

ARCH COAL INC
Form 10-Q
November 12, 2013
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

- Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended September 30, 2013

- Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from to .

Commission file number: 1-13105

Arch Coal, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation or organization)

43-0921172
(I.R.S. Employer
Identification Number)

One CityPlace Drive, Suite 300, St. Louis, Missouri
(Address of principal executive offices)

63141
(Zip code)

Registrant's telephone number, including area code: **(314) 994-2700**

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

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

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

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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

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At November 4, 2013 there were 212,279,999 shares of the registrant's common stock outstanding.

Table of Contents

TABLE OF CONTENTS

	Page
<u>Part I FINANCIAL INFORMATION</u>	3
<u>Item 1. Financial Statements</u>	3
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	30
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	38
<u>Item 4. Controls and Procedures</u>	39
<u>Part II OTHER INFORMATION</u>	39
<u>Item 1. Legal Proceedings</u>	39
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	43
<u>Item 4. Mine Safety Disclosures</u>	43
<u>Item 6. Exhibits</u>	43

Table of Contents**Part I****FINANCIAL INFORMATION****Item 1. Financial Statements.****Arch Coal, Inc. and Subsidiaries****Condensed Consolidated Statements of Operations**

(in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012 (Unaudited)	2013	2012
Revenues	\$ 791,269	\$ 975,170	\$ 2,294,971	\$ 2,901,092
Costs, expenses and other operating				
Cost of sales (exclusive of items shown separately below)	688,712	808,489	1,994,653	2,414,306
Depreciation, depletion and amortization	106,323	118,942	327,601	374,631
Amortization of acquired sales contracts, net	(2,568)	(4,093)	(7,587)	(22,561)
Change in fair value of coal derivatives and coal trading activities, net	9,753	5,840	2,053	(29,827)
Asset impairment and mine closure costs	200,397	(2,144)	220,879	523,439
Goodwill impairment				115,791
Legal contingencies		(79,532)		(79,532)
Selling, general and administrative expenses	28,800	33,266	96,311	99,305
Other operating income, net	(5,395)	(24,840)	(16,476)	(44,606)
	1,026,022	855,928	2,617,434	3,350,946
Income (loss) from operations	(234,753)	119,242	(322,463)	(449,854)
Interest expense, net				
Interest expense	(95,624)	(75,710)	(285,454)	(229,210)
Interest and investment income	697	1,459	4,749	3,568
	(94,927)	(74,251)	(280,705)	(225,642)
Other nonoperating expense				
Net loss resulting from early retirement and refinancing of debt				(19,042)
Income (loss) from continuing operations before income taxes	(329,680)	44,991	(603,168)	(694,538)
Provision for (benefit from) income taxes	(121,913)	20,318	(230,734)	(262,656)
Income (loss) from continuing operations	(207,767)	24,673	(372,434)	(431,882)
Income from discontinued operations, including gain on sale - net of tax	79,404	21,078	101,816	43,618
Net income (loss)	(128,363)	45,751	(270,618)	(388,264)
Less: Net income attributable to noncontrolling interest				(268)
Net income (loss) attributable to Arch Coal, Inc.	\$ (128,363)	\$ 45,751	\$ (270,618)	\$ (388,532)

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Earnings (loss) per common share					
Income (loss) from continuing operations					
Basic earnings (loss) per common share	\$	(0.98)	\$	0.12	\$ (1.76) \$ (2.04)
Diluted earnings (loss) per common share	\$	(0.98)	\$	0.12	\$ (1.76) \$ (2.04)
Net income (loss) attributable to Arch Coal, Inc.					
Basic earnings (loss) per common share	\$	(0.61)	\$	0.22	\$ (1.28) \$ (1.83)
Diluted earnings (loss) per common share	\$	(0.61)	\$	0.22	\$ (1.28) \$ (1.83)
Weighted average shares outstanding					
Basic		212,111		212,053	212,085 211,931
Diluted		212,111		212,076	212,085 211,931
Dividends declared per common share	\$	0.03	\$	0.03	\$ 0.09 \$ 0.17

