaining balance is due. The Revolver provides for operational needs and letters of credit. Our obligations under the 2011 Credit Agreement are secured by our domestic and foreign real, personal and intellectual property. The 2011 Credit Agreement contains customary events of default and covenants, including among other things, covenants that do not prevent but restrict us and our subsidiaries ability to incur certain additional indebtedness, create or permit liens on assets, pay dividends and repurchase stock, and engage in mergers or acquisitions, make investments and loans. The 2011 Credit Agreement also includes certain financial covenants that must be maintained.

The Revolver, term loan A and term loan B interest rates are tied to LIBOR or CDOR, plus a credit spread ranging from 225 to 300 basis points for the Revolver and term loan A, and 275 to 300 basis points on the term loan B, adjusted quarterly based on our total leverage ratio as defined by the 2011 Credit Agreement. The term loan B has a minimum LIBOR floor of 1.0%. The Revolver loans can be denominated in either U.S. dollars or Canadian dollars at our option. The commitment fee on the unused portion of the Revolver is 0.5% per year for all pricing levels.

As of September 30, 2011, borrowings under the 2011 Credit Agreement consisted of a term loan A balance of $935.0 million with a weighted average interest rate of 3.29%, a term loan B balance of $1.397 billion with a weighted average interest rate of 4.00% and, under the Revolver, $70.5 million in outstanding stand-by letters of credit and $304.5 million of availability for future borrowings. We had no borrowings outstanding under the Revolver. On October 31, 2011 we prepaid $50.0 million of the outstanding balances of the term loans governed by the 2011 Credit Agreement.

Statements of Cash Flows

Cash balances were $185.1 million and $293.4 million at September 30, 2011 and December 31, 2010, respectively. The decrease in cash during the nine months ended September 30, 2011 of $108.3 million primarily resulted from $293.7 million of cash used in the acquisition of Western Coal during January 2011 (see Note 2 of "Notes to Condensed Consolidated Financial Statements"), capital expenditures of $293.4 million and dividends paid of $22.2 million, partially offset by cash provided by operating activities of $509.6 million.

The following table sets forth, for the periods indicated, selected consolidated cash flow information (in thousands):

	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Cash flows provided by operating activities	$ 509,629	$ 423,072
Cash flows used in investing activities	(2,697,931)	(294,299)
Cash flows provided by (used in) financing activities	2,081,516	(73,760)
Cash flows provided by (used in) continuing operations	(106,786)	55,013
Cash flows used in discontinued operations	−	(2,693)
Effect of foreign exchange rates on cash	(2,013)	−
Net increase (decrease) in cash and cash equivalents	$ (108,799)	$ 52,320

Net cash provided by operating activities of continuing operations was $509.6 million for the nine months ended September 30, 2011 as compared to $423.1 million for the same period in 2010, an increase of $86.5 million. The increase is primarily attributable to an increase of $122.4 million from receivables, partially offset by a decrease of $32.8 million from accrued expenses and other current liabilities.

Cash flows used in investing activities for the nine months ended September 30, 2011 were $2.7 billion as compared to $294.3 million for the same period in 2010. The increase in cash flows used in investing activities of $2.4 billion was primarily attributable to an increase in cash used in acquisitions of $2.2 billion as a result of the acquisition of Western Coal and an increase in capital expenditures of $213.1 million, primarily associated with expansion projects of Western Coal operations.

Cash flows provided by financing activities for the nine months ended September 30, 2011 were $2.1 billion as compared to cash flows used by financing activities of $73.8 million for the same period in 2010. The increase in cash flows used in financing activities of $2.2 billion was primarily attributable to $2.4 billion of borrowings under the 2011 Credit Agreement to fund a portion of the Western Coal acquisition, offset by an increase in debt retirements of $145.3 million and $80.0 million of debt issuance costs.

Capital Expenditures

Capital expenditures for 2011 are expected to total approximately $450 million to $500 million and include significant expansion projects at the Western Coal operations. Estimates for the Western Coal operations are for the period covering April 1, 2011 through December 31, 2011. Capital expenditures for operations other than Western Coal are expected to total approximately $150 million to $175 million.

Contractual Obligations and Commercial Commitments

We have certain contractual obligations and commercial commitments. Contractual obligations are those that will require cash payments in accordance with the terms of a contract, such as a borrowing or lease agreement. Commercial commitments represent potential obligations for performance in the event of demands by third parties or other contingent events, such as lines of credit or guarantees of debt.

In connection with the acquisition of Western Coal, we assumed various contractual commitments primarily related to capital expenditures, capital leases and a terminal services agreement. As of September 30, 2011 our contractual spending obligations for certain capital projects totaled approximately $167.2 million, the majority of which is expected to be spent over the next twelve months. See Note 4 of "Notes to Condensed Consolidated Financial Statements" for our future debt and capital lease contractual obligations as of September 30, 2011.

In connection with the acquisition of Western Coal, we assumed a terminal services agreement (the "Agreement") with Ridley Terminals Inc. located in British Columbia. The Agreement contains minimum throughput obligations each calendar year through December 31, 2020. If we do not meet our minimum throughput obligation, we shall pay Ridley Terminals a contractually specified amount per metric ton for the difference between the actual throughput and the minimum throughput requirement. We expect to meet future minimum throughput requirements and as such no liability has been established at September 30, 2011.

EBITDA

EBITDA is defined as earnings from continuing operations before interest, income taxes, depreciation, depletion and amortization expense. EBITDA is a financial measure which is not calculated in conformity with GAAP and should be considered supplemental to, and not as a substitute or superior to financial measures calculated in conformity with GAAP. We believe that EBITDA is a useful measure as some investors and analysts use EBITDA to compare us against other companies and to help analyze our ability to satisfy principal and interest obligations and capital expenditure needs. EBITDA may not be comparable to similarly titled measures used by other entities.

Reconciliation of Net Income to EBITDA (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2011	2010	2011	2010
Net income	$ 76,221	$136,215	$265,392	$293,929
Add: Interest expense	27,642	4,179	63,245	13,120
Less: Interest income	(40)	(175)	(356)	(633)
Add: Income tax expense	31,684	66,811	105,145	141,063
Add: Depreciation and depletion expense	63,046	25,905	180,830	71,959
Add: Loss from discontinued operations	–	757	–	1,848
Earnings from continuing operations before interest, income taxes, and depreciation and depletion (EBITDA)	$198,553	$233,692	$614,256	$521,286

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to certain market risks inherent in our operations. These risks generally arise from transactions entered into in the normal course of business. The primary market risk exposures relate to commodity price risk, interest rate risk and foreign currency risks. We do not enter into derivatives or other financial instruments for trading or speculative purposes.

We have exposure to changes in interest rates under the 2011 Credit Agreement through our term loan A, term loan B and Revolver loans. The interest rates for the term loan A, term loan B and revolver loans are tied to LIBOR or the Canadian Dealer Offered Rate ("CDOR"), plus a credit spread ranging from 225 to 300 basis points for the revolver and term loan A and 275 to 300 basis points on the term loan B adjusted quarterly based on our total leverage ratio as defined by the 2011 Credit Agreement. As of September 30, 2011, our borrowings due under the 2011 Credit Agreement totaled $2.332 billion. As of September 30, 2011 a 100 basis point increase in interest rates would increase our quarterly interest expense by approximately $2.4 million while a 100 basis point decrease in interest rates would decrease our quarterly interest expense by approximately $385 thousand due to the LIBOR floor.

Our objective in managing exposure to interest rate changes is to protect against the variability in expected future cash flows attributable to changes in the benchmark interest rate related to interest payments required under the 2011 Credit Agreement. To achieve this objective, we manage a portion of our interest rate exposure through the use of interest rate swaps and an interest rate cap. To reduce our exposure to rising interest rates and the risk that changing interest rates could have on our operations, during June 2011 we entered into an interest rate swap agreement and an interest rate cap agreement. The interest rate swap agreement has a notional value of $450.0 million and is based on a 1.17% fixed rate. The interest rate cap agreement has a notional value of $255.0 million and has a strike price of 2.00%.

ITEM 4. CONTROLS AND PROCEDURES

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

An evaluation was performed under the supervision and with the participation of our management (including our principal executive officer and principal financial officer) of the effectiveness of our disclosure controls and procedures as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 as amended ("Exchange Act") as of the end of the period covered by this quarterly report on Form 10-Q. Based on that evaluation, our management, including our principal executive officer and principal financial officer, concluded that our disclosure controls and procedures were effective as of September 30, 2011 to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is (1) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (2) accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosures.

There has been no change in our internal control over financial reporting during the three months ended September 30, 2011 that has materially affected, or is reasonably likely to materially affect, internal control over financial reporting. Our management has concluded that it will exclude Western Coal's systems and processes from the scope of Walter Energy's assessment of internal control over financial reporting as of December 31, 2011 in reliance on the guidance set forth in Question 3 of a "Frequently Asked Questions" interpretive release issued by the staff of the Securities and Exchange Commission's Office of the Chief Accountant and the Division of Corporation Finance in September 2004 (revised on October 6, 2004). We are in the process of integrating the acquired business into our overall internal control over financial reporting process.

PART II−OTHER INFORMATION

Item 1. Legal Proceedings

See Note 8 of the "Notes to Condensed Consolidated Financial Statements" in this Form 10-Q for a description of current legal proceedings.

We and our subsidiaries are parties to a number of other lawsuits arising in the ordinary course of our businesses. Most of these cases are in a preliminary stage and we are unable to predict a range of possible loss, if any. We provide for costs relating to these matters when a loss is probable and the amount can be reasonably estimated. The effect of the outcome of these matters on our future results of operations cannot be reasonably predicted because any such effect depends on future results of operations and the amount and timing of the resolution of such matters. While the results of litigation cannot be predicted with certainty, we believe that the final outcome of such litigation will not have a material adverse effect on our consolidated financial position.

Item 1A. Risk Factors

Our business, financial condition, operating results and cash flows can be impacted by a number of factors, any one of which could cause actual results to vary materially from recent results or from anticipated future results. For a discussion of our risk factors, please refer to Part 1, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2010 and the risk factors listed below.

If transportation of coal from our Canadian operations becomes unavailable or uneconomic for our customers, our ability to sell coal could suffer.

Substantially all of the Company's coal produced by its Canadian operations is exported to port facilities by one railway for which there are limited alternatives. Additionally, all of the Company's

Canadian export sales are loaded through one port facility, for which there are limited cost-effective alternatives. The cost of securing additional facilities and services of this nature could significantly increase transportation and other costs. An interruption of rail or port services could significantly limit the Company's ability to operate and to the extent that alternate sources of transportation of port and rail services are available, it could increase transportation and port costs significantly.

Aboriginal Issues related to Canadian Operations

Canadian judicial decisions have recognized the continued existence of Aboriginal rights in Canada, including title to lands continuously used or occupied by Aboriginal groups. The Company's Northeast British Columbia operations are located within Treaty 8 territory, to which nine First Nations in British Columbia are signatories. Current operations are in or near the traditional territories of the West Moberly, Saulteau and Halfway River First Nations, and the McLeod Lake Indian Band. The Province of British Columbia has signed an Economic Benefits Agreement and related land and resource use agreements with several of the First Nations, including the West Moberly First Nation, over the last few years. The Treaty 8, as well as the Economic Benefits Agreement and related agreements, establish First Nations rights and define roles for their involvement in land and resource use. As a means of protecting treaty and aboriginal rights, as well as undetermined aboriginal rights, Canadian courts continue to confirm a duty to consult with Aboriginal groups when the Crown has knowledge of existing rights or the potential existence of an Aboriginal right, such as title, and contemplates conduct that might adversely impact First Nations. As issues relating to Aboriginal and treaty rights and consultation continue to be heard, developed and resolved in Canadian courts, the Company will continue to cooperate, communicate and exchange information and views with Aboriginal groups and government, and participate with the Crown in its consultation processes with Aboriginal groups in order to foster good relationships and minimize risks to its mineral rights and operational plans. Due to their complexity, it is not expected that the issues regarding Aboriginal and treaty rights of consultation will be finally resolved in the short term and, accordingly, the impact of these issues on mineral resources and on the Company's mining operations is unknown at this time. The Company believes in building mutually beneficial and lasting relationships with local First Nations whose treaty rights or potential Aboriginal rights overlap with the Company's areas of operations. Some of these relationships with Aboriginal people have been formalized through agreements that generally seek to increase First Nations' participation in the Company's planning and operational activities. Should a dispute arise between the First Nations and the Company the Crown could significantly restrict the Company's ability to operate and transport coal within the region. Also, such action could have a detrimental impact on the Company's financial condition and results of operations as well as its customers.

Currency Risk related to Canadian and U.K. Operations

The Company's expenses from Canadian operations are typically incurred and paid in Canadian dollars and its United Kingdom operations revenues and expenses are incurred and paid in British pounds. The Company has elected not to adopt a formal foreign currency hedging strategy and as a result any significant fluctuation in foreign exchange rates could adversely affect the Company's financial position and operating results.

Project Development and Expansion Targets

There can be no assurance that the Company will be able to manage effectively the expansion of its operations or that the Company's current personnel, systems, procedures and controls will be adequate to support the Company's operations. Any failure of management to effectively manage the Company's growth and development could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company's operational targets are subject to the completion of planned operational goals on time and within budget, and are dependent on the effective support of the Company's personnel, systems, procedures and controls. Any failure of these may result in delays in the achievement of operational targets with a consequent material adverse impact on the business, operations and financial performance of the Company.

Operating in Foreign Jurisdictions

The Company operates in a number of foreign countries where there are added risks and uncertainties due to the different economic, cultural and political environments. The Company faces risks in securing additional property licenses, as the process for obtaining these is likely to be different from that in the jurisdictions in which the Company has operated historically, which could result in failed attempts to obtain licenses which would have used up management time and financial resources. The Company also faces risks from trade barriers, exchange controls and material changes in taxation which could negatively impact the Company's ability to sell into foreign markets, as well as its profitability.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Purchase of Equity Securities by Us and Affiliated Purchasers

The following table provides a summary of all repurchases by Walter Energy of its common stock during the nine-month period ended September 30, 2011:

Period	Total Number of Shares Purchased(1)	Average Price Paid per Share Units	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in millions)
January 1, 2011 - January 31, 2011	–	–	–	$ 0.2
February 1, 2011 - February 28, 2011	35,541	$ 120.49	–	$ 0.2
March 1, 2011 - March 31, 2011	6,097	$ 131.83	–	$ 0.2
April 1, 2011 - April 30, 2011	–	–	–	$ 0.2
May 1, 2011 - May 31, 2011	368	$ 120.17	–	$ 0.2
June 1, 2011 - June 30, 2011	289	$ 116.06	–	$ 0.2
July 1, 2011 - July 31, 2011	419	$ 123.05	–	$ 0.2
August 1, 2011 - August 31, 2011	–	–	–	$ 0.2
September 1, 2011 - September 30, 2011	25	$ 85.62	–	$ 0.2
	42,739		–	

(1) These shares were acquired to satisfy certain employees' tax withholding obligations associated with the lapse of restrictions on certain stock awards granted under the 2002 Long-Term Incentive Award Plan. Upon acquisition, these shares were retired.

Item5. Other Information

Mine Safety and Health Administration Safety Data

The Company is committed to the safety of its employees and in achieving a goal of providing a workplace that is incident free. In achieving this goal the company has in place health and safety programs that include regulatory-based training, accident prevention, workplace inspection, emergency preparedness response, accident investigations and program auditing. These programs are designed to comply with regulatory mining-related coking coal safety and environmental standards. Additionally, the programs provide a basis for promoting a best-in-industry safety practice.

The operation of our mines is subject to regulation by the Mine Safety and Health Administration ("MSHA") under the Federal Mine Safety and Health Act of 1977 ("the Mine Act"). MSHA inspects our mines on a continual basis and issues various citations and orders when it believes a violation has occurred under the Mine Act. As required by Section 1503 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, each operator of a coal or other mine is required to include certain mine safety results in its periodic reports filed with the Securities and Exchange Commission. Within this disclosure, we present information regarding certain mining safety and health citations which MSHA has issued with respect to our mining operations. In evaluating this information, consideration should be given to facts such as: (i) the number of citations and orders will vary depending on the size of the coal mine, (ii) the number of citations issued will vary from inspector to inspector and mine to mine, and (iii) citations and orders can be contested and appealed, and in that process, are sometimes dismissed and remaining citations are often reduced in severity and amount.

During the three months ended September 30, 2011 none of the Company's mining complexes received written notice from MSHA of (i) a pattern of violations of mandatory health or safety standards that are of such nature as could have significantly and substantially contributed to the cause and effect of coal or other mine health or safety hazards under section 104(e) or (ii) the potential to have such a pattern.