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

Table of Contents**Arch Coal, Inc. and Subsidiaries****Condensed Consolidated Statements of Comprehensive Income (Loss)****(in thousands)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
			(Unaudited)	
Net income (loss)	\$ (128,363)	\$ 45,751	\$ (270,618)	\$ (388,264)
Derivative instruments				
Comprehensive income (loss) before tax	1,346	(439)	(224)	10,586
Income tax benefit (provision)	(486)	157	82	(3,810)
	860	(282)	(142)	6,776
Pension, postretirement and other post-employment benefits				
Comprehensive income (loss) before tax	1,277	(989)	4,981	(5,957)
Income tax benefit (provision)	(458)	374	(1,791)	2,162
	819	(615)	3,190	(3,795)
Available-for-sale securities				
Comprehensive income (loss) before tax	1,136	(869)	7,648	(377)
Income tax benefit (provision)	(448)	314	(2,795)	137
	688	(555)	4,853	(240)
Total other comprehensive income (loss)	2,367	(1,452)	7,901	2,741
Total comprehensive income (loss)	\$ (125,996)	\$ 44,299	\$ (262,717)	\$ (385,523)

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

Table of Contents

Arch Coal, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
(in thousands, except per share data)

	September 30, 2013	December 31, 2012
	(Unaudited)	
Assets		
Current assets		
Cash and cash equivalents	\$ 1,133,128	\$ 784,622
Restricted cash		3,453
Short term investments	248,724	234,305
Trade accounts receivable	190,723	247,539
Other receivables	24,116	84,541
Inventories	287,409	365,424
Prepaid royalties	8,350	11,416
Deferred income taxes	67,381	67,360
Coal derivative assets	22,836	22,975
Other current assets	46,972	92,469
Total current assets	2,029,639	1,914,104
Property, plant and equipment, net	6,778,225	7,337,098
Other assets		
Prepaid royalties	85,001	87,773
Goodwill	265,423	265,423
Equity investments	223,554	242,215
Other noncurrent assets	149,613	160,164
Total other assets	723,591	755,575
Total assets	\$ 9,531,455	\$ 10,006,777
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	\$ 207,273	\$ 224,418
Coal derivative liabilities	421	1,737
Accrued expenses and other current liabilities	349,033	318,018
Current maturities of debt	23,050	32,896
Total current liabilities	579,777	577,069
Long-term debt	5,074,384	5,085,879
Asset retirement obligations	411,121	409,705
Accrued pension benefits	68,539	67,630
Accrued postretirement benefits other than pension	44,279	45,086
Accrued workers' compensation	82,014	81,629
Deferred income taxes	484,130	664,182
Other noncurrent liabilities	205,557	221,030
Total liabilities	6,949,801	7,152,210
Stockholders' equity		
Common stock, \$0.01 par value, authorized 260,000 shares, issued 213,792 and 213,759 shares at September 30, 2013 and December 31, 2012	2,141	2,141
Paid-in capital	3,035,732	3,026,823
Treasury stock, at cost	(53,848)	(53,848)
Accumulated deficit	(393,765)	(104,042)
Accumulated other comprehensive loss	(8,606)	(16,507)
Total stockholders' equity	2,581,654	2,854,567
Total liabilities and stockholders' equity	\$ 9,531,455	\$ 10,006,777

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

Table of Contents

Arch Coal, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(in thousands)