The table below presents the total number of specific citations and orders issued by MSHA to Walter Energy, Inc. and its subsidiaries, together with the total dollar value of the proposed MSHA civil penalty assessments received during the three months ended September 30, 2011 as well as legal actions pending before the Federal Mine Safety and Health Review Commission for each of our mining complexes.

Mining Complex(1)	Section 104 Significant and Substantial Citations	Section 104(b) Orders	Section 104(d) Citations and Orders	Section 110(b)(2) Violations	Section 107(a) Orders	Proposed MSHA Assessments(2) ($ in thousands)	Fatalities	Pending Legal Actions(3)(4)
JWR No. 4	55	1	1	–	–	207.0	–	75
JWR No. 5	–	–	–	–	–	–	–	1
JWR No. 7	47	–	1	–	–	62.6	–	58
JWR Central Shop	–	–	–	–	–	0.4	–	–
JWR North River	29	–	1	–	–	18.7	–	18
Taft Reid School	–	–	–	–	–	–	–	1
Taft Choctaw	–	–	–	–	–	0.2	–	–
TRI East Brookwood	–	–	–	–	–	1.0	–	–
TRI Highway 59	–	–	–	–	–	–	–	–
TRI Swann's Crossing	1	–	–	–	–	–	–	1
Atlantic Leaseco King Coal 1 Mine	–	–	–	–	–	–	–	3
Atlantic Leaseco King Coal 1 Prep Plant	–	–	–	–	–	0.2	–	1
Atlantic Leaseco Black Pearl	–	1	–	–	–	17.3	–	8
Atlantic Leaseco Cowen Loadout	–	–	–	–	–	0.2	–	–
Maple Coal Maple Eagle No. 1	11	–	2(5)	–	–	565.4	–	74
Maple Coal Maple Prep Plant	1	–	–	–	–	0.8	–	1
Maple Coal Huffman Sycamore SM	–	–	–	–	–	18.0	–	1

(1) MSHA assigns an identification number to each coal mine and may or may not assign separate identification numbers to related facilities such as preparation plants. We are providing the information in the table by mining complex rather than MSHA identification number because we believe that his presentation is more useful to investors. For descriptions of each of these mining operations, please refer to the descriptions under Item 1. Description of Business, in Part 1 of our Annual Report on Form-10K for the fiscal year ended December 31, 2010. Idle facilities are not included in the table above unless they received a citation, order or assessment by MSHA during the current quarterly reporting period or are subject to pending legal actions.

(2) Amounts listed under this heading include proposed assessments received from MSHA in the current quarterly reporting period for alleged violations, regardless of the issuance date of the related citation or order.

(3) Includes any pending legal action before the Federal Mine Safety and Health Review Commission involving such mine. Such actions may have been initiated prior to the current quarterly reporting period.

(4) The table includes references to specific sections of the Mine Act as follows:

Section 104(a) Citations include citations for health or safety standards that could significantly and substantially contribute to serious injury if left unabated.

Section 104(b) Orders represent failures to abate a citation under 104(a) within the period of time prescribed by MSHA and that the period of time prescribed for the abatement should not be further extended. This results in an order of immediate withdrawal from the area of the mine affected by the condition until MSHA determines that the violation has been abated.

Section 104(d) Citations and Orders are for unwarrantable failure to comply with mandatory health and safety standards where such violation is of such a nature as could significantly or substantially contribute to the cause and effect of a coal or other mine safety or health hazard.

Section 110(b)(2) Violations are for flagrant violations.

Section 107(a) Orders are for situations in which MSHA determined an imminent danger existed.

(5) One Section 104(d) Citation and Order was deleted by MSHA without the need of being challenged by the operator, thereby reducing the actual number of unwarrantable failure enforcement actions from two to one. The current number of unwarrantable failure enforcement actions may be further reduced in the future through other modifications by MSHA or through contest proceedings.

Item 6. Exhibits

(a) Exhibits

Exhibit Number	
10.1	Agreement dated September 12, 2011 between the Company and Walter J. Scheller, III
31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002−Chief Executive Officer
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002−Principal Financial Officer and Chief Accounting Officer
32.1	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Session 1350−Chief Executive Officer
32.2	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Session 1350−Principal Financial Officer and Chief Accounting Officer
101	XBRL (Extensible Business Reporting Language)−The following materials from Walter Energy, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2011, formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Operations, (iii) the Condensed Consolidated Statement of Changes in Stockholders' Equity and Comprehensive Income, (iv) the Condensed Consolidated Statements of Cash Flows, and (v) Notes to Condensed Consolidated Financial Statements.

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.

WALTER ENERGY, INC.

/s/ WALTER J. SCHELLER, III

Chief Executive Officer (Principal Executive Officer)

Date: November 7, 2011

/s/ ROBERT P. KERLEY

Chief Accounting Officer (Principal Financial Officer)

Date: November 7, 2011

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Exhibit 10.1

WALTER ENERGY

September 12, 2011

Mr. Walter J. Scheller, III
16243 Highway 216
Brookwood, AL 35444

Dear Walt:

We are pleased that you have accepted the position of Chief Executive Officer of Walter Energy, Inc. ("Walter" or the "Company"), effective as of the date hereof. The attached schedules outline the remuneration and benefits and terms and conditions of your employment.

As the Chief Executive Officer of Walter, you will be responsible for all aspects of the corporation and will report to the Board of Directors, acting in accordance with the Company' s articles, bylaws and resolutions enacted by or policies established by the Board of Directors. You will be required to provide regular reports to the Board of Directors on financial performance, strategic direction, management development, business plans, and such other matters as are customarily reviewed by or as may be required by the Board of Directors.

In addition to serving as the Chief Executive Officer of Walter, you will also serve as a member of the Board of Directors, without additional compensation.

It is agreed and understood that this letter agreement (including the schedules and exhibit attached hereto) (collectively, the "Agreement") and the other agreements referred to in this Agreement, including, without limitation, the Executive Change-in-Control Severance Agreement by and between you and Walter, effective July 21, 2010, as it may be amended from time to time (the "CIC Agreement") shall constitute our entire agreement with respect to the subject matter hereof and shall supersede all prior agreements, discussions, understandings and proposals (written or oral) relating to your employment with the Company and its affiliates, including, without limitation, the letter agreement entered into between you and the Company, dated April 1, 2011. This Agreement may only be amended or modified by a written agreement executed by you and Walter (or any of its respective successors) and will be interpreted under and in accordance with the laws of the State of Delaware without regard to conflicts of laws.

This Agreement may be executed by fax or pdf and in any number of counterparts, all of which, when taken together, will constitute one and the same instrument.

Walt, we are delighted that you have agreed to lead Walter and we look forward to continuing to work with you. If the terms contained within this Agreement are acceptable, please sign one of the enclosed copies and return it to me in the envelope provided.

Best regards,

/s/ Michael T. Tokarz September 12, 2011

Michael T. Tokarz
Chairman of the Board of Directors
Walter Energy, Inc.

Date

ACCEPTANCE

I have read the Agreement, have been advised to consult with counsel of my choice concerning the same, and I fully understand the same. I approve and accept the terms set forth in the Agreement as governing my employment relationship with Walter.

/s/ Walter J. Scheller, III
Walter J. Scheller, III

September 12, 2011
Date

Enclosures:

Schedule A	Remuneration & Benefits
Schedule B	Terms and Conditions

Initials ___________

SCHEDULE A

REMUNERATION & BENEFITS

Name:	Walter J. Scheller, III
Role Title:	Chief Executive Officer
Role Band:	n/a
Department:	Corporate
Employer:	Walter
Date of Appointment:	September 12, 2011

This schedule should be read in conjunction with the remainder of the Agreement. The policies covering these benefits and their terms and conditions may be varied from time to time.

Base Salary and Remuneration: The remuneration for this position is a base salary of $750,000 per annum which will be subject to review and adjustment by the Compensation and Human Resources Committee of the Board of Directors (the "Compensation Committee") and paid in accordance with Walter' s payroll practices, as they may change from time to time. Your annual base salary, as in effect from time to time, is hereinafter referred to as the "Base Salary."

The remuneration structure is designed to provide competitive levels of total remuneration for strong individual and corporate performance and achieve a close alignment between personal and business performance and remuneration.

Annual Bonus (EIP):

You will continue to participate in Walter' s Executive Incentive Plan, as it may be amended from time to time (the "EIP") and, in this position, will be eligible to earn an annual target bonus of 100% of your Base Salary (the "Target Bonus"), with an upside potential of 2 times your Target Bonus for top performance. The actual amount of your bonus, if any, will fluctuate based upon actual performance under the performance metrics associated with the EIP. Participation in the bonus pool is dependent upon the

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achievement of Walter' s annual performance goals, as well as the accomplishment of (1) (x) individual objectives and/or (y) departmental goals, in each case, as determined and recommended by the management of Walter and subsequently approved by the Compensation Committee, in each case, in respect of the 2011 fiscal year and (2) individual objectives mutually agreed upon in writing each year commencing with the 2012 fiscal year. In order to receive a bonus under the EIP, you must be employed at the time the bonus is paid. Notwithstanding anything in this Agreement to the contrary, your bonus, if any, under the EIP, earned in respect of the 2011 fiscal year, will be determined as follows: (i) the portion of your bonus, if any, that relates to your employment with Walter from January 1, 2011 through the day immediately prior to the Date of Appointment will be calculated by reference to the base salary earned by you during such period and your annual target bonus percentage opportunity as in effect immediately prior to the Date of Appointment, and (ii) the portion of your bonus, if any, that relates to your employment with Walter from the Date of Appointment through the last day of the 2011 fiscal year will be calculated by reference to the Base Salary earned during such period and your Target Bonus opportunity. Notwithstanding anything in this Agreement to the contrary, with respect to any bonus to be paid hereunder, such bonus will be paid in accordance with the EIP and, to the extent possible, will be structured to comply with Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code") as performance based compensation thereunder; provided however, to the extent not deductible by Walter, such payment will be deferred until it can be paid by Walter on a tax deductible basis.

As you are aware, participation in Walter' s Employee Stock Purchase Plan is a condition to participation in the bonus pool under the EIP.

Long Term Incentive:

Subject to your continued employment with Walter, you will remain a participant in Walter' s Amended and Restated 2002 Long-Term Incentive Award Plan, as it may be amended and restated from time to time (and any successor long term incentive award plan) (collectively, the "LTIP"), and will remain eligible to receive annual equity grants from Walter.

Your annual equity grant in respect of the 2012 fiscal year

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will be valued at 150% of your Base Salary, based on the Black-Scholes value at the date of grant, fifty percent (50%) of which will be in the form of non-qualified stock options and fifty percent (50%) of which will be in the form of restricted stock units.

In addition to the foregoing, in connection with your promotion to the position of Chief Executive Officer of Walter, within thirty (30) days from the Date of Appointment, you will receive a one-time equity grant from Walter valued at $1,000,000, based on the Black-Scholes value at the date of grant, one hundred percent (100%) of which will be in the form of non-qualified stock options.

All such equity grants described above will be awarded under and subject to the terms and conditions of the LTIP and the terms and conditions applicable to other awards granted by Walter under the LTIP to employees of Walter.

[Company Car: You will continue to be entitled to an annual car allowance of $18,000.**]**

Expenses: You will continue to be entitled to reimbursement for all reasonable and customary out-of-pocket business expenses incurred by you in the performance of your duties hereunder, in accordance with the policies, practices and procedures of Walter relating to reimbursement of business expenses incurred by Walter employees in effect at any time during the 12 month period preceding the date you incur the expenses; provided, however, that any such expense reimbursement will be made no later than the last day of the calendar year following the calendar year in which you incur the expense, will not affect the expenses eligible for reimbursement in any other calendar year, and cannot be liquidated or exchanged for any other benefit.

Health Care: You will continue to be entitled to participate in Walter’ s life and health insurance benefit programs in accordance with their terms, as they may change from time to time.

Retirement Plan: You will continue to be entitled to participate in Walter’ s retirement plan according to its terms as they may change from time to time.

Leave: You will continue to be eligible for 20 business days of

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vacation and 10 company paid holidays to be used each year in accordance with Walter’ s policy, as it may change from time to time.

Severance:

Subject to (a) your compliance with the restrictive covenants set forth in Sections 5 through 7 of Schedule B and (b) your execution, delivery and non-revocation of a waiver and release of claims in a form substantially similar to the form attached hereto as Exhibit A (the "Release") on or prior to the 21st day following the date on which your employment with Walter terminates due to (x) the termination of your employment by Walter, other than for "Cause" (as defined below) or (y) the termination of your employment by you for "Good Reason" (as defined below), but in each case, excluding any separation from service by reason of your death or Disability (as defined below) (such date, the "Severance Date"), you will be entitled to receive the following severance payments and benefits:

- For the period commencing on the day immediately following the Severance Date and ending on the first anniversary of the Severance Date, monthly pay continuation with each monthly payment equal to one-twelfth (1/12) times the sum of your Base Salary and Target Bonus, in each case, as in effect on the Severance Date. Monthly payments will occur in accordance with the payroll dates in effect on the Severance Date, and such payment dates will not be affected by any subsequent change in payroll practices.

- For the period commencing on the first anniversary of the Severance Date and ending on the second anniversary of the Severance Date, monthly pay continuation with each monthly payment equal to one-twelfth (1/12) times your Base Salary as in effect on the Severance Date. Monthly payments will occur in accordance with the payroll dates in effect on the Severance Date, and such payment dates will not be affected by any subsequent change in payroll practices.

- A pro-rata bonus under the EIP (or successor annual bonus plan) based on the portion of the year actually worked up to the Severance Date and computed based on actual annual performance. Such pro-rata bonus shall be paid during the year following the year that includes the

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Severance Date in accordance with the terms of the EIP (or successor annual bonus plan).

- Except as provided below, continuation of group medical, dental, vision, group basic term life insurance, accidental death and dismemberment insurance, voluntary term life insurance, voluntary accidental death and dismemberment insurance, dependent life insurance and employee assistance program benefits, provided, to the extent applicable, regular contributions are made, at the level in effect on the Severance Date, in each case, for a period (such period, the "Continuation Coverage Period") beginning immediately upon the Severance Date and continuing until the earliest to occur of (A) the second anniversary of the Severance Date, (B) the last date you are eligible to participate in the benefit under applicable law, or (C) the date you are eligible to receive comparable benefits from a subsequent employer, as determined solely by Walter in good faith; provided, however, that if you fail to execute and deliver the Release or revoke the Release, in either case, the Continuation Coverage Period shall cease immediately upon such date. Such benefits shall be provided to you at the same coverage and cost to you as in effect on the Severance Date. To the extent permitted by law, you shall be eligible to qualify for COBRA health care continuation coverage under Section 4980B of the Code, or any replacement or successor provision of United States tax law, beginning following the expiration of the period described above. Notwithstanding the foregoing, your participation in the Employee Stock Purchase Plan and long-term disability insurance plan, and your ability to make deferrals under the 401(k) plan, will cease effective on the Severance Date. For purposes of this subsection, you shall send written notice of the terms and conditions of any subsequent employment and the corresponding benefits earned from such employment and shall provide, or cause to be provided, to Walter, in writing, correct, complete and timely information concerning the same to the extent requested by Walter;

provided, however, that Walter shall have the right to cease making such payments and you shall be obligated to repay any such amounts to Walter already paid if you fail to execute and deliver the Release within the time period

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provided for above or, after timely delivery, revoke it within the time period specified in such Release.

Notwithstanding anything in this Agreement to the contrary and for the avoidance of doubt, you shall not be entitled to severance payments or benefits under this Agreement in the event you experience a separation from service within twenty-four (24) months following a Change in Control of the Company (as defined in the CIC Agreement). Severance payments and benefits payable upon a separation from service in connection with such a termination of employment, if any, shall be determined and paid under the CIC Agreement.

For purposes of this Agreement, the term “Cause” shall mean: (i) your willful and continued refusal to perform the duties of your position (other than any such failure resulting from your incapacity due to physical or mental illness); (ii) your conviction or guilty plea of a felony involving fraud or dishonesty; (iii) theft or embezzlement by you of property from Walter or any subsidiary or affiliate; or (iv) fraudulent preparation by you of financial information of Walter or any subsidiary or affiliate.

For purposes of this Agreement, the term “Good Reason” shall mean the occurrence of any of the following conditions (in each case arising without your consent): (A) a material breach of this Agreement by Walter or (B) a material diminution in your authority, duties or responsibilities. Notwithstanding the foregoing, your voluntary separation from service shall be for “Good Reason” only if (x) you provide written notice of the facts or circumstances constituting a “Good Reason” condition to Walter within 30 days after the initial existence of the Good Reason condition, (y) the Company does not remedy the Good Reason condition within 30 days after it receives such notice and (z) the voluntary separation from service occurs within 90 days after the initial existence of the Good Reason condition. For purposes of this Agreement, the parties agree that "Good Reason" will not exist solely because the amount of your bonus fluctuates due to performance considerations under the EIP or other Walter incentive plan applicable to you and in effect from time to time.

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For purposes of this Agreement, the term "Disability" shall mean any medical condition whatsoever which leads to your absence from your job function for a continuous period of six months without you being able to resume such functions on a full time basis at the expiration of such period, it being understood that unsuccessful attempts to return to work for periods under thirty days shall not be deemed to have interrupted said continuity.

Relocation: You will remain entitled to relocation assistance in connection with your move to Birmingham, Alabama and will be provided relocation assistance to Chicago, Illinois, in each case, in accordance with the provisions of the Walter Energy, Inc. policy for "Relocation Expenses − Transferred Employees."

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SCHEDULE B

TERMS AND CONDITIONS

1. It is agreed and understood that your employment with Walter continues to be at will, and either you or Walter may terminate the employment relationship at any time for any reason, with or without cause, and with or without notice to the other; nothing in this Agreement or elsewhere constitutes or shall be construed as a commitment to continue to employ you or pay you severance, other than as stated in Schedule A or in the CIC Agreement, for any period of time.

2. Outside Interest. While employed by Walter, you agree to devote your full business time and best efforts to the performance of your duties hereunder and will not engage in any other business, profession or occupation for compensation or otherwise which would conflict or interfere with the rendition of such services either directly or indirectly without the prior written consent of the Chairman of the Board of Directors.

3. You agree that all inventions, improvements, trade secrets, reports, manuals, computer programs, systems, tapes and other ideas and materials developed or invented by you during the period of your employment with Walter, either solely or in collaboration with others, which relate to the actual or anticipated business or research of Walter or any of its subsidiaries or affiliates, which result from or are suggested by any work you may do for Walter or any of its subsidiaries or affiliates, or

which result from use of Walter' s or any of its subsidiaries' or affiliates' premises or Walter' s, its subsidiaries' , its affiliates' , or its customers' property (collectively, the "Developments") shall be the sole and exclusive property of Walter. You hereby assign to Walter your entire right and interest in any such Developments, and will hereafter execute any documents in connection therewith that Walter may reasonably request. This section does not apply to any inventions that you made prior to your employment by Walter, or to any inventions that you develop entirely on your own time without using any of Walter' s equipment, supplies or facilities, or Walter' s or its subsidiaries' , affiliates' , or customers' confidential information which do not relate to Walter' s or its subsidiaries' or its affiliates' business, anticipated research and development, or the work you have performed for Walter and its subsidiaries and affiliates.

4. As an inducement of Walter to make this offer to you, you represent and warrant that there exists no impediment or restraint, contractual or otherwise on your power, right or ability to accept this offer and to perform the duties and obligations specified in this Agreement.

5. Non-Compete/Non-Solicit. It is understood and agreed that you have and will continue to have substantial relationships with specific businesses and personnel, prospective and existing, vendors, contractors, customers, and employees of Walter and its subsidiaries that result in the creation of customer goodwill. Therefore, while you are employed by Walter and following the termination of your employment for any reason and continuing for a period of 12 months from the date of your termination, so long as Walter or any affiliate,

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successor or assigns thereof is in the coal mining business or like business within the Restricted Area (defined as the geographical area in which Walter or any of its subsidiaries competes at the time of your termination), unless the Board of Directors approves an exception, you shall not, directly or indirectly, for yourself or on behalf of, or in conjunction with, any other person, persons, company, partnership, corporation, business entity or otherwise:

(a) Call upon, solicit, write, direct, divert, influence, or accept business (either directly or indirectly) with respect to any account or customer or prospective customer of the Company or any corporation controlling, controlled by, under common control with, or otherwise related to Walter or any affiliated company; or

(b) Hire away any independent contractors or personnel of Walter and/or entice any such persons to leave the employ of Walter or its affiliated entities without the prior written consent of Walter.

6. Non-Disparagement. Following the termination of your employment for any reason and continuing for so long as Walter or any affiliate, successor or assigns thereof carries on the name or like business within the Restricted Area, you shall not, directly or indirectly, for yourself or on behalf of, or in conjunction with, any other person, persons, company, partnership, corporation, business entity or otherwise:

(a) Make any statements or announcements or permit anyone to make any public statements or announcements concerning the termination of your employment with Walter, or

(b) Make any statements that are inflammatory, detrimental, slanderous, or negative in any way to the interests of Walter or its affiliated entities.

7. You acknowledge and agree that you will respect and safeguard Walter' s and its subsidiaries' property, trade secrets and confidential information. You acknowledge that Walter' s electronic communication systems (such as email and voicemail)

are maintained to assist in the conduct of Walter' s and its subsidiaries' business and that such systems and data exchanged or stored thereon are Walter property. In the event you leave the employ of Walter, you will not disclose any trade secrets or confidential information you acquired while an employee of Walter to any other person or entity, including without limitation, a subsequent employer, or use such information in any manner.

8. Compensation Recovery Policy. You understand and agree that if any of Walter' s financial statements are required to be restated due to errors, omissions, fraud or misconduct, the Compensation Committee may, in its sole discretion but acting in good faith, direct that Walter recover all or a portion of any cash incentive, equity compensation or severance disbursements paid to you with respect to any fiscal year of Walter for which the financial results are negatively affected by such restatement. For purposes of this provision, errors, omissions, fraud or misconduct may include and are not limited to circumstances where

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Walter has been required to prepare an accounting restatement due to material non-compliance with any financial reporting requirement, as enforced by the Securities and Exchange Commission, and the Compensation Committee has determined in its sole discretion that you had knowledge of the material noncompliance or the circumstances that gave rise to such noncompliance and failed to take reasonable steps to bring it to the attention of the appropriate individuals within Walter, or you personally and knowingly engaged in practices which materially contributed to the circumstances that enabled a material noncompliance to occur.

9. This Agreement is intended to comply with Section 409A of the Code and will be interpreted accordingly. References under this Agreement to the termination of your employment shall be deemed to refer to the date upon which you have experienced a "separation from service" within the meaning of Section 409A of the Code. Notwithstanding anything in this Agreement to the contrary, (i) if at the time of your separation from service with Walter you are a "specified employee" as defined in Section 409A of the Code (and any related regulations or other pronouncements thereunder) and the deferral of the commencement of any payments or benefits otherwise payable hereunder or payable under any other compensatory arrangement between you and Walter as a result of such separation from service is necessary in order to prevent any accelerated or additional tax under Section 409A of the Code, then Walter will defer the commencement of the payment of any such payments or benefits hereunder (without any reduction in such payments or benefits ultimately paid or provided to you) until the first business day after the date that is six months following your separation from service (or the earliest date as is permitted under Section 409A of the Code), at which point all payments deferred pursuant to this paragraph shall be paid to you in a lump sum and (ii) if any other payments of money or other benefits due to you hereunder could cause the application of an accelerated or additional tax under Section 409A of the Code, such payments or other benefits shall be deferred if deferral will make such payment or other benefits compliant under Section 409A of the Code, or otherwise such payment or other benefits shall be restructured, to the extent possible, in a manner that does not cause such an accelerated or additional tax. To the extent any reimbursements or in-kind benefits due to you under this Agreement constitute "deferred compensation" under Section 409A of the Code, any such reimbursements or in-kind benefits shall be paid to you in a manner consistent with Treasury Regulation Section 1.409A-3(i)(1)(iv). For purposes of Section 409A of the Code, each payment made under this Agreement shall be designated as a "separate payment" within the meaning of Section 409A of the Code.

10. Walter shall withhold from any amounts payable hereunder all Federal, state, city or other taxes as legally shall be required.

11. You acknowledge and agree that you have read this Agreement carefully, have been advised by the Company to consult with an attorney regarding its contents, and that you fully understand the same.

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EXHIBIT 31.1

Walter Energy, Inc.

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

CERTIFICATION OF PERIODIC REPORT

I, Walter J. Scheller, III, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Walter Energy, Inc.;

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 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 conclusions 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 registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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.

	/s/ WALTER J. SCHELLER, III
Date: November 7, 2011	*Chief Executive Officer*
	(Principal Executive Officer)

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EXHIBIT 31.2

Walter Energy, Inc.

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

CERTIFICATION OF PERIODIC REPORT

I, Robert P. Kerley, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Walter Energy, Inc.;

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 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 conclusions 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 registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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 7, 2011

/s/ ROBERT P. KERLEY

Chief Accounting Officer

(Principal Financial Officer)

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EXHIBIT 32.1

Walter Energy, Inc.

Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

18 U.S.C. Section 1350

In connection with the accompanying Quarterly Report of Walter Energy, Inc. (the "Company") on Form 10-Q for the quarterly period ended September 30, 2011 (the "Report"), I, Walter J. Scheller, III, Chief Executive Officer, Director and Principal Executive Officer of the Company, 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) 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 results of operations of the Company.

Date: November 7, 2011

/s/ WALTER J. SCHELLER, III

Chief Executive Officer

(Principal Executive Officer)

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EXHIBIT 32.2

Walter Energy, Inc.
Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
18 U.S.C. Section 1350

In connection with the accompanying Quarterly Report of Walter Energy, Inc. (the "Company") on Form 10-Q for the quarterly period ended September 30, 2011 (the "Report"), I, Robert P. Kerley, Chief Accounting Officer and Principal Financial Officer of the Company, 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) 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 results of operations of the Company.

Date: November 7, 2011

/s/ ROBERT P. KERLEY

Chief Accounting Officer
(Principal Financial Officer)

QuickLinks

EXHIBIT 32.2

Walter Energy, Inc. Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 18 U.S.C. Section 1350

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (USD $) In Thousands, except Per Share data	3 Months Ended		9 Months Ended	
	Sep. 30, 2011	Sep. 30, 2010	Sep. 30, 2011	Sep. 30, 2010
Revenues:				
Sales	$ 685,052	$ 460,163	$ 1,858,343	$ 1,173,982
Miscellaneous income	5,017	4,099	13,460	12,951
Total revenues	690,069	464,262	1,871,803	1,186,933
Costs and expenses:				
Cost of sales (exclusive of depreciation and depletion)	425,487	200,498	1,106,008	574,095
Depreciation and depletion	63,046	25,905	180,830	71,959
Selling, general and administrative	43,122	19,703	132,525	60,453
Postretirement benefits	9,764	10,369	30,374	31,099
Total costs and expenses	541,419	256,475	1,449,737	737,606
Operating income	148,650	207,787	422,066	449,327
Interest expense	(27,642)	(4,179)	(63,245)	(13,120)
Interest income	40	175	356	633
Other income (loss), net	(13,143)		11,360	
Income from continuing operations before income tax expense	107,905	203,783	370,537	436,840
Income tax expense	31,684	66,811	105,145	141,063
Income from continuing operations	76,221	136,972	265,392	295,777
Loss from discontinued operations		(757)		(1,848)
Net income	$ 76,221	$ 136,215	$ 265,392	$ 293,929
Basic income per share:				
Income from continuing operations (in dollars per share)	$ 1.22	$ 2.59	$ 4.45	$ 5.56
Discontinued operations (in dollars per share)		$ (0.02)		$ (0.04)
Net income (in dollars per share)	$ 1.22	$ 2.57	$ 4.45	$ 5.52
Diluted income per share:				
Income from continuing operations (in dollars per share)	$ 1.21	$ 2.57	$ 4.43	$ 5.50
Discontinued operations (in dollars per share)		$ (0.02)		$ (0.03)
Net income (in dollars per share)	$ 1.21	$ 2.55	$ 4.43	$ 5.47
Dividends per share (in dollars per share)	$ 0.125	$ 0.125	$ 0.375	$ 0.35

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (USD $) In Thousands	Total	Common Stock	Capital in Excess of Par Value	Comprehensive Income	Retained Earnings	Accumulated Other Comprehensive Income (Loss)
Balance at Dec. 31, 2010	$ 595,066	$ 531	$ 355,540		$ 411,383	$ (172,388)
Comprehensive income:						
Net income	265,392			265,392	265,392	
Other comprehensive income:						
Change in pension and other postretirement benefit plans, net of tax	9,320			9,320		9,320
Change in unrealized loss on investments, net of tax	(1,192)			(1,192)		(1,192)
Change in unrealized loss on hedges, net of tax	(2,147)			(2,147)		(2,147)
Change in foreign currency translation adjustment	(266)			(266)		(266)
Comprehensive income	271,107			271,107		
Stock issued upon the exercise of stock options	8,878	3	8,875			
Dividends paid, $0.375 per share	(22,236)				(22,236)	
Stock-based compensation	7,809		7,809			
Tax benefit from stock-based compensation arrangements	8,946		8,946			
Issuance of common stock in connection with the Western Coal Corp. acquisition	1,224,126	90	1,224,036			
Fair value of replacement stock options and warrants issued in connection with the Western Coal Corp. acquisition	18,844		18,844			
Other	(5,218)		(5,218)			
Balance at Sep. 30, 2011	$ 2,107,322	$ 624	$ 1,618,832		$ 654,539	$ (166,673)

Pension and Other Postretirement Benefits (Tables)

9 Months Ended Sep. 30, 2011

Pension and Other Postretirement Benefits

Components of net periodic benefit cost

	Pension Benefits For the three months ended September 30, 2011	Pension Benefits For the three months ended September 30, 2010	Other Benefits For the three months ended September 30, 2011	Other Benefits For the three months ended September 30, 2010
Components of net periodic benefit cost:				
Service cost	$1,291	$1,105	$1,827	$753
Interest cost	3,144	3,226	6,206	6,510
Expected return on plan assets	(3,929)	(3,269)	–	–
Amortization of prior service cost (credit)	68	76	(240)	(524)
Amortization of net actuarial loss	2,063	2,231	1,971	3,630
Net periodic benefit cost	$2,637	$3,369	$9,764	$10,369

	Pension Benefits For the nine months ended September 30, 2011	Pension Benefits For the nine months ended September 30, 2010	Other Benefits For the nine months ended September 30, 2011	Other Benefits For the nine months ended September 30, 2010
Components of net periodic benefit cost:				
Service cost	$3,873	$3,315	$4,333	$2,259
Interest cost	9,432	9,678	18,686	19,522
Expected return on plan assets	(11,787)	(9,807)	–	–
Amortization of prior service cost (credit)	204	228	(720)	(1,572)
Amortization of net actuarial loss	6,189	6,693	8,075	10,890
Settlement loss	1,716	–	–	–
Net periodic benefit cost	$9,627	$10,107	$30,374	$31,099

CONDENSED CONSOLIDATED BALANCE SHEETS (USD $) In Thousands	Sep. 30, 2011	Dec. 31, 2010
ASSETS		
Cash and cash equivalents	$ 185,146	$ 293,410
Receivables, net	252,482	143,238
Inventories	226,566	97,631
Deferred income taxes	42,287	62,371
Prepaid expenses	63,887	28,179
Other current assets	49,238	10,710
Total current assets	819,606	635,539
Mineral interests, net of accumulated depletion of $91.0 million and $17.6 million, respectively	4,370,073	17,305
Property, plant and equipment, net of accumulated depreciation of $572.3 million and $433.1 million, respectively	1,550,004	772,696
Deferred income taxes		149,520
Goodwill	278,425	
Other long-term assets	153,839	82,705
Total assets	7,171,947	1,657,765
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current debt	97,426	13,903
Accounts payable	137,690	70,692
Accrued expenses	238,001	52,399
Accumulated postretirement benefits obligation	25,692	24,753
Other current liabilities	30,358	32,100
Total current liabilities	529,167	193,847
Long-term debt	2,327,313	154,570
Deferred income taxes	1,395,199	
Accumulated postretirement benefits obligation	464,710	451,348
Other long-term liabilities	348,236	262,934
Total liabilities	5,064,625	1,062,699
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Common stock, $0.01 par value per share: Authorized-200,000,000 shares,Issued-62,437,811 and 53,136,977 shares, respectively	624	531
Preferred stock, $0.01 par value per share: Authorized-20,000,000 shares, issued-0 shares		
Capital in excess of par value	1,618,832	355,540
Retained earnings	654,539	411,383
Accumulated other comprehensive income (loss):		
Pension and other postretirement benefit plans, net of tax	(162,997)	(172,317)
Unrealized investment loss, net of tax	(1,192)	
Foreign currency translation adjustment	(266)	

Unrealized loss on hedges, net of tax	(2,218)	(71)
Total stockholders' equity	2,107,322	595,066
Total liabilities and stockholders' equity	$ 7,171,947	$ 1,657,765

Fair Value of Financial Instruments (Tables)	9 Months Ended Sep. 30, 2011

Fair Value of Financial Instruments

Schedule of assets & liabilities measured at fair value on a recurring basis

	September 30, 2011			
	Fair Value Measurements Using			
(in thousands)	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Equity securities, trading	$5,995	$−	$−	$5,995
Equity securities, available-for-sale	10,902	−	−	10,902
Interest rate cap	−	476	−	476
Natural gas hedge	−	3,106	−	3,106
Total assets	$16,897	$3,582	$−	$20,479
Liabilities:				
Interest rate swaps	$−	$7,152	$−	$7,152

Comprehensive Income	9 Months Ended Sep. 30, 2011

Comprehensive Income.
Comprehensive Income

Note 6−Comprehensive Income

Comprehensive income is comprised primarily of net income, changes in pension and other postretirement benefits obligations, unrealized gains or losses on investments, gains or losses from the effect of cash flow hedges and foreign currency translation adjustments. Foreign currency translation adjustments are not adjusted for income taxes as they relate to indefinite investments in non-U.S. subsidiaries. Comprehensive income for the three months ended September 30, 2011 and 2010 was $82.0 million and $139.3 million, respectively. Comprehensive income for the nine months ended September 30, 2011 and 2010 was $271.1 million and $303.7 million, respectively.