	Nine Months Ended September 30,	
	2013	2012
	(Unaudited)	
Operating activities		
Net loss	\$ (270,618)	\$ (388,264)
Adjustments to reconcile net loss to cash provided by operating activities:		
Depreciation, depletion and amortization	348,863	399,672
Amortization of acquired sales contracts, net	(7,587)	(22,561)
Amortization relating to financing activities	18,525	14,345
Prepaid royalties expensed	11,973	19,802
Employee stock-based compensation expense	8,909	9,435
Asset impairment and noncash mine closure costs	220,879	501,942
Amortization of premiums on debt securities held	3,679	
Gain on sale of Canyon Fuel	(115,679)	
Goodwill impairment		115,791
Net loss resulting from early retirement of debt and financing activities		19,042
Changes in:		
Receivables	72,436	102,252
Inventories	21,387	(16,635)
Coal derivative assets and liabilities	(1,568)	(29,523)
Accounts payable, accrued expenses and other current liabilities	19,287	(51,968)
Income taxes, net	787	22,048
Deferred income taxes	(184,418)	(255,530)
Other	39,737	(83,453)
Cash provided by operating activities	186,592	356,395
Investing activities		
Capital expenditures	(223,168)	(303,968)
Minimum royalty payments	(10,901)	(9,192)
Proceeds from dispositions of property, plant and equipment	8,799	22,624
Proceeds from sale-leaseback transactions	34,919	
Proceeds from sale of Canyon Fuel	422,663	
Purchases of short term investments	(85,418)	(99,628)
Proceeds from sales of short term investments	67,255	
Investments in and advances to affiliates	(11,124)	(12,685)
Purchase of noncontrolling interest		(17,500)
Change in restricted cash	3,453	6,872
Cash provided by (used in) investing activities	206,478	(413,477)
Financing activities		
Proceeds from issuance of term loan		1,386,000
Payments on term loan	(12,375)	(3,500)
Payments to retire debt	(384)	(452,806)
Net decrease in borrowings under lines of credit		(381,300)
Net payments on other debt	(12,700)	(13,078)
Debt financing costs		(34,686)
Dividends paid	(19,105)	(36,072)
Proceeds from exercise of options under incentive plans		5,131
Cash provided by (used in) financing activities	(44,564)	469,689
Increase in cash and cash equivalents	348,506	412,607

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Cash and cash equivalents, beginning of period		784,622		138,149
Cash and cash equivalents, end of period	\$	1,133,128	\$	550,756

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

Table of Contents

Arch Coal, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of Arch Coal, Inc. and its subsidiaries and controlled entities (the Company). The Company's primary business is the production of thermal and metallurgical coal from surface and underground mines located throughout the United States, for sale to utility, industrial and steel producers both in the United States and around the world. The Company currently operates mining complexes in West Virginia, Kentucky, Maryland, Virginia, Illinois, Wyoming and Colorado. In addition, the Company is developing a metallurgical coal mine in West Virginia. All subsidiaries are wholly-owned. Intercompany transactions and accounts have been eliminated in consolidation.

The Company completed the sale of a subsidiary comprised of three mining complexes in the Western Bituminous reportable segment (WBIT) on August 16, 2013. The results of these mining complexes have been segregated from continuing operations and are reflected, net of tax, as discontinued operations in the condensed consolidated statements of operations for all periods presented. See further discussion in Note 3, Discontinued Operations .

In response to decreasing demand for thermal coal in Appalachia, the Company closed four mining complexes, temporarily idled a fifth complex, and curtailed production at other mines in the region in the second quarter of 2012. The operations continued to ship from inventory into the third quarter of 2012. The results for the closed and idled complexes are reflected in continuing operations in the condensed consolidating statements of operations for the three and nine month periods ended September 30, 2012. See further discussion in Note 5, Impairment Charges .

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial reporting and U.S. Securities and Exchange Commission regulations. In the opinion of management, all adjustments, consisting of normal, recurring accruals considered necessary for a fair presentation, have been included. Results of operations for the three and nine month periods ended September 30, 2013 are not necessarily indicative of results to be expected for the year ending December 31, 2013. These financial statements should be read in conjunction with the audited financial statements and related notes as of and for the year ended December 31, 2012 included in the Company's Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission.

2. Accounting Policies

There is no new accounting guidance that is expected to have a significant impact on the Company's financial statements.

3. Discontinued Operations

As part of a strategy to divest its non-core thermal coal assets, the Company entered into a definitive agreement on June 27, 2013 to sell Canyon Fuel Company, LLC (Canyon Fuel), to Bowie Resources, LLC. Canyon Fuel operated two longwall mining complexes and a continuous miner operation in Utah. The sale was completed on August 16, 2013, for \$422.7 million in cash, including adjustments to initial working capital estimates. The purchase price is subject to final working capital adjustments, which we do not expect to have a significant impact on our results of operations or liquidity.

The following table summarizes the results of discontinued operations:

Table of Contents

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands)			
Total Revenues	\$ 45,763	\$ 112,448	\$ 219,002	\$ 289,715
Income from discontinued operations before income taxes	\$ 3,429	\$ 16,718	\$ 32,166	\$ 50,911
Gain on sale	115,679		115,679	
Income tax expense (benefit)	39,704	(4,360)	46,029	7,293
Income from discontinued operations, including gain on sale - net of tax	\$ 79,404	\$ 21,078	\$ 101,816	\$ 43,618
Basic earnings per common share from discontinued operations	\$ 0.37	\$ 0.10	\$ 0.48	\$ 0.21
Diluted earnings per common share from discontinued operations	\$ 0.37	\$ 0.10	\$ 0.48	\$ 0.21

4. Accumulated Other Comprehensive Loss

Other comprehensive loss includes transactions recorded in stockholders' equity during the year, excluding net income and transactions with stockholders. In February 2013, the FASB issued ASU 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. The standard requires that companies present, either parenthetically on the face of the financial statements or in a single note, the effect of significant amounts reclassified from each component of accumulated other comprehensive income and the income statement line items affected by the reclassification. The Company adopted the provisions of the new guidance in the first quarter of 2013.

The following items are included in accumulated other comprehensive loss:

	Derivative Instruments	Pension, Postretirement and Other Post- Employment Benefits	Available-for- Sale Securities	Accumulated Other Comprehensive Loss
	(In thousands)			
Balance at December 31, 2012	\$ 2,244	\$ (18,286)	\$ (465)	\$ (16,507)
Unrealized gains	1,197	1,938	4,653	7,788
Amounts reclassified from accumulated other comprehensive income	(1,339)	1,252	200	113
Balance at September 30, 2013	\$ 2,102	\$ (15,096)	\$ 4,388	\$ (8,606)

Table of Contents

The following amounts were reclassified out of accumulated other comprehensive loss:

Details about accumulated other comprehensive income components	Amount Reclassified from Accumulated Comprehensive Loss		Line Item in the Condensed Consolidated Statement of Operations
	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2013	
	(In thousands)		
Derivative instruments	\$ 692	\$ 2,093	Revenues
	(249)	(754)	Provision for (benefit from) income taxes
	\$ 443	\$ 1,339	Net of tax
Pension, postretirement and other post-employment benefits			
Amortization of prior service credits	\$ 5,573	\$ 11,154(1)	
Amortization of actuarial gains (losses), net	(3,823)	(13,108)(1)	
	1,750	(1,954)	Total before tax
	(631)	702	Provision for (benefit from) income taxes
	\$ 1,119	\$ (1,252)	Net of tax
Available-for-sale securities	\$ (4)	\$ (313)(2)	Interest and investment income
	2	113	Provision for (benefit from) income taxes
	\$ (2)	\$ (200)	Net of tax

(1) Production-related benefits and workers' compensation costs are included in costs to produce coal. See Note 14, "Workers' Compensation Expense" and Note 15, "Employee Benefit Plans" for more information about pension, postretirement and postemployment benefit costs.

(2) The gains and losses on sales of available-for-sale-securities are determined on a specific identification basis.

5. Impairment charges

Weak thermal coal markets in Appalachia are expected to persist longer than the Company previously anticipated, which caused the Company to assess in the third quarter of 2013 whether the carrying values of certain assets were recoverable through future cash flows. The Company determined that the carrying amounts of certain assets associated with the Hazard mining complex in Kentucky and the Company's ADDCAR subsidiary, which manufactures and sells its patented highwall mining system, could not be recovered through future cash flows expected to be generated from use of the assets and their ultimate disposal.