Segment Information (Tables)	9 Months Ended Sep. 30, 2011

Segment Information

Summarized financial information by reportable segment

	For the three months ended September 30,	
	2011	2010
Revenues:		
U.S. Operations	$467,130	$463,478
Canadian and U.K. Operations	222,681	–
Other	258	784
Total Revenues	$690,069	$464,262
Segment operating income (loss):		
U.S. Operations	$112,867	$215,518
Canadian and U.K. Operations	50,195	–
Other	(14,412)	(7,731)
Operating income	148,650	207,787
Less interest expense, net	(27,602)	(4,004)
Other loss	(13,143)	–
Income from continuing operations before income tax expense	107,905	203,783
Income tax expense	31,684	66,811
Income from continuing operations	$76,221	$136,972
Depreciation and depletion:		
U.S. Operations	$46,732	$25,733
Canadian and U.K. Operations	16,124	–
Other	190	172
Total	$63,046	$25,905
Capital Expenditures:		
U.S. Operations	$41,435	$35,147
Canadian and U.K. Operations	115,426	–
Other	99	43
Total	$156,960	$35,190

	For the nine months ended September 30,	
	2011	2010
Revenues:		
U.S. Operations	$1,381,918	$1,184,783
Canadian and U.K. Operations	488,256	–
Other	1,629	2,150
Total Revenues	$1,871,803	$1,186,933
Segment operating income (loss):		
U.S. Operations	$420,511	$477,010
Canadian and U.K. Operations	62,643	–
Other	(61,088)	(27,683)
Operating income	422,066	449,327
Less interest expense, net	(62,889)	(12,487)

Other income, net	11,360	–
Income from continuing operations before income tax expense	370,537	436,840
Income tax expense	105,145	141,063
Income from continuing operations	$265,392	$295,777
Depreciation and depletion:		
U.S. Operations	$114,170	$71,623
Canadian and U.K. Operations	66,089	–
Other	571	336
Total	$180,830	$71,959
Capital Expenditures:		
U.S. Operations	$126,543	$76,008
Canadian and U.K. Operations	166,837	–
Other	(3)	4,222
Total	$293,377	$80,230

	September 30, 2011	December 31, 2010
Identifiable Assets:		
U.S. Operations	$1,141,890	$1,021,534
Canadian and U.K. Operations	5,537,155	–
Other	492,902	636,231
Total	$7,171,947	$1,657,765

Fair Value of Financial Instruments (Details) (USD $)	3 Months Ended Sep. 30, 2011	9 Months Ended Sep. 30, 2011
Interest rate cap | Recurring | Level 2		
Fair value information		
Derivative assets	$ 476,000	$ 476,000
Interest rate swap | Recurring | Level 2		
Fair value information		
Derivative liabilities	7,152,000	7,152,000
Interest rate swap | Recurring | Total Fair Value		
Fair value information		
Derivative liabilities	7,152,000	7,152,000
Natural Gas Hedge | Recurring | Level 2		
Fair value information		
Derivative assets	3,106,000	3,106,000
Natural Gas Hedge | Recurring | Total Fair Value		
Fair value information		
Derivative assets	3,106,000	3,106,000
Recurring | Level 1		
Fair value information		
Total assets	16,897,000	16,897,000
Recurring | Level 1 | Equity securities		
Fair value information		
Trading securities	5,995,000	5,995,000
Available-for-sale securities	10,902,000	10,902,000
Recurring | Level 2		
Fair value information		
Total assets	3,582,000	3,582,000
Recurring | Total Fair Value		
Fair value information		
Total assets	20,479,000	20,479,000
Recurring | Total Fair Value | Equity securities		
Fair value information		
Trading securities	5,995,000	5,995,000
Available-for-sale securities	10,902,000	10,902,000
Derivative assets	476,000	476,000
Equity securities		
Fair value information		
Recorded loss related to trading securities still held	$ 13,100,000	$ 9,200,000

Derivative Financial Instruments (Tables)	9 Months Ended Sep. 30, 2011

Derivative Financial Instruments

Schedule of fair values and location of derivative instruments

	September 30, 2011	December 31, 2010
Asset derivatives designated as cash flow hedging instruments:		
Natural gas hedge(1)	$3,106	$–
Interest rate cap(2)	476	–
Total asset derivatives	$3,582	$–
Liability derivatives designated as cash flow hedging instruments:		
Interest rate swaps(3)	$7,152	$386

(1) Included in other current assets in the Condensed Consolidated Balance Sheets as of September 30, 2011.

(2) As of September 30, 2011 $157 thousand is included in other current assets and $319 thousand is included in other long-term assets in the Condensed Consolidated Balance Sheets.

(3) As of September 30, 2011 $2.3 million is included in other current liabilities and $4.9 million is included in other long-term liabilities in the Condensed Consolidated Balance Sheets. As of December 31, 2010 the balance was included in other long-term liabilities in the Condensed Consolidated Balance Sheets.

Schedule of gains and losses from derivative instruments and their location within the Condensed Consolidated Financial Statements

	Gain (loss) recognized in accumulated other comprehensive income, net of tax		Gain (loss) reclassified from accumulated other comprehensive income (loss) to earnings		Gain (loss) recognized in earnings	
	Three months ended September 30,		Three months ended September 30,		Three months ended September 30,	
Derivatives designated as cash flow hedging instruments	2011	2010	2011	2010	2011	2010
Natural gas hedges(1)	$984	$(114)	$844	$757	$–	$–
Interest rate swaps(2)	(4,054)	(73)	(73)	(90)	–	–
Interest rate cap(2)	1,636	–	–	–	–	–
Total	$(1,434)	$(187)	$771	$667	$–	$–

(1) Amounts recorded in miscellaneous income in the Condensed Consolidated Statements of Operations

(2) Amounts recorded in interest expense in the Condensed Consolidated Statements of Operations

Gain (loss) recognized in accumulated other comprehensive income, net of tax	Gain (loss) reclassified from accumulated other comprehensive	Gain (loss) recognized in earnings

Derivatives designated as cash flow hedging instruments	Nine months ended September 30,		income (loss) to earnings Nine months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010	2011	2010
Natural gas hedges(1)	$1,765	$232	$844	$2,027	$–	$–
Interest rate swaps(2)	(4,207)	(288)	(226)	(285)	–	–
Interest rate cap(2)	295	–	–	–	–	–
Total	$(2,147)	$(56)	$618	$1,742	$–	$–

(1) Amounts recorded in miscellaneous income in the Condensed Consolidated Statements of Operations

(2) Amounts recorded in interest expense in the Condensed Consolidated Statements of Operations

Segment Information

Segment Information

Segment Information

9 Months Ended Sep. 30, 2011

Note 11−Segment Information

The Company's reportable segments are strategic business units arranged geographically which have separate management teams. The business units have been aggregated into three reportable segments following the Western Coal acquisition described in Note 1. These reportable segments are U.S. Operations, Canadian and U.K. Operations, and Other. Both the U.S. Operations and Canadian and U.K. Operations reportable segments primary business is that of mining and exporting metallurgical for the steel industry. Beginning in the second quarter of 2011 the Company reports its U.S. operations under the U.S. Operations segment which includes Walter Energy's historical operating segments of Underground Mining, Surface Mining and Walter Coke as well as the results, since the date of acquisition, of the West Virginia mining operations acquired through the acquisition of Western Coal on April 1, 2011. The Company reports the results of its mining operations acquired through the Western Coal acquisition located in Northeast British Columbia (Canada) and South Wales (United Kingdom) under the Canadian and U.K. Operations segment, since the April 1, 2011 date of acquisition. The Other segment primarily includes corporate expenses. Previously reported segment amounts have been restated to conform to the current period presentation.

The accounting policies of the segments are the same as those described in Note 2 of the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form-10K for the fiscal year ended December 31, 2010. The Company evaluates performance primarily based on operating income of the respective business segments.

Summarized financial information of the Company's reportable segments is shown in the following table (in thousands):

	For the three months ended September 30, 2011	2010
Revenues:		
U.S. Operations	$467,130	$463,478
Canadian and U.K. Operations	222,681	−
Other	258	784
Total Revenues	$690,069	$464,262
Segment operating income (loss):		
U.S. Operations	$112,867	$215,518
Canadian and U.K. Operations	50,195	−
Other	(14,412)	(7,731)
Operating income	148,650	207,787
Less interest expense, net	(27,602)	(4,004)
Other loss	(13,143)	−
Income from continuing operations before income tax expense	107,905	203,783
Income tax expense	31,684	66,811
Income from continuing operations	$76,221	$136,972
Depreciation and depletion:		
U.S. Operations	$46,732	$25,733
Canadian and U.K. Operations	16,124	−
Other	190	172
Total	$63,046	$25,905
Capital Expenditures:		
U.S. Operations	$41,435	$35,147
Canadian and U.K. Operations	115,426	−
Other	99	43

Total	$156,960	$35,190

	For the nine months ended September 30, 2011	2010
Revenues:		
U.S. Operations	$1,381,918	$1,184,783
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Other	1,629	2,150
Total Revenues	$1,871,803	$1,186,933
Segment operating income (loss):		
U.S. Operations	$420,511	$477,010
Canadian and U.K. Operations	62,643	–
Other	(61,088)	(27,683)
Operating income	422,066	449,327
Less interest expense, net	(62,889)	(12,487)
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Income from continuing operations before income tax expense	370,537	436,840
Income tax expense	105,145	141,063
Income from continuing operations	$265,392	$295,777
Depreciation and depletion:		
U.S. Operations	$114,170	$71,623
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Other	571	336
Total	$180,830	$71,959
Capital Expenditures:		
U.S. Operations	$126,543	$76,008
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Other	(3)	4,222
Total	$293,377	$80,230

	September 30, 2011	December 31, 2010
Identifiable Assets:		
U.S. Operations	$1,141,890	$1,021,534
Canadian and U.K. Operations	5,537,155	–
Other	492,902	636,231
Total	$7,171,947	$1,657,765

Acquisitions	9 Months Ended Sep. 30, 2011

Acquisitions

Acquisitions

Note 2−Acquisitions

Western Coal Corp. On November 18, 2010 the Company announced its intent to acquire all of the outstanding common shares of Western Coal. Western Coal was a producer of high quality metallurgical coal from mines in Northeast British Columbia (Canada), high quality metallurgical coal and compliant thermal coal from mines located in West Virginia (United States), and high quality anthracite coal from mines located in South Wales (United Kingdom). The acquisition of Western Coal substantially increased the Company's reserves available for future production, the majority of which is high-demand metallurgical coal, and created a diverse geographical footprint with strategic access to high-growth steel-producing countries in both the Atlantic and Pacific basins.

On November 17, 2010 the Company entered into a share purchase agreement with various funds advised by Audley Capital to purchase approximately 54.5 million common shares, or 19.8%, of the outstanding common shares of Western Coal for CAD$11.50 per share in two separate transactions. On December 2, 2010 the Company entered into an arrangement agreement with Western Coal to acquire all the remaining outstanding common shares of Western Coal for CAD$11.50 per share in cash or 0.114 of a Walter Energy share, or for a combination thereof at the holder's election, subject to proration.

In January 2011 the Company completed the first transaction to acquire 25,274,745 common shares of Western Coal, or 9.15% of the outstanding shares, from funds advised by Audley Capital. The shares were purchased for $293.7 million in cash and had a fair value of $314.2 million on April 1, 2011. The Company recognized a gain on April 1, 2011 of $20.5 million as a result of remeasuring to fair value the Western Coal shares acquired from Audley Capital which is included in other income in the Condensed Consolidated Statements of Operations for the periods ended September 30, 2011. On April 1, 2011 the Company acquired the remaining outstanding common shares of Western Coal (including the second Audley Capital transaction) for a combination of $2.2 billion in cash and the issuance of 8,951,558 common shares of Walter Energy valued at $1.2 billion. The fair value of Walter Energy's common stock on April 1, 2011 was $136.75 per share based on the closing value on the New York Stock Exchange. The cash portion was funded with part of the proceeds from the new $2.725 billion credit facility discussed in Note 4. All of the outstanding options to purchase Western Coal common shares that were not exercised prior to the acquisition were exchanged for fully-vested and immediately exercisable options to purchase shares of Walter Energy common stock. The Company issued 193,498 stock options in exchange for the Western Coal stock options outstanding as of April 1, 2011. The stock options issued had a fair value of $15.5 million, which was estimated using the Black-Scholes option pricing model. The outstanding warrants of Western Coal were not directly affected by the acquisition. Instead, upon exercise each warrant will entitle the holder to receive cash and shares of Walter Energy common stock that would have been issued if the warrants had been exercised immediately before closing the acquisition.

The purchase consideration has been preliminarily allocated to the assets acquired and liabilities assumed based upon their estimated fair values at the date of acquisition. A full and detailed valuation of the assets and liabilities is being completed with the assistance of an independent third party and certain information and analysis remains pending at this time. Accordingly, the allocation is preliminary and is expected to change as additional information becomes available and is assessed by the Company. The final allocation of the consideration transferred may include adjustment to the fair value estimates of identifiable assets and liabilities, including but not limited to depreciable tangible assets, proven and probable reserves, reserves related to current development projects, value beyond proven and probable reserves, intangible assets and contract-related liabilities after a full review has been completed. The impact of such changes may be material. Fair values were determined using the income, cost and market price valuation methods as deemed appropriate.

The following table summarizes the purchase consideration and the preliminary estimated fair values of assets acquired and liabilities assumed (in thousands):

Purchase consideration:	

Cash	$2,173,080
Fair value of shares of common stock issued	1,224,126
Fair value of stock options issued and warrants	34,765
Fair value of consideration transferred	3,431,971
Fair value of equity interest in Western Coal held before the acquisition	314,231
Total consideration	$3,746,202
Fair value of assets acquired and liabilities assumed:	
Cash and cash equivalents	$34,065
Receivables	163,668
Inventories	122,012
Other current assets	65,606
Mineral interests	4,399,000
Property, plant and equipment	565,228
Goodwill	277,404
Other long-term assets	54,150
Total assets	5,681,133
Accounts payable and accrued liabilities	$180,157
Other current liabilities	75,824
Deferred tax liability	1,576,896
Other long-term liabilities	102,054
Total liabilities	1,934,931
Net assets acquired	$3,746,202

Goodwill is calculated as the excess of the purchase consideration transferred over the fair value of the identifiable assets acquired and liabilities assumed. The factors that contribute to the recognition of goodwill, which may also influence the purchase price allocation, include Western Coal's (i) historical cash flows and income levels, (ii) reputation in its markets, (iii) strength of its management team, (iv) efficiency of its operations, and (v) future cash flows and income growth projections. Goodwill has increased $27.4 million as compared to June 30, 2011 as a result of ongoing adjustments to the estimated fair values of assets acquired and liabilities assumed and purchase consideration assumptions. Goodwill has preliminarily been assigned to the Canadian and U.K. Operations segment and the U.S. Operations segment in the amounts of $253.3 million and $24.1 million, respectively. None of the goodwill is expected to be tax deductible. The Company incurred acquisition costs related to the purchase of approximately $6.1 million and $23.1 million during the three and nine months ended September 30, 2011, respectively, which are included in selling, general and administrative expenses in our Condensed Consolidated Statements of Operations.

The amounts of revenues and earnings of Western Coal included in the Company's condensed consolidated statement of operations from the acquisition date in the periods ending September 30, 2011 are as follows (in thousands):

	Three months ended September 30, 2011	**Nine months ended September 30, 2011**
Revenues	$270,295	$576,660
Net income	$34,684	$42,163

The unaudited supplemental pro forma information presented below includes the effects of the Western Coal acquisition as if it had been completed as of January 1, 2010. The pro forma results include (i) the impact of certain estimated fair value adjustments, including additional estimated depreciation and depletion expense associated with the acquired mineral interests and property, plant and equipment and (ii) interest expense associated with debt used to fund the acquisition. The pro forma results for the nine months ended September 30, 2010 include adjustments for the financial impact of certain acquisition related items incurred during the nine months ended September 30, 2011. Accordingly, the following unaudited pro forma financial information should not be considered indicative of either future results or results that might have occurred had the acquisition been consummated as of January 1, 2010 (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2011	**2010**	**2011**	**2010**
Revenues	$690,069	$698,886	$2,096,011	$1,749,965
Net income	$74,417	$141,669	$306,643	$251,397

North River Mine On May 6, 2011 the Company acquired the North River thermal coal mine in Fayette and Tuscaloosa Counties of Alabama from a subsidiary of Chevron Corporation for approximately $1.1 million in cash and the assumption of certain liabilities totaling approximately $90.9 million, including a $70.0 million below-market coal sales contract liability. The below-market contract has a remaining term of 29 months and such contracts acquired in a business combination are recorded at their fair value and amortized into revenues over the tons of coal sold during the contract term. The Company has preliminarily recognized goodwill of $1.6 million. None of the goodwill is expected to be tax deductible. The purchase consideration has been preliminarily allocated to the assets acquired and liabilities assumed based upon their estimated fair values at the date of acquisition and remains subject to change. The inclusion of this business for the current period did not have a material impact on either the Company's revenues or operating income, and the Company does not expect the results of this business to have a material effect on future operating results.

Derivative Financial Instruments (Details) (USD $) In Millions, unless otherwise specified	9 Months Ended	1 Months Ended		1 Months Ended				
	Sep. 30, 2011	Jun. 30, 2011 Interest rate cap	Jun. 27, 2011 Interest rate cap	Jun. 30, 2011 Interest rate swap	Dec. 31, 2008 Interest rate swap M	Jun. 27, 2011 Interest rate swap	Dec. 30, 2008 Interest rate swap	Jun. 07, 2011 Natural Gas Hedge MMBtu
Fair Value of Financial Instruments								
Notional value			$ 255.0			$ 450.0	$ 31.5	
Debt instrument, description of variable rate basis	LIBOR or CDOR	3-month LIBOR		3-month LIBOR	1-month LIBOR			
Agreement period (in years)			3Y			3Y		1Y
Fixed rate (as a percent)						1.17%	5.59%	
Number of monthly interest payments, hedged (in months)					62			
Number of monthly interest payments					64			
Fixed rate (as a percent)			2.00%					
Amount to be hedged (in mmbtus)								$ 4.2
Price per mmbtu of forecasted natural gas (in dollars per mmbtu)								5.00
Percentage of forecasted natural gas to be hedged								35.00%

Commitments and Contingencies	9 Months Ended Sep. 30, 2011
Commitments and Contingencies.	
Commitments and Contingencies	

Note 8–Commitments and Contingencies

Income Tax Litigation

On December 27, 1989, the Company and most of its subsidiaries each filed a voluntary petition for reorganization under Chapter 11 of Title 11 of the United States Code (the "Bankruptcy Proceedings") in the United States Bankruptcy Court for the Middle District of Florida, Tampa Division (the "Bankruptcy Court"). The Company emerged from bankruptcy on March 17, 1995 (the "Effective Date") pursuant to the Amended Joint Plan of Reorganization dated as of December 9, 1994, as modified on March 1, 1995 (as so modified the "Consensual Plan"). Despite the confirmation and effectiveness of the Consensual Plan, the Bankruptcy Court continues to have jurisdiction over, among other things, the resolution of disputed prepetition claims against the Company and other matters that may arise in connection with or related to the Consensual Plan, including claims related to federal income taxes.

In connection with the Bankruptcy Proceedings, the Internal Revenue Service ("IRS") filed a proof of claim in the Bankruptcy Court (the "Proof of Claim") for a substantial amount of taxes, interest and penalties with respect to fiscal years ended August 31, 1983 through May 31, 1994. The Company filed an adversary proceeding in the Bankruptcy Court disputing the Proof of Claim (the "Adversary Proceeding") and the various issues have been litigated in the Bankruptcy Court. An opinion was issued by the Bankruptcy Court in June 2010 as to the remaining disputed issues. The Bankruptcy Court instructed both parties to submit a proposed final order addressing all issues that have been litigated for the tax years 1983 through 1995 in the Adversary Proceeding by late August 2010. At the request of both parties, the Bankruptcy Court granted an extension of time of 90 days from the initial submission date to submit the proposed final order. Additional extensions of time to submit the proposed final order were granted in November 2010, February 2011 and May 2011. At the request of both parties, in September 2011 the Bankruptcy Court granted an additional extension of time until January 5, 2012 to submit the proposed final order.

The amounts initially asserted by the Proof of Claim do not reflect the subsequent resolution of various issues through settlements or concessions by the parties. The Company believes that any financial exposure with respect to those issues that have not been resolved or settled in the Proof of Claim is limited to interest and possible penalties and the amount of tax assessed has been offset by tax reductions in future years. All of the issues in the Proof of Claim, which have not been settled or conceded, have been litigated before the Bankruptcy Court and are subject to appeal but only at the conclusion of the entire Adversary Proceeding.

The Company believes that those portions of the Proof of Claim, which remain in dispute or are subject to appeal, substantially overstate the amount of taxes allegedly owed. However, because of the complexity of the issues presented and the uncertainties associated with litigation, the Company is unable to predict the ultimate outcome of the Adversary Proceeding.

The IRS completed its audit of the Company's federal income tax returns for the years ended May 31, 2000 through December 31, 2005. The IRS issued 30-Day Letters to the Company in June 2010, proposing changes to tax for these tax years. The Company filed a formal protest with the IRS within the prescribed 30-day time limit for those issues which have not been previously settled or conceded. The IRS filed a rebuttal to the Company's formal protest and the case was assigned to the Appeals Division of the IRS. The Appeals Division convened a hearing on March 8, 2011 and heard arguments from both parties as to issues not settled or conceded for the 2000 through 2005 audit period. At this time, no final resolution has been reached with the Appeals Division pertaining to these matters. The disputed issues in this audit period are similar to the issues remaining in the Proof of Claim and consequently, should the IRS prevail on its positions, the Company believes its financial exposure is limited to interest and possible penalties.

The IRS has begun its audit of the Company's income tax returns filed for 2006 through 2008. Since the IRS examination is in its initial stages, any resulting tax deficiency or overpayment cannot be estimated at this time. During the next year, the statute of limitations for assessing additional income tax deficiencies will expire for certain tax years in several state tax jurisdictions. The expiration of the statute of limitations for these years is expected to have an immaterial impact on the total uncertain income tax positions and net income.

The Company believes that all of its current and prior tax filing positions have substantial merit and intends to defend vigorously any tax claims asserted. The Company believes that it has sufficient accruals to address any claims, including interest and penalties, and as a result, we believe that any potential difference between actual losses and costs incurred and the amounts accrued would be immaterial.

Environmental Matters

The Company is subject to a wide variety of laws and regulations concerning the protection of the environment, both with respect to the construction and operation of its plants, mines and other facilities and with respect to remediating environmental conditions that may exist at its own and other properties.

The Company believes that it is in substantial compliance with federal, state and local environmental laws and regulations. The Company accrues for environmental expenses resulting from existing conditions that relate to past operations when the costs are probable and can be reasonably estimated.

Walter Coke, Inc.

Walter Coke entered into a decree order in 1989 relative to a Resource Conservation Recovery Act ("RCRA") compliance program mandated by the Environmental Protection Agency ("EPA"). A RCRA Facility Investigation ("RFI") Work Plan was prepared which proposed investigative tasks to assess the presence of contamination at the Walter Coke facility. A work plan was approved in 1994 and the Phase I investigations were conducted and completed between 1995 and 1999. Phase II investigations for the Chemical Plant/Coke Plant and Biological Treatment Facility and Sewers/Land Disposal Areas at the Walter Coke facility were performed in 2000 and 2001 and are complete. At the end of 2004, the EPA re-directed Walter Coke's RFI efforts toward completion of the Environmental Indicator ("EI") determinations for the Current Human Exposures. This EI effort was completed to assist the EPA in meeting goals set by the Government Performance Results Act ("GPRA") for RCRA by 2005. Walter Coke implemented the approved EI sampling plan in April 2005. The EPA approved and finalized the EI determinations for Walter Coke's Birmingham facility in September 2005. In an effort to refocus the RFI, the EPA approved technical comments on the Phase II RFI report and the report submitted as part of the EI effort. A Phase III work plan was submitted to the EPA during the first quarter of 2007. The EPA commented on the Phase III plan and Walter Coke responded. Subsequently, a meeting was held with the EPA during the third quarter of 2007 with the objective of finalization of the Phase III plan. Phase III sampling reports were submitted in March 2009 and June 2009. Beyond the scope of the Phase III activity performed in 2007 through 2009, additional requests by EPA expanded the scope of the project which required additional sampling and testing. In January 2008, as a follow-up to the EI determination, the EPA requested that Walter Coke perform additional soil sampling and testing in the neighborhoods surrounding its facility. Subsequent to EPA's initial request and presentation of a residential sampling plan to EPA by Walter Coke, the plan was finalized and community involvement initiated, with sampling and testing commencing in July 2009. The results of this sampling and testing were submitted to the EPA for review in December 2009. Walter Coke has agreed to remediate 23 properties based on the 2009 sampling and that process was started in July, 2011. The EPA and Walter Coke are in discussions regarding future action and timing under the Phase III RFI plan and any subsequent residential sampling.

The Company has incurred costs to investigate the presence of contamination at the Walter Coke facility and to define remediation actions to address this environmental liability in accordance with the agreements reached with the EPA under the RFI and the residential soil sampling conducted by Walter Coke in the neighborhoods surrounding its facility. At September 30, 2011, the Company has an amount accrued that is probable and can be reasonably estimated for the costs to be incurred to identify and define remediation actions, as well as to perform certain remedial tasks which can be quantified, in accordance with the agreements reached and proposals that continue to be coordinated with the EPA to date. The amount of this accrual is not material to the financial statements. While it is probable that the Company will incur additional future costs to remediate environmental liabilities at the Walter Coke facility, the amount of these costs cannot be reasonably estimated at this time. Because the RCRA compliance program is in the study phase, until the studies are complete the Company is unable to fully estimate the cost of remediation activities that will be required. Although no assurances can be given that the Company will not be required in the future to make material expenditures relating to the Walter Coke site or other sites, management does not believe at this time that the cleanup costs, if any, associated with these sites will have a material adverse effect on the financial condition of the Company, but such cleanup costs could be material to results of operations in a future reporting period. The Company and Walter Coke were named in a suit filed by Louise Moore on April 26, 2011 (Louise Moore v. Walter Energy, Inc. and Walter Coke, Inc., Case No. 2:11-CV-01391) in the federal District Court for the Northern District of Alabama. This is a putative civil class action alleging state law tort claims arising from the alleged presence on properties of substances, including arsenic, BaP, and other hazardous substances, allegedly as a result of current and/or historic operations in the area conducted by the companies and/or their predecessors. This action is still in the earliest stages of litigation. On June 6, 2011, the plaintiff filed an amended complaint eliminating Walter Energy as a defendant and amending the claims alleged against Walter Coke to relate to Walter Coke's alleged conduct for the period commencing after March 2, 1995. Based on initial evaluation, management believes that both procedural and substantive defenses are available to the Company and Walter Coke expects to vigorously defend this matter. No specific dollar value has been claimed in the suit's demand for monetary damages. On June 20, 2011, Walter Coke filed a Motion to Dismiss which, was heard on October 28, 2011. As of the date of filing this report on Form 10-Q a ruling has not been received.

Maple Coal Company

Maple Coal Company ("Maple") was the subject of a compliance order issued against its water discharge permit in April, 2007 by the West Virginia Department of Environmental Protection ("WVDEP"). This order provided that Maple would have until April 5, 2010 to comply with certain water quality-based effluent limitations for selenium concentrations in discharges from its mining operations.

Maple sought a permit modification to extend the selenium compliance date beyond April 5, 2010. That permit modification application was denied by the WVDEP. Maple appealed that denial to the West Virginia Environmental Quality Board ("EQB"), which issued a Stay of those limits, to be effective until it had issued a ruling. The Kanawha County (West Virginia) Circuit Court also issued Stay Orders, preventing the selenium effluent limits in Maple's National Pollutant Discharge Elimination System ("NPDES") permit from taking effect until the exhaustion of all appeals from the WVDEP denial and the conclusion of the WVDEP's civil enforcement action.

The EQB ruled against Maple's appeal. Maple has filed an appeal of these rulings (consolidated into one case) with the Fayette County (West Virginia) Circuit Court. In connection with this administrative appeal, Maple has also obtained a Stay Order from the Fayette County Circuit Court, suspending the effective date of the selenium limits in its NPDES permit pending the outcome of that appeal. The parties to that appeal agreed to defer briefing, pending negotiation of a comprehensive settlement of all such issues (discussed below) and the Court entered an order suspending the briefing schedule.

In a related action, in June, 2010 the WVDEP instituted a civil enforcement action against Maple seeking to enforce effluent limits for non-selenium parameters found in the Maple permit, asserting violations of various in-stream water quality standards, and alleging a violation of the April 5, 2007 selenium compliance order. Maple has filed an Answer and is contesting the claims of the WVDEP in that matter, but anticipates entering into a comprehensive Consent Decree with the WVDEP as a means of resolving that case and the EQB case mentioned above.

In a second related action, in January, 2011 three environmental interest groups filed a Clean Water Act citizen's suit against Maple, seeking more than $14 million in civil penalties for selenium violations since April, 2010 and injunctive relief in the form of mandatory treatment plant installations. The plaintiffs filed a Motion for Partial Summary Judgment on Jurisdiction and Liability, and Maple filed a Cross-Motion for Summary Judgment. On September 2, 2011, the Court issued a Memorandum Opinion and Order (the "Sept. 2 Order") granting, in part, and denying, in part, both motions. In partially granting Maple's motion, the Court held that the plaintiffs' members had not shown a sufficient connection to establish standing to bring a claim as to discharges from one of the outlets under the Maple NPDES Permit at issue. The Court upheld jurisdiction over claims based on discharges from one of the outlets, and found that the plaintiffs were entitled to summary judgment on liability as to past and continuing selenium discharges from that outlet. The plaintiffs recently filed a Motion to Amend Judgment, asking the Court to reverse its Sept. 2 Order as to their dismissed claims, and briefing on that motion is ongoing. A trial on civil penalties for past violations and injunctive relief to address continuing violations at the remaining outlet is scheduled for May, 2012.

In addition, these same plaintiffs recently served a second Notice of Intent to Sue under the Clean Water Act, alleging that Maple Coal is liable for having caused selenium water quality standard violations authorized under a different NPDES permit. Maple is evaluating that Notice and will not be required to submit a response to it until November 21, 2011.

At present the likelihood of an unfavorable outcome as to the EQB case, the WVDEP civil enforcement action, and/or the federal court citizens' suit is neither remote nor probable and no opinion can be offered regarding the likelihood of the WVDEP or the citizens suit plaintiffs succeeding in these actions. As such, the Company has not made a provision for these claims in its consolidated financial statements. Regardless of the manner of their disposition, however, civil penalties, mandatory treatment facility costs, and other costs that may ultimately be incurred as a result of these proceedings could be material.

Securities Class Action

In November, 2009, Western Coal Corp. was named as a defendant in a statement of claim issued by a plaintiff who seeks leave of the Ontario Courts to proceed with a securities class action. This claim also named Western Coal Corp.'s former President and director, John Hogg, and two of its non-executive directors, John Brodie and Robert Chase, as defendants.

The plaintiff subsequently delivered an amended claim that added new allegations that seeks to have the amended claim certified as a class action separately from the proposed securities class action allegations. The new allegations focused on certain transactions the plaintiff claims were oppressive and unfair to the interests of shareholders. The amended claim included additional defendants of Western Coal Corp.'s former Chairman, John Byrne, its remaining non-executive directors John Conlon and Charles Pitcher, Audley European Opportunities Master Fund Limited, Audley Capital Management Limited, and Audley Advisors LLP.