The assets' fair values were determined based on projections of cash flows to be generated from use of the assets and their ultimate disposal including estimates relating to market demand, coal prices, production costs and mine plans, and recovery value of the assets. An impairment loss of \$142.8 million was recognized to write the carrying value of the assets to their fair value of \$71.3 million. These losses are reflected on the line "Asset impairment and mine closure costs" in the condensed consolidated statements of operations.

During the third quarter of 2013, the Company also recognized an other-than-temporary impairment of an equity method investment. See further discussion in Note 8, Equity Method Investments and Membership Interests in Joint Ventures.

In the second quarter of 2012, the closure and idling of mines in Appalachia discussed in Note 1, Basis of Presentation resulted in closure costs and impairment charges of \$523.4 million that are reflected on the line Asset impairment and mine closures costs in the condensed consolidated statements of operations.

6. Inventories

Inventories consist of the following:

Table of Contents

	September 30 2013	December 31 2012
	(In thousands)	
Coal	\$ 134,481	\$ 180,917
Repair parts and supplies	143,763	172,139
Work-in-process	9,165	12,368
	\$ 287,409	\$ 365,424

The repair parts and supplies are stated net of an allowance for slow-moving and obsolete inventories of \$8.8 million at September 30, 2013 and \$13.6 million at December 31, 2012.

7. Investments in Available-for-Sale Securities

The Company has invested in marketable debt securities, primarily highly liquid AA - rated corporate bonds and U.S. government and government agency securities. These investments are held in the custody of a major financial institution. These securities, along with the Company's investments in marketable equity securities, are classified as available-for-sale securities and, accordingly, the unrealized gains and losses are recorded through other comprehensive income.

The Company's investments in available-for-sale marketable securities are as follows:

	September 30, 2013				Balance Sheet Classification	
	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Short-Term Investments	Other Assets
	(In thousands)					
Available-for-sale:						
U.S. government and agency securities	\$ 123,809	\$ 7	\$ (126)	\$ 123,690	\$ 123,690	\$
Corporate notes and bonds	125,479	21	(466)	125,034	125,034	
Equity securities	5,271	10,284	(2,865)	12,690		12,690
Total Investments	\$ 254,559	\$ 10,312	\$ (3,457)	\$ 261,414	\$ 248,724	\$ 12,690

	December 31, 2012				Balance Sheet Classification	
	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Short-Term Investments	Other Assets
	(In thousands)					
Available-for-sale:						
U.S. government and agency securities	\$ 146,993	\$ 2	\$ (412)	\$ 146,583	\$ 146,583	\$
Corporate notes and bonds	88,118		(396)	87,722	87,722	
Equity securities	5,271	2,704	(2,628)	5,347		5,347
Total Investments	\$ 240,382	\$ 2,706	\$ (3,436)	\$ 239,652	\$ 234,305	\$ 5,347

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The aggregate fair value of investments with unrealized losses that have been owned for less than a year was \$167.5 million and \$223.3 million at September 30, 2013 and December 31, 2012, respectively. The aggregate fair value of investments with unrealized losses that have been owned for over a year was \$51.6 million and \$0.4 million at September 30, 2013 and December 31, 2012, respectively.

Table of Contents

The debt securities outstanding at September 30, 2013 have maturity dates ranging from the fourth quarter of 2013 through the first quarter of 2015. The Company classifies its investments as current based on the nature of the investments and their availability to provide cash for use in current operations.

8. Equity Method Investments and Membership Interests in Joint Ventures

The Company accounts for its investments and membership interests in joint ventures under the equity method of accounting if the Company has the ability to exercise significant influence, but not control, over the entity. Below are the equity method investments reflected in the condensed consolidated balance sheets:

In thousands	Knights Hawk	DKRW	DTA	Tenaska	Millennium	Tongue River	Total
Balance at December 31, 2012	\$ 149,063	\$ 15,515	\$ 15,462	\$ 15,264	\$ 32,214	\$ 14,697	\$ 242,215
Advances to (distributions from) affiliates, net	(5,342)		2,537		4,954	2,696	4,845
Equity in comprehensive income (loss)	13,362	(1,832)	(3,855)		(1,953)	(281)	5,441
Impairment of equity investment		(13,683)		(15,264)			(28,947)
Balance at September 30, 2013	\$ 157,083	\$ 14,144	\$ 14,144	\$ 35,215	\$ 17,112	\$ 223,554	

Equity method investments are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the investments may not be recoverable. Certain of the Company's investments are in development stage companies whose success depends on factors including receipt of permits and other regulatory environment issues, the ability of the investee companies to raise additional funds in financial markets that can be volatile, and other key business factors.

During the second quarter of 2013, Tenaska Trailblazer Partners, LLC (Tenaska) announced that it was discontinuing its development plans for the Trailblazer Energy Center in Texas. As a result, the Company recorded a \$20.5 million impairment charge, which consisted of its 35% equity investment of \$15.3 million and a \$5.2 million receivable balance related to reimbursements for development work.

DKRW Advanced Fuels, LLC (DKRW) had previously entered into an Engineering, Procurement and Construction Agreement with a Chinese company to construct and commission the Medicine Bow coal-to-liquids facility. The project did not progress to the next stage of development, and the Company recorded an other-than-temporary impairment charge of \$57.7 million in the third quarter of 2013, which includes the Company's 24% equity investment of \$13.7 million and a \$44.0 million loan receivable balance. The impairment charges are included on the line Asset impairment and mine closure costs in the condensed consolidated statement of operations.

The Company may be required to make future contingent payments of up to \$58.5 million related to development financing for certain of its equity investees. The Company's obligation to make these payments, as well as the timing of any payments required, is contingent upon the achievement of project development milestones, which can be affected by the factors named above.

9. Derivatives

Diesel fuel price risk management

The Company is exposed to price risk with respect to diesel fuel purchased for use in its operations. The Company anticipates purchasing approximately 57 to 67 million gallons of diesel fuel for use in its operations during 2013. To protect the Company's cash flows from increases in the price of diesel fuel for its operations, the Company uses forward physical diesel purchase contracts and purchased heating oil call options. At September 30, 2013, the Company had protected the price of approximately 94% of its expected purchases for the remainder of 2013 and 82% of its expected 2014 purchases. At September 30, 2013, the Company had purchased heating oil call options for approximately 65 million gallons for the purpose of managing the price risk associated with future diesel purchases.

The Company has also purchased heating oil call options to manage the price risk associated with fuel surcharges on its barge and rail shipments, which cover increases in diesel fuel prices for the respective carriers. At September 30, 2013, the Company held heating oil call options for 2.8 million gallons that will settle in the remainder of 2013 and 3.8 million gallons that will settle ratably in 2014 for the purpose of managing the fluctuations in cash flows associated with fuel surcharges on future shipments.

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Table of Contents

These positions reduce the Company's risk of cash flow fluctuations related to these surcharges but the positions are not accounted for as hedges.

Coal risk management positions

The Company may sell or purchase forward contracts, swaps and options in the over-the-counter coal market in order to manage its exposure to coal prices. The Company has exposure to the risk of fluctuating coal prices related to forecasted sales or purchases of coal or to the risk of changes in the fair value of a fixed price physical sales contract. Certain derivative contracts may be designated as hedges of these risks.

At September 30, 2013, the Company held derivatives for risk management purposes that are expected to settle in the following years:

(Tons in thousands)	2013	2014	2015	Total
Coal sales	2,314	4,458	780	7,552
Coal purchases	609	1,260		1,869

Coal trading positions

The Company may sell or purchase forward contracts, swaps and options in the over-the-counter coal market for trading purposes. The Company is exposed to the risk of changes in coal prices on the value of its coal trading portfolio. The estimated future realization of the value of the trading portfolio is \$0.4 million of gains in the remainder of 2013 and \$7.0 million of gains in 2014.