The proposed securities claims allege that those persons who acquired or disposed of Western Coal Corp. shares between November 14, 2007 and December 10, 2007 should be entitled to recover $200 million for general damages and $20 million in punitive damages. The plaintiff alleges that Western Coal Corp's consolidated financial statements for the second quarter of fiscal 2008 and the accompanying news release issued on November 14, 2007 misrepresented the financial condition and that Western Coal Corp. failed to make full, plain and true disclosure of all material facts and changes.

The plaintiff's oppression claims are advanced in respect of security holders in the period between April 26, 2007 and July 13, 2009. The claims are that the defendants caused Western Coal Corp. to enter into transactions that had a dilutive effect on the interests of shareholders. The damages associated with these alleged dilutive effects have not been developed or quantified.

The plaintiff's motions to proceed with securities claims and also to certify the securities and oppression claims as class actions were rescheduled to allow the plaintiff additional time to answer the Company's position. This has now been done. The hearing dates are set for June 2012.

Western Coal Corp. and the other named defendants continue to, and will vigorously defend the allegations. They maintain that there is no merit to the claims and that the damages are without foundation and excessive. Accordingly, the Company has made no provision for the claims in its financial statements.

Miscellaneous Litigation

The Company and its subsidiaries are parties to a number of other lawsuits arising in the ordinary course of their businesses. The Company records costs relating to these matters when a loss is probable and the amount can be reasonably estimated. The effect of the outcome of these matters on the Company's future results of operations cannot be predicted with certainty as any such effect depends on future results of operations and the amount and timing of the resolution of such matters. While the results of litigation cannot be predicted with certainty, the Company believes that the final outcome of such other litigation will not have a materially adverse effect on the Company's consolidated financial statements.

Commitments and Contingencies−Other

In the opinion of management, accruals associated with contingencies incurred in the normal course of business are sufficient. Resolution of existing known contingencies is not expected to significantly affect the Company's financial position and results of operations.

Undistributed Foreign Earnings

The Company has not provided U.S. income taxes and foreign withholding taxes on the undistributed earnings of foreign subsidiaries as of September 30, 2011 because it intends to indefinitely reinvest such earnings outside the U.S. If this intent changes, additional income tax expense would likely be recorded due to the differential in tax rates between the U.S. and the international jurisdictions as the Company repatriates such foreign subsidiary earnings. If these foreign earnings were to be repatriated in the future, the related U.S. tax liability on such repatriation may be partially reduced by any foreign income taxes previously paid on these earnings. As of September 30, 2011 the cumulative amount of earnings upon which U.S. income taxes have not been provided is approximately $42 million.

Ridley Terminal Services Agreement

In connection with the acquisition of Western Coal, the Company assumed a terminal services agreement (the "Agreement") with Ridley Terminals Inc. located in British Columbia. The Agreement contains minimum throughput obligations each calendar year through December 31, 2020. If the Company does not meet its minimum throughput obligation, the Company shall pay Ridley Terminals a contractually specified amount per metric ton for the difference between the actual throughput and the minimum throughput requirement. The Company expects to meet future minimum throughput requirements and as such no liability has been established at September 30, 2011.

Subsequent Event	9 Months Ended Sep. 30, 2011
Subsequent Event	
Subsequent Event	**Note 13−Subsequent Event** On October 31, 2011 the Company prepaid $50.0 million of term loan debt.

Derivative Financial Instruments	9 Months Ended Sep. 30, 2011

Derivative Financial Instruments

Derivative Financial Instruments

Note 9−Derivative Financial Instruments

Interest Rate Swaps

On June 27, 2011, the Company entered into an interest rate swap agreement with a notional value of $450.0 million. The objective of the swap is to protect against the variability in expected future cash flows attributable to changes in the benchmark interest rate related to interest payments required under the 2011 Credit Agreement. The interest rate on the debt is subject to change due to fluctuations in the benchmark interest rate of 3-month LIBOR. The structure of the hedge is a three year amortizing interest rate swap based on a 1.17% fixed rate with fixed rate and floating rate payment dates effective July 18, 2011. The hedge will be settled upon maturity and is being accounted for as a cash flow hedge. Changes in the fair value of the hedge that take place through the date of maturity are reported in accumulated other comprehensive income (loss) and reclassified into earnings in the same period or periods during which the hedged transactions affect earnings.

On December 30, 2008, the Company entered into an interest rate hedge agreement with a notional value of $31.5 million. The objective of the hedge is to protect against the variability in expected future cash flows attributable to changes in the benchmark interest rate related to 62 of the 64 monthly interest payments required under an equipment financing arrangement for a new longwall shield system entered into on October 21, 2008. The interest rate on the debt is subject to change due to fluctuations in the benchmark interest rate of 1-month LIBOR. The structure of the hedge is a 62 month amortizing interest rate swap based on a 5.59% fixed rate with fixed rate and floating rate payment dates effective February 1, 2009. The hedge will be settled upon maturity and is being accounted for as a cash flow hedge. Changes in the fair value of the hedge that take place through the date of maturity are reported in accumulated other comprehensive income (loss) and reclassified into earnings in the same period or periods during which the hedged transactions affect earnings.

Interest Rate Cap

On June 27, 2011, the Company entered into an interest rate cap agreement related to interest payments required under the 2011 Credit Agreement with a notional value of $255.0 million. The objective of the cap is to protect against the variability in expected future cash flows attributable to changes in the benchmark interest rate above 2.00%. The interest rate on the debt is subject to change due to fluctuations in the benchmark interest rate of 3-month LIBOR. The structure of the hedge is a three year amortizing interest rate cap based on a strike price of 2.00% with fixed rate and floating rate payment dates effective July 7, 2011. The hedge will be settled upon maturity and is being accounted for as a cash flow hedge. Changes in the fair value of the hedge that take place through the date of maturity are reported in accumulated other comprehensive income (loss) and reclassified into earnings in the same period or periods during which the hedged transactions affect earnings.

Natural Gas Hedge

Revenues derived from the sale of natural gas are subject to volatility based on changes in market prices. In order to reduce the risk associated with natural gas price volatility, on June 7, 2011 the Company entered into a one year swap contract to hedge 4.2 million MMBTUs of natural gas sales beginning in July 2011 and ending June 2012, at a price of $5.00 per MMBTU. The swap agreement will hedge approximately 35% of anticipated natural gas sales from July 2011 until June 2012. The hedge will be settled upon maturity and is being accounted for as a cash flow hedge. Changes in the fair value of the hedge that take place through the date of maturity are reported in accumulated other comprehensive income (loss) and reclassified into earnings in the same period or periods during which the hedged transactions affect earnings.

The following table presents the fair values of the Company's derivative instruments as well as the classification on the Condensed Consolidated Balance Sheets (in thousands). See Note 10 for additional information related to the fair values of our derivative instruments.

	September 30, 2011	December 31, 2010
Asset derivatives designated as cash flow hedging instruments:		
Natural gas hedge(1)	$3,106	$−
Interest rate cap(2)	476	−
Total asset derivatives	$3,582	$−

Liability derivatives designated as cash flow hedging instruments:		
Interest rate swaps(3)	$7,152	$386

(1) Included in other current assets in the Condensed Consolidated Balance Sheets as of September 30, 2011.

(2) As of September 30, 2011 $157 thousand is included in other current assets and $319 thousand is included in other long-term assets in the Condensed Consolidated Balance Sheets.

(3) As of September 30, 2011 $2.3 million is included in other current liabilities and $4.9 million is included in other long-term liabilities in the Condensed Consolidated Balance Sheets. As of December 31, 2010 the balance was included in other long-term liabilities in the Condensed Consolidated Balance Sheets.

The following tables present the gains and losses from derivative instruments for the three and nine months ended September 30, 2011 and 2010 and their location within the Condensed Consolidated Financial Statements (in thousands). The Company utilizes only cash flow hedges that are considered highly effective.

	Gain (loss) recognized in accumulated other comprehensive income, net of tax		Gain (loss) reclassified from accumulated other comprehensive income (loss) to earnings		Gain (loss) recognized in earnings	
	Three months ended September 30,		Three months ended September 30,		Three months ended September 30,	
Derivatives designated as cash flow hedging instruments	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
Natural gas hedges(1)	$984	$(114)	$844	$757	$–	$–
Interest rate swaps(2)	(4,054)	(73)	(73)	(90)	–	–
Interest rate cap(2)	1,636	–	–	–	–	–
Total	$(1,434)	$(187)	$771	$667	$–	$–

(1) Amounts recorded in miscellaneous income in the Condensed Consolidated Statements of Operations

(2) Amounts recorded in interest expense in the Condensed Consolidated Statements of Operations

	Gain (loss) recognized in accumulated other comprehensive income, net of tax		Gain (loss) reclassified from accumulated other comprehensive income (loss) to earnings		Gain (loss) recognized in earnings	
	Nine months ended September 30,		Nine months ended September 30,		Nine months ended September 30,	
Derivatives designated as cash flow hedging instruments	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
Natural gas hedges(1)	$1,765	$232	$844	$2,027	$–	$–
Interest rate swaps(2)	(4,207)	(288)	(226)	(285)	–	–
Interest rate cap(2)	295	–	–	–	–	–
Total	$(2,147)	$(56)	$618	$1,742	$–	$–

(1) Amounts recorded in miscellaneous income in the Condensed Consolidated Statements of Operations

(2) Amounts recorded in interest expense in the Condensed Consolidated Statements of Operations

Comprehensive Income (Details) (USD $) In Thousands	3 Months Ended		9 Months Ended	
	Sep. 30, 2011	Sep. 30, 2010	Sep. 30, 2011	Sep. 30, 2010
Comprehensive Income.				
Comprehensive income	$ 82,000	$ 139,300	$ 271,107	$ 303,700

Net Income Per Share

Net Income Per Share

Net Income Per Share

9 Months Ended Sep. 30, 2011

Note 7–Net Income Per Share

A reconciliation of the basic and diluted net income per share computations for the three and nine months ended September 30, 2011 and 2010 is as follows (in thousands, except per share data):

	For the three months ended September 30,			
	2011		2010	
	Basic	Diluted	Basic	Diluted
Numerator:				
Income from continuing operations	$76,221	$76,221	$136,972	$136,972
Loss from discontinued operations	$–	$–	$(757)	$(757)
Denominator:				
Average number of common shares outstanding	62,414	62,414	52,920	52,920
Effect of dilutive securities:				
Stock awards and warrants(a)	–	345	–	473
	62,414	62,759	52,920	53,393
Income from continuing operations	$1.22	$1.21	$2.59	$2.57
Loss from discontinued operations	–	–	(0.02)	(0.02)
Net income per share	$1.22	$1.21	$2.57	$2.55

	For the nine months ended September 30,			
	2011		2010	
	Basic	Diluted	Basic	Diluted
Numerator:				
Income from continuing operations	$265,392	$265,392	$295,777	$295,777
Loss from discontinued operations	$–	$–	$(1,848)	$(1,848)
Denominator:				
Average number of common shares outstanding	59,601	59,601	53,224	53,224
Effect of dilutive securities:				
Stock awards and warrants(a)	–	370	–	548
	59,601	59,971	53,224	53,772

Income from continuing operations	$4.45	$4.43	$5.56	$5.50
Loss from discontinued operations	–	–	(0.04)	(0.03)
Net income per share	$4.45	$4.43	$5.52	$5.47

(a) Stock awards represent the weighted average number of shares of common stock issuable on the exercise of dilutive employee stock options and restricted stock units, less the number of shares of common stock which could have been purchased with the proceeds from the exercise of such stock awards. These purchases were assumed to have been made at the average market price of the common stock for the period. The weighted average number of stock options outstanding for the three months ended September 30, 2011 and 2010 totaling 38,083 and 30,755, respectively, were excluded from the calculation above because their effect would have been anti-dilutive. Additionally, the weighted average number of stock options outstanding for the nine months ended September 30, 2011 and 2010 totaling 32,086 and 27,802 respectively, were excluded because their effect would have been anti-dilutive. Outstanding warrants entitle the holder to receive cash and shares of common stock upon exercise.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (USD $) In Thousands			9 Months Ended	
	Sep. 30, 2011	Sep. 30, 2010	Sep. 30, 2011 Western Coal Corporation	Sep. 30, 2010 HighMount Exploration & Production Alabama, LLC
OPERATING ACTIVITIES				
Net income	$ 265,392	$ 293,929		
Loss from discontinued operations		1,848		
Income from continuing operations	265,392	295,777		
Adjustments to reconcile income from continuing operations to net cash flows provided by (used in) operating activities:				
Depreciation and depletion	180,830	71,959		
Deferred income taxes	(19,138)	85,703		
Gain on investment in Western Coal Corp	(20,553)			
Other	29,098	(12,553)		
Decrease (increase) in current assets, net of effect of business acquisitions:				
Receivables	30,655	(91,783)		
Inventories	(1,560)	12,580		
Other current assets	19,496	12,839		
Increase in current liabilities, net of effect of business acquisitions:				
Accounts payable	24,645	14,966		
Accrued expenses and other current liabilities	764	33,584		
Cash flows provided by operating activities	509,629	423,072		
INVESTING ACTIVITIES				
Additions to property, plant and equipment	(293,377)	(80,230)		
Acquisition, net of cash acquired			(2,432,693)	(209,964)
Proceeds from sales of investments	27,325			
Other	814	(4,105)		
Cash flows used in investing activities	(2,697,931)	(294,299)		
FINANCING ACTIVITIES				
Proceeds from issuance of debt	2,350,000			
Borrowings under revolving credit agreement	41,461			
Repayments on revolving credit agreement	(41,461)			
Retirements of debt	(165,024)	(19,711)		
Dividends paid	(22,236)	(18,654)		
Purchases of stock under stock repurchase program		(65,438)		
Debt issuance costs	(80,027)			
Other	(1,197)	30,043		
Cash flows provided by (used in) financing activities	2,081,516	(73,760)		

Cash flows provided by (used in) continuing operations	(106,786)	55,013		
CASH FLOWS FROM DISCONTINUED OPERATIONS				
Cash flows used in operating activities		(6,146)		
Cash flows provided by investing activities		3,453		
Cash flows used in discontinued operations		(2,693)		
Effect of foreign exchange rates on cash	(2,013)			
Net increase (decrease) in cash and cash equivalents	(108,799)	52,320		
Cash and cash equivalents at beginning of period	293,410	165,279		
Add: Cash and cash equivalents of discontinued operations at beginning of period	535	1,254		
Net increase (decrease) in cash and cash equivalents	(108,799)	52,320		
Less: Cash and cash equivalents of discontinued operations at end of period		434		
Cash and cash equivalents at end of period	185,146	218,419		
Acquisition of Western Coal in 2011 and HighMount in 2010:				
Fair value of assets acquired			5,681,133	217,607
Less: fair value of liabilities assumed			(1,934,931)	(7,643)
fair value of shares of common stock issued			(1,224,126)	
fair value of stock options issued and warrants			(34,765)	
gain on investment			(20,553)	
cash acquired			(34,065)	
Net cash paid			2,432,693	209,964
Non-cash transactions:				
Financing of one-year property insurance premium		$ 18,947		

Inventories	9 Months Ended Sep. 30, 2011
Inventories	
Inventories	**Note 3−Inventories** Inventories are summarized as follows (in thousands):

	September 30, 2011	December 31, 2010
Coal	$166,739	$69,110
Raw materials and supplies	59,827	28,521
Total inventories	$226,566	$97,631

Segment Information (Details) (USD $) In Thousands, unless otherwise specified	3 Months Ended		9 Months Ended		
	Sep. 30, 2011	Sep. 30, 2010	Sep. 30, 2011 segment	Sep. 30, 2010	Dec. 31, 2010
Segment Information					
Number of reportable segments			3		
Revenues:					
Total Revenues	$ 690,069	$ 464,262	$ 1,871,803	$ 1,186,933	
Segment operating income (loss):					
Operating income	148,650	207,787	422,066	449,327	
Less interest expense, net	(27,602)	(4,004)	(62,889)	(12,487)	
Other income (loss), net	(13,143)		11,360		
Income from continuing operations before income tax expense	107,905	203,783	370,537	436,840	
Income tax expense	31,684	66,811	105,145	141,063	
Income from continuing operations	76,221	136,972	265,392	295,777	
Depreciation and depletion:					
Total depreciation and depletion	63,046	25,905	180,830	71,959	
Capital Expenditures:					
Total capital expenditures	156,960	35,190	293,377	80,230	
Identifiable Assets:					
Total identifiable assets	7,171,947		7,171,947		1,657,765
U.S. Operations					
Revenues:					
Total Revenues	467,130	463,478	1,381,918	1,184,783	
Segment operating income (loss):					
Operating income	112,867	215,518	420,511	477,010	
Depreciation and depletion:					
Total depreciation and depletion	46,732	25,733	114,170	71,623	
Capital Expenditures:					
Total capital expenditures	41,435	35,147	126,543	76,008	
Identifiable Assets:					
Total identifiable assets	1,141,890		1,141,890		1,021,534
Canadian and U.K. operations					
Revenues:					
Total Revenues	222,681		488,256		
Segment operating income (loss):					
Operating income	50,195		62,643		
Depreciation and depletion:					
Total depreciation and depletion	16,124		66,089		
Capital Expenditures:					
Total capital expenditures	115,426		166,837		
Identifiable Assets:					

Total identifiable assets	5,537,155		5,537,155		
Other					
Revenues:					
Total Revenues	258	784	1,629	2,150	
Segment operating income (loss):					
Operating income	(14,412)	(7,731)	(61,088)	(27,683)	
Depreciation and depletion:					
Total depreciation and depletion	190	172	571	336	
Capital Expenditures:					
Total capital expenditures	99	43	(3)	4,222	
Identifiable Assets:					
Total identifiable assets	$ 492,902		$ 492,902		$ 636,231

Pension and Other Postretirement Benefits (Details) (USD $) In Thousands	3 Months Ended		9 Months Ended	
	Sep. 30, 2011	Sep. 30, 2010	Sep. 30, 2011	Sep. 30, 2010
Pension Benefits				
Components of net periodic benefit cost:				
Service cost	$ 1,291	$ 1,105	$ 3,873	$ 3,315
Interest cost	3,144	3,226	9,432	9,678
Expected return on plan assets	(3,929)	(3,269)	(11,787)	(9,807)
Amortization of prior service cost (credit)	68	76	204	228
Amortization of net actuarial loss	2,063	2,231	6,189	6,693
Settlement loss			1,716	
Net periodic benefit cost	2,637	3,369	9,627	10,107
Other Benefits				
Components of net periodic benefit cost:				
Service cost	1,827	753	4,333	2,259
Interest cost	6,206	6,510	18,686	19,522
Amortization of prior service cost (credit)	(240)	(524)	(720)	(1,572)
Amortization of net actuarial loss	1,971	3,630	8,075	10,890
Net periodic benefit cost	$ 9,764	$ 10,369	$ 30,374	$ 31,099

Debt

[**Debt**](#)
[Debt](#)

9 Months Ended
Sep. 30, 2011

Note 4−Debt

Debt consisted of the following (in thousands):

	September 30, 2011	December 31, 2010	Weighted Average Stated Interest Rate At September 30, 2011	Estimated Final Maturity
2011 term loan A	$935,000	$−	3.285 %	2016
2011 term loan B	1,396,500	−	4.00 %	2018
2005 term loan	−	136,062		
Other(1)	93,239	32,411	Various	Various
Total debt	2,424,739	168,473		
Less current debt	(97,426)	(13,903)		
Total long-term debt	$2,327,313	$154,570		

(1) This balance includes capital lease obligations and an equipment financing agreement.

The Company's minimum debt repayment schedule, excluding interest, as of September 30, 2011 is as follows (in thousands):

	Payments Due					
	2011	2012	2013	2014	2015	Thereafter
2011 term loan A	$7,500	$52,500	$82,500	$112,500	$517,500	$162,500
2011 term loan B	3,500	14,000	14,000	14,000	14,000	1,337,000
Other debt	11,408	33,878	25,273	16,993	5,599	88
	$22,408	$100,378	$121,773	$143,493	$537,099	$1,499,588

2005 Credit Agreement, as Amended On April 1, 2011, in connection with the acquisition of Western Coal, the Company repaid all outstanding loans and accrued interest under the 2005 credit agreement, as amended ("2005 Credit Agreement") and it was simultaneously terminated. No penalties were due in connection with the repayments. As of March 31, 2011 the 2005 Credit Agreement included (1) an amortizing term loan facility ("2005 Term Loan") with an initial aggregate principal amount of $450.0 million and (2) a $300.0 million revolving credit facility ("2005 Revolver") which provided for loans and letters of credit. The 2005 Term Loan bore interest at LIBOR plus as much as 300 basis points and required quarterly principal payments of $0.4 million through October 3, 2012, at which time the remaining outstanding principal was to be due. The 2005 Revolver bore interest at LIBOR plus as much as 400 basis points and was due to mature on July 2, 2012. The commitment fee on the unused portion of the 2005 Revolver was 0.5% per year for all pricing levels. The Company's obligations under the 2005 Credit

Agreement were secured by substantially all of the Company's real, personal and intellectual property.

2011 Credit Agreement On April 1, 2011, the Company entered into a $2.725 billion credit agreement (the "2011 Credit Agreement") to partially fund the acquisition of Western Coal and to payoff all outstanding loans under the 2005 Credit Agreement. The 2011 Credit Agreement consists of (1) a $950.0 million principal amortizing term loan A facility maturing in April 2016, at which time the remaining outstanding principal is due, (2) a $1.4 billion principal amortizing term loan B facility maturing in April 2018, at which time the remaining outstanding principal is due and (3) a $375.0 million multi-currency revolving credit facility ("Revolver") maturing in April 2016, at which time any remaining balance is due. The Revolver provides for operational needs and letters of credit. The Company's obligations under the 2011 Credit Agreement are secured by substantially all of the Company's domestic and foreign real, personal and intellectual property. The 2011 Credit Agreement contains customary events of default and covenants, including among other things, covenants that restrict but do not prevent the ability of the Company and its subsidiaries to incur certain additional indebtedness, create or permit liens on assets, pay dividends and repurchase stock, engage in mergers or acquisitions and make investments and loans. The 2011 Credit Agreement also includes certain financial covenants that must be maintained.

The Revolver, term loan A and term loan B interest rates are tied to LIBOR or the Canadian Dealer Offered Rate ("CDOR"), plus a credit spread ranging from 225 to 300 basis points for the Revolver and term loan A, and 275 to 300 basis points on the term loan B adjusted quarterly based on the Company's total leverage ratio as defined by the 2011 Credit Agreement. The term loan B has a minimum LIBOR floor of 1.0%. The Revolver loans can be denominated in either U.S. dollars or Canadian dollars at the Company's option. The commitment fee on the unused portion of the Revolver is 0.5% per year for all pricing levels. As of September 30, 2011, there were no borrowings outstanding under the Revolver, with $70.5 million outstanding stand-by letters of credit and $304.5 million of availability for future borrowings.

Document and Entity Information	9 Months Ended Sep. 30, 2011	Oct. 31, 2011
Document and Entity Information		
Entity Registrant Name	Walter Energy, Inc.	
Entity Central Index Key	0000837173	
Document Type	10-Q	
Document Period End Date	Sep. 30, 2011	
Amendment Flag	false	
Current Fiscal Year End Date	--12-31	
Entity Current Reporting Status	Yes	
Entity Filer Category	Large Accelerated Filer	
Entity Common Stock, Shares Outstanding		62,439,526
Document Fiscal Year Focus	2011	
Document Fiscal Period Focus	Q3	

Acquisition (Details)			1 Months Ended				3 Months Ended		9 Months Ended					1 Months Ended					
	Sep. 30, 2011 USD ($)	Apr. 02, 2011 USD ($)	Apr. 30, 2011 Western Coal Corporation USD ($)	Jan. 31, 2011 Western Coal Corporation USD ($)	Dec. 31, 2010 Western Coal Corporation	Nov. 30, 2010 Western Coal Corporation count	Sep. 30, 2011 Western Coal Corporation USD ($)	Sep. 30, 2010 Western Coal Corporation USD ($)	Sep. 30, 2011 Western Coal Corporation USD ($)	Sep. 30, 2010 Western Coal Corporation USD ($)	Apr. 02, 2011 Western Coal Corporation USD ($)	Dec. 02, 2010 Western Coal Corporation CAD	Nov. 17, 2010 Western Coal Corporation CAD	May 31, 2011 Chevron Mining, Inc M	May 06, 2011 Chevron Mining, Inc USD ($)	May 06, 2011 Chevron Mining, Inc U.S. Operations USD ($)	Sep. 30, 2011 Canadian and U.K. operations USD ($)	Sep. 30, 2011 U.S. Operations USD ($)	Apr. 02, 2011 2011 Credit Agreement USD ($)
Acquisitions																			
Common shares to be purchased under share purchase agreement						54,500,000													
Percentage of outstanding shares to be acquired under the share purchase agreement													19.80%						
Acquisition price per share of common stock under the share purchase agreement (in dollars per share)													11.50						
Acquisition price per share of common stock under the arrangement agreement (in dollars per share)												11.50							
Number of separate transactions						2													
Number of the entity's shares of common stock offered for exchange under the arrangement agreement					0.114														
Common shares purchased under share purchase agreement				25,274,745															
Percentage of outstanding shares acquired				9.15%															
Cash paid for common shares purchased				$ 293,700,000			$ 2,432,693,000		$ 2,432,693,000		$ 2,173,080,000				$ 1,100,000				
Gain on remeasurement of previously held noncontrolling interest			20,500,000																
Number of shares issued to acquired entity			8,951,558																
Value of common shares issued to acquire the entity											1,200,000,000								
Fair value of company's common stock (in dollars per share)		$ 136.75																	
Stock options issued in exchange of outstanding stock options (in shares)			193,498																
Fair value of stock options issued			15,500,000																
Walter Credit Agreement																			
Maximum amount of borrowings available under the credit agreement																			2,725,000,000
Purchase consideration:																			
Cash consideration				293,700,000			2,432,693,000		2,432,693,000		2,173,080,000				1,100,000				
Fair value of shares of common stock issued											1,224,126,000								
Fair value of stock options issued and warrants											34,765,000								
Fair value of consideration transferred											3,431,971,000								
Fair value of equity interest at date of acquisition											314,231,000								
Total consideration											3,746,202,000								
Fair value of assets acquired and liabilities assumed:																			
Cash and cash equivalents											34,065,000								
Receivables											163,668,000								
Inventories											122,012,000								
Other current assets											65,606,000								
Mineral interests											4,399,000,000								
Property, plant and equipment											565,228,000								
Goodwill	278,425,000										277,404,000					1,600,000			
Other long-term assets											54,150,000								
Total assets							5,681,133,000		5,681,133,000		5,681,133,000								
Accounts payable and accrued liabilities											180,157,000								
Other current liabilities											75,824,000								
Deferred tax liability											1,576,896,000								
Other long-term liabilities											102,054,000								
Total liabilities							1,934,931,000		1,934,931,000		1,934,931,000				90,900,000				
Below-market coal sales contract liability															70,000,000				
Remaining maturity period of below-market coal sales contract liability (in months)														29					
Net assets acquired											3,746,202,000								
Amount of increase in goodwill							27,400,000												
Amount of goodwill allocated based on purchase price allocation																	253,300,000	24,100,000	
Acquisition related costs (included in Selling, general and administrative expenses at the end of the period)							6,100,000		23,100,000										
Actual Western Coal Results Included in Walter Energy's Consolidated Results																			
Revenue							270,295,000		576,660,000										
Net income							34,684,000		42,163,000										
Supplemental Pro forma Combined Results																			
Revenue							690,069,000	698,886,000	2,096,011,000	1,749,965,000									
Net income							$ 74,417,000	$ 141,669,000	$ 306,643,000	$ 251,397,000									

Net Income Per Share (Details) (USD $) In Thousands, except Share data	3 Months Ended		9 Months Ended	
	Sep. 30, 2011	Sep. 30, 2010	Sep. 30, 2011	Sep. 30, 2010
Numerator:				
Income from continuing operations (in dollars)	$ 76,221	$ 136,972	$ 265,392	$ 295,777
Loss from discontinued operations		$ (757)		$ (1,848)
Denominator:				
Average number of common shares outstanding	62,414,000	52,920,000	59,601,000	53,224,000
Effect of dilutive securities:				
Stock awards and warrants (in shares)	345,000	473,000	370,000	548,000
Weighted average shares, diluted (in shares)	62,759,000	53,393,000	59,971,000	53,772,000
Income from continuing operations, basic (in dollars per share)	$ 1.22	$ 2.59	$ 4.45	$ 5.56
Loss from discontinued operations, basic (in dollars per share)		$ (0.02)		$ (0.04)
Net income per share, basic (in dollars per share)	$ 1.22	$ 2.57	$ 4.45	$ 5.52
Income from continuing operations, diluted (in dollars per share)	$ 1.21	$ 2.57	$ 4.43	$ 5.50
Loss from discontinued operations, diluted (in dollars per share)		$ (0.02)		$ (0.03)
Net income per share, diluted (in dollars per share)	$ 1.21	$ 2.55	$ 4.43	$ 5.47
Anti-dilutive securities excluded from earnings per share calculation (in shares)	38,083	30,755	32,086	27,802

Subsequent Event (Details) (USD $) In Thousands	9 Months Ended		1 Months Ended
	Sep. 30, 2011	Sep. 30, 2010	Oct. 31, 2011 Payment of term loan debt
Subsequent Event			
Prepaid term loan debt	$ (165,024)	$ (19,711)	$ 50,000

Debt (Details) (USD $)	9 Months Ended			9 Months Ended		9 Months Ended		9 Months Ended			1 Months Ended			1 Months Ended	
	Sep. 30, 2011	Dec. 31, 2010	Apr. 02, 2011 2011 Credit Agreement	Sep. 30, 2011 2011 term loan A	Apr. 02, 2011 2011 term loan A	Sep. 30, 2011 2011 term loan B	Apr. 02, 2011 2011 term loan B	Sep. 30, 2011 2011 Revolving Credit Facility	Sep. 30, 2011 Other.	Dec. 31, 2010 Other.	Apr. 30, 2011 2005 term loan	Apr. 02, 2011 2005 term loan	Dec. 31, 2010 2005 term loan	Apr. 30, 2011 2005 revolving credit facility	Apr. 02, 2011 2005 revolving credit facility
Debt instrument															
Total debt	$ 2,424,739,000	$ 168,473,000		$ 935,000,000		$ 1,396,500,000			$ 93,239,000	$ 32,411,000			$ 136,062,000		
Less current debt	(97,426,000)	(13,903,000)													
Total long term debt	2,327,313,000	154,570,000													
Weighted average stated interest rate (as a percent)				3.285%		4.00%									
Debt repayment schedule excluding interest															
2011	22,408,000			7,500,000		3,500,000			11,408,000						
2012	100,378,000			52,500,000		14,000,000			33,878,000						
2013	121,773,000			82,500,000		14,000,000			25,273,000						
2014	143,493,000			112,500,000		14,000,000			16,993,000						
2015	537,099,000			517,500,000		14,000,000			5,599,000						
Thereafter	1,499,588,000			162,500,000		1,337,000,000			88,000						
Walter Credit Agreement															
Maximum amount of borrowings available under the credit agreement			2,725,000,000												
Principal amount of credit agreement					950,000,000		1,400,000,000					450,000,000			
Revolving credit facility, maximum borrowing capacity								375,000,000							300,000,000
Debt instrument, description of variable rate basis	LIBOR or CDOR										LIBOR			LIBOR	
Percentage of interest rate in addition to LIBOR on debt instrument, maximum				3.00%		3.00%		3.00%				3.00%			4.00%
Quarterly principal payments of term loan											400,000				
Commitment fee on the unused portion (as a percent)								0.50%						0.50%	
Weighted average stated interest rate (as a percent)				3.285%		4.00%									
Outstanding standby letters of credit								70,500,000							
Availability for future borrowings under the Revolver								$ 304,500,000							
Basis spread on variable rate, minimum (as a percent)				2.25%		2.75%		2.25%							
Rate of LIBOR floor (as a percent)						1.00%									

New Accounting Pronouncements	9 Months Ended Sep. 30, 2011
New Accounting Pronouncements	
New Accounting Pronouncements	**Note 12−New Accounting Pronouncements** In June 2011, the Financial Accounting Standards Board ("FASB") issued an accounting standard update that requires companies to present the components of net income and other comprehensive income either in a single continuous statement or as two separate but consecutive statements. The accounting standard update eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity, and is effective for interim and annual periods beginning after December 15, 2011. The adoption of this accounting standard update will not have an impact on the Company's operating results or financial position as it only requires a change in the format of our current presentation of comprehensive income. In September 2011, the FASB issued an accounting standard update that requires employers that participate in multiemployer pension plans to provide additional quantitative and qualitative disclosures. The amended disclosures provide users with more detailed information about an employer's involvement and related commitments associated with multiemployer pension plans and are effective for annual periods ending after December 15, 2011. The Company participates in a multiemployer pension plan for certain employees. The Company is currently evaluating the disclosure requirements of this accounting standard update and such additional disclosures will be included within our Form 10-K for the year ending December 31, 2011.

Pension and Other Postretirement Benefits	9 Months Ended Sep. 30, 2011
Pension and Other Postretirement Benefits	
Pension and Other Postretirement Benefits	**Note 5−Pension and Other Postretirement Benefits**

The components of net periodic benefit cost are as follows (in thousands):

	Pension Benefits For the three months ended September 30,		Other Benefits For the three months ended September 30,	
	2011	2010	2011	2010
Components of net periodic benefit cost:				
Service cost	$1,291	$1,105	$1,827	$753
Interest cost	3,144	3,226	6,206	6,510
Expected return on plan assets	(3,929)	(3,269)	−	−
Amortization of prior service cost (credit)	68	76	(240)	(524)
Amortization of net actuarial loss	2,063	2,231	1,971	3,630
Net periodic benefit cost	$2,637	$3,369	$9,764	$10,369

	Pension Benefits For the nine months ended September 30,		Other Benefits For the nine months ended September 30,	
	2011	2010	2011	2010
Components of net periodic benefit cost:				
Service cost	$3,873	$3,315	$4,333	$2,259
Interest cost	9,432	9,678	18,686	19,522
Expected return on plan assets	(11,787)	(9,807)	−	−
Amortization of prior service cost (credit)	204	228	(720)	(1,572)
Amortization of net actuarial loss	6,189	6,693	8,075	10,890
Settlement loss	1,716	−	−	−
Net periodic benefit cost	$9,627	$10,107	$30,374	$31,099

The settlement loss shown above is related to the retirement of an executive of the Company and was included in selling, general and administrative expense in the consolidated statements of operations.

Inventories (Tables)

9 Months Ended Sep. 30, 2011

Inventories

Schedule of inventories

	September 30, 2011	December 31, 2010
Coal	$166,739	$69,110
Raw materials and supplies	59,827	28,521
Total inventories	$226,566	$97,631

Fair Value of Financial Instruments (Details 2) (USD $)	Sep. 30, 2011	Dec. 31, 2010	Apr. 02, 2011 2011 Credit Agreement	Sep. 30, 2011 2011 term loan A	Sep. 30, 2011 2011 term loan B
Debt					
Debt, carried at cost	$ 2,424,739,000	$ 168,473,000		$ 935,000,000	$ 1,396,500,000
Estimated fair value				911,600,000	1,346,000,000
Maximum amount of borrowings available under the credit agreement			$ 2,725,000,000		

Inventories (Details) (USD $) In Thousands	Sep. 30, 2011	Dec. 31, 2010
Inventories		
Coal	$ 166,739	$ 69,110
Raw materials and supplies	59,827	28,521
Total inventories	$ 226,566	$ 97,631

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (Parenthetical) (USD $)	9 Months Ended Sep. 30, 2011
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME	
Dividends paid (in dollars per share)	$ 0.375

Debt (Tables)	9 Months Ended Sep. 30, 2011

Debt

Schedule of debt instruments

	September 30, 2011	December 31, 2010	Weighted Average Stated Interest Rate At September 30, 2011		Estimated Maturi
2011 term loan A	$935,000	$–	3.285	%	2016
2011 term loan B	1,396,500	–	4.00	%	2018
2005 term loan	–	136,062			
Other(1)	93,239	32,411	Various		Various
Total debt	2,424,739	168,473			
Less current debt	(97,426)	(13,903)			
Total long-term debt	$2,327,313	$154,570			

(1) This balance includes capital lease obligations and an equipment financing agreement.

Minimum Debt repayment schedule, excluding interest

The Company's minimum debt repayment schedule, excluding interest, as of September 30, 2011 is as follows (in thousands):

	Payments Due					
	2011	2012	2013	2014	2015	Thereafter
2011 term loan A	$7,500	$52,500	$82,500	$112,500	$517,500	$162,500
2011 term loan B	3,500	14,000	14,000	14,000	14,000	1,337,000
Other debt	11,408	33,878	25,273	16,993	5,599	88
	$22,408	$100,378	$121,773	$143,493	$537,099	$1,499,588

Net Income Per Share (Tables)	9 Months Ended Sep. 30, 2011

Net Income Per Share

Reconciliation of the basic and diluted net income (loss) per share computations

	For the three months ended September 30,			
	2011		2010	
	Basic	Diluted	Basic	Diluted
Numerator:				
Income from continuing operations	$76,221	$76,221	$136,972	$136,972
Loss from discontinued operations	$−	$−	$(757)	$(757)
Denominator:				
Average number of common shares outstanding	62,414	62,414	52,920	52,920
Effect of dilutive securities:				
Stock awards and warrants(a)	−	345	−	473
	62,414	62,759	52,920	53,393
Income from continuing operations	$1.22	$1.21	$2.59	$2.57
Loss from discontinued operations	−	−	(0.02)	(0.02)
Net income per share	$1.22	$1.21	$2.57	$2.55

	For the nine months ended September 30,			
	2011		2010	
	Basic	Diluted	Basic	Diluted
Numerator:				
Income from continuing operations	$265,392	$265,392	$295,777	$295,777
Loss from discontinued operations	$−	$−	$(1,848)	$(1,848)
Denominator:				
Average number of common shares outstanding	59,601	59,601	53,224	53,224
Effect of dilutive securities:				
Stock awards and warrants(a)	−	370	−	548
	59,601	59,971	53,224	53,772
Income from continuing operations	$4.45	$4.43	$5.56	$5.50

Loss from discontinued operations	–	–	(0.04)	(0.03)
Net income per share	$4.45	$4.43	$5.52	$5.47

(a) Stock awards represent the weighted average number of shares of common stock issuable on the exercise of dilutive employee stock options and restricted stock units, less the number of shares of common stock which could have been purchased with the proceeds from the exercise of such stock awards. These purchases were assumed to have been made at the average market price of the common stock for the period. The weighted average number of stock options outstanding for the three months ended September 30, 2011 and 2010 totaling 38,083 and 30,755, respectively, were excluded from the calculation above because their effect would have been anti-dilutive. Additionally, the weighted average number of stock options outstanding for the nine months ended September 30, 2011 and 2010 totaling 32,086 and 27,802 respectively, were excluded because their effect would have been anti-dilutive. Outstanding warrants entitle the holder to receive cash and shares of common stock upon exercise.

Basis of Presentation	9 Months Ended Sep. 30, 2011
Basis of Presentation	
Basis of Presentation	**Note 1−Basis of Presentation** The accompanying unaudited condensed consolidated financial statements of Walter Energy, Inc. and its subsidiaries (the "Company") have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. As described in Note 2, on April 1, 2011 the Company completed the acquisition of all the outstanding common shares of Western Coal Corp. ("Western Coal"). The accompanying financial statements include the results of operations of Western Coal since April 1, 2011. As a result of the Western Coal acquisition and the change in how our Chief Operating Decision Maker evaluates the business operations, beginning with the second quarter of 2011 the Company has revised its reportable segments by arranging them geographically. The Company now reports all of its operations located in the U.S. under the U.S. Operations segment which includes the Company's previous operating segments of Underground Mining, Surface Mining and Walter Coke. The U.S. Operations segment also includes the West Virginia mining operations acquired through the acquisition of Western Coal. The Company reports its mining operations acquired through the Western Coal acquisition located in Northeast British Columbia (Canada) and South Wales (United Kingdom) under the Canadian and U.K. Operations segment. The Other segment primarily consists of Corporate activities and expenditures. See Note 11 for segment information. Previously reported segment amounts have been restated to conform to the current period presentation. For the three and nine months ended September 30, 2010 amounts reported in discontinued operations include the results from the Company's closed Homebuilding business and Kodiak Mining Company, LLC.

Fair Value of Financial Instruments	9 Months Ended Sep. 30, 2011

Fair Value of Financial Instruments

Fair Value of Financial Instruments

Note 10−Fair Value of Financial Instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A three level hierarchy has been established for valuing assets and liabilities based on how transparent (observable) the inputs are that are used to determine fair value, with the inputs considered most observable categorized as Level 1 and those that are the least observable categorized as Level 3. Hierarchy levels are defined as follows:

Level 1:	Quoted prices in active markets for identical assets and liabilities;
Level 2:	Quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar instruments in markets that are not active; and
Level 3:	Unobservable inputs that are supported by little or no market data which require the reporting entity to develop its own assumptions.

The following table presents information about the Company's assets and liabilities that are measured at fair value on a recurring basis as of September 30, 2011 and indicate the fair value hierarchy of the valuation techniques utilized to determine such values. For some assets, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. When this is the case, the asset is categorized based on the level of the most significant input to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment and considers factors specific to the assets being valued.

	September 30, 2011			
	Fair Value Measurements Using			
(in thousands)	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Equity securities, trading	$5,995	$−	$−	$5,995
Equity securities, available-for-sale	10,902	−	−	10,902
Interest rate cap	−	476	−	476
Natural gas hedge	−	3,106	−	3,106
Total assets	$16,897	$3,582	$−	$20,479
Liabilities:				
Interest rate swaps	$−	$7,152	$−	$7,152

Below is a summary of the Company's valuation techniques for Level 1 and Level 2 financial assets and liabilities:

Equity securities− As of September 30, 2011 the Company held equity investments in other current assets classified as trading and available-for-sale. Changes in the fair value of trading securities are recorded in other income (loss) and determined using observable market prices. For the three and nine months ended September 30, 2011 a loss of $13.1 million and $9.2 million, respectively, was recorded related to trading securities held at the reporting date. Changes in the fair value of available-for-sale securities are recorded in accumulated other comprehensive income (loss) and determined using observable market prices.

Interest rate cap−The fair value of the interest rate cap was determined using quoted dealer prices for similar contracts in active over-the-counter markets.

Natural gas hedge−The fair value of the natural gas hedge was determined using quoted dealer prices for similar contracts in active over-the-counter markets.

Interest rate swaps−The fair value of interest rate swaps were determined using quoted dealer prices for similar contracts in active over-the-counter markets.

The following methods and assumptions were used to estimate the fair value for which the fair value option was not elected:

Cash and cash equivalents, receivables and accounts payable−The carrying amounts reported in the balance sheet approximate fair value.

Debt− On April 1, 2011, the Company entered into a $2.725 billion credit agreement to partially fund the acquisition of Western Coal and to pay off all outstanding loans under the 2005 Credit Agreement (see Note 4). Debt associated with the Company's 2011 term loan A and term loan B in the amount of $935.0 million and $1.397 billion at September 30, 2011, respectively, are carried at cost. There were no outstanding borrowings under the revolving credit facility at September 30, 2011. The estimated fair value of the Company's term loan A and term loan B was $911.6 million and $1.346 billion at September 30, 2011, respectively, based on similar transactions and yields in an active market for similarly rated debt.

Commitments and Contingencies (Details) (USD $) In Millions, unless otherwise specified	1 Months Ended			9 Months Ended		1 Months Ended	9 Months Ended	
	Nov. 30, 2010 D	Jun. 30, 2010 Income tax litigation D	Jan. 31, 2011 Environmental Matters entity	Sep. 30, 2011 Environmental Matters count	Sep. 30, 2011 Environmental Matters Walter Coke property	Nov. 30, 2009 Potential Securities Class Action director	Sep. 30, 2011 Potential Securities Class Action	Sep. 30, 2011 Other
Commitments and contingencies								
Extension of time to submit the proposed final order (in days)	90							
Number of days to respond to audit findings by the Internal Revenue Service (in days)		30						
Number of properties that the entity has agreed to remediate					23			
Number of cases into which ruling are consolidated				1				
Amount of civil penalties that environmental interest group seeks for selenium violations				$ 14				
Number of environmental interest groups filing Clean Water Act citizen's suit			3					
Number of non-executive directors as defendants						2		
General damages entitled to recover							200	
Punitive damages entitled to recover							20	
Undistributed Foreign Earnings								$ 42

Acquisition (Tables)

9 Months Ended Sep. 30, 2011

Acquisitions

Purchase consideration

Purchase consideration:	
Cash	$ 2,173,080
Fair value of shares of common stock issued	1,224,126
Fair value of stock options issued and warrants	34,765
Fair value of consideration transferred	3,431,971
Fair value of equity interest in Western Coal held before the acquisition	314,231
Total consideration	$ 3,746,202

Fair value of assets acquired and liabilities assumed

Fair value of assets acquired and liabilities assumed:	
Cash and cash equivalents	$ 34,065
Receivables	163,668
Inventories	122,012
Other current assets	65,606
Mineral interests	4,399,000
Property, plant and equipment	565,228
Goodwill	277,404
Other long-term assets	54,150
Total assets	5,681,133
Accounts payable and accrued liabilities	$ 180,157
Other current liabilities	75,824
Deferred tax liability	1,576,896
Other long-term liabilities	102,054
Total liabilities	1,934,931
Net assets acquired	$ 3,746,202

Revenue and earnings of the acquiree included in the Company's consolidated statements of operations

	Three months ended September 30, 2011	Nine months ended September 30, 2011
Revenues	$270,295	$576,660
Net income	$34,684	$42,163

Schedule of supplemental pro forma information

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Revenues	$690,069	$698,886	$2,096,011	$1,749,965
Net income	$74,417	$141,669	$306,643	$251,397

CONDENSED CONSOLIDATED BALANCE SHEETS (Parenthetical) (USD $) In Millions, except Share data	Sep. 30, 2011	Dec. 31, 2010
CONDENSED CONSOLIDATED BALANCE SHEETS		
Mineral interests, accumulated depletion (in dollars)	$ 91.0	$ 17.6
Property, plant and equipment, accumulated depreciation (in dollars)	$ 572.3	$ 433.1
Common stock, par value per share (in dollars per share)	$ 0.01	$ 0.01
Common stock, Authorized shares	200,000,000	200,000,000
Common stock, Issued shares	62,437,811	53,136,977
Preferred stock, par value per share (in dollars per share)	$ 0.01	$ 0.01
Preferred stock, Authorized shares	20,000,000	20,000,000
Preferred stock, issued shares	0	0

Derivative Financial Instruments (Details 2) (Designated as cash flow hedging, USD $) In Thousands	Sep. 30, 2011	Dec. 31, 2010
Entity's derivative instruments within the condensed consolidated balance sheets		
Asset derivatives	$ 3,582	
Interest rate cap		
Entity's derivative instruments within the condensed consolidated balance sheets		
Asset derivatives	476	
Interest rate cap | Other Noncurrent Assets		
Entity's derivative instruments within the condensed consolidated balance sheets		
Asset derivatives	319	
Interest rate cap | Other current assets		
Entity's derivative instruments within the condensed consolidated balance sheets		
Asset derivatives	157	
Interest rate swap		
Entity's derivative instruments within the condensed consolidated balance sheets		
Liability derivatives	7,152	386
Interest rate swap | Other current liabilities		
Entity's derivative instruments within the condensed consolidated balance sheets		
Liability derivatives	2,300	
Interest rate swap | Other long-term liabilities		
Entity's derivative instruments within the condensed consolidated balance sheets		
Liability derivatives	4,900	
Natural Gas Hedge		
Entity's derivative instruments within the condensed consolidated balance sheets		
Asset derivatives	$ 3,106	

Derivative Financial Instruments (Details 3) (Designated as cash flow hedging, USD $) In Thousands	3 Months Ended		9 Months Ended	
	Sep. 30, 2011	Sep. 30, 2010	Sep. 30, 2011	Sep. 30, 2010
Derivatives designated as cash flow hedging instruments				
Gain (loss) recognized in accumulated other comprehensive income, net of tax	$ (1,434)	$ (187)	$ (2,147)	$ (56)
Gain (loss) reclassified from accumulated other comprehensive income (loss) to earnings	771	667	618	1,742
Interest rate cap				
Derivatives designated as cash flow hedging instruments				
Gain (loss) recognized in accumulated other comprehensive income, net of tax	1,636		295	
Interest rate swap				
Derivatives designated as cash flow hedging instruments				
Gain (loss) recognized in accumulated other comprehensive income, net of tax	(4,054)	(73)	(4,207)	(288)
Gain (loss) reclassified from accumulated other comprehensive income (loss) to earnings	(73)	(90)	(226)	(285)
Natural Gas Hedge				
Derivatives designated as cash flow hedging instruments				
Gain (loss) recognized in accumulated other comprehensive income, net of tax	984	(114)	1,765	232
Gain (loss) reclassified from accumulated other comprehensive income (loss) to earnings	$ 844	$ 757	$ 844	$ 2,027