Tabular derivatives disclosures

The Company has master netting agreements with all of its counterparties which allow for the settlement of contracts in an asset position with contracts in a liability position in the event of default or termination. Such netting arrangements reduce the Company's credit exposure related to these counterparties. For classification purposes, the Company records the net fair value of all the positions with a given counterparty as a net asset or liability in the condensed consolidated balance sheets. The amounts shown in the table below represent the fair value position of individual contracts, and not the net position presented in the accompanying condensed consolidated balance sheets. The fair value and location of derivatives reflected in the accompanying condensed consolidated balance sheets are as follows:

Fair Value of Derivatives (In thousands)	September 30, 2013		December 31, 2012	
	Asset Derivative	Liability Derivative	Asset Derivative	Liability Derivative
Derivatives Designated as Hedging Instruments				
Coal	\$ 3,009	\$ (4)	\$ 3,277	\$ (10)

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**Derivatives Not Designated as
Hedging Instruments**

Heating oil diesel purchases	3,825		7,379			
Heating oil fuel surcharges	400		1,961			
Coal held for trading purposes	59,789	(52,383)	17,403	(16,933)		
Coal risk management	15,907	(3,903)	24,843	(7,342)		
Total	79,921	(56,286)	51,586	(24,275)		
Total derivatives	82,930	(56,290)	54,863	(24,285)		
Effect of counterparty netting	(55,869)	55,869	(22,548)	22,548		
Net derivatives as classified in the balance sheets	\$ 27,061	\$ (421)	\$ 26,640	\$ 32,315	\$ (1,737)	\$ 30,578

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Table of Contents

		September 30, 2013	December 31, 2012
Net derivatives as reflected on the balance sheets			
Heating oil	Other current assets	\$ 4,225	\$ 9,340
Coal	Coal derivative assets	22,836	22,975
	Coal derivative liabilities	(421)	(1,737)
		\$ 26,640	\$ 30,578

The Company had a current liability for the obligation to post cash collateral of \$4.9 million at September 30, 2013 and a current asset for the right to reclaim cash collateral of \$16.2 million at December 31, 2012. These amounts are not included with the derivatives presented in the table above and are included in accrued expenses and other current liabilities and other current assets, respectively, in the accompanying condensed consolidated balance sheets.

The effects of derivatives on measures of financial performance are as follows:

Derivatives used in Cash Flow Hedging Relationships (in thousands)

For the three months ended September 30,

	Gain (Loss) Recognized in Other Comprehensive Income(Effective Portion)		Gains (Losses) Reclassified from Other Comprehensive Income into Income (Effective Portion)	
	2013	2012	2013	2012
	Coal sales (1)	\$ 3,132	\$ 259	\$ 911
Coal purchases (2)	(942)	(178)	(123)	
Totals	\$ 2,190	\$ 81	\$ 788	\$ 542

No ineffectiveness or amounts excluded from effectiveness testing relating to the Company's cash flow hedging relationships were recognized in the results of operations in the three month periods ended September 30, 2013 and 2012.

Derivatives Not Designated as Hedging Instruments (in thousands)

For the three months ended September 30,

	Gain (Loss) Recognized	
	2013	2012
Coal unrealized ⁽³⁾	\$ (10,668)	\$ (11,328)
Coal realized ⁽⁴⁾	\$ 9,929	\$ 14,072
Heating oil diesel purchase ⁽⁴⁾	\$ (288)	\$ 5,184
Heating oil fuel surcharge ⁽⁴⁾	\$ (222)	\$ 1,092

Location in statement of operations:

- (1) Revenues
- (2) Cost of sales
- (3) Change in fair value of coal derivatives and coal trading activities, net
- (4) Other operating income, net

Derivatives used in Cash Flow Hedging Relationships (in thousands)

For the nine months ended September 30

	Gain (Loss) Recognized in Other Comprehensive Income(Effective Portion)				Gains (Losses) Reclassified from Other Comprehensive Income into Income (Effective Portion)			
	2013		2012		2013		2012	
	\$		\$		\$		\$	
Coal sales (1)	\$	2,308	\$	4,983	\$	2,822	\$	1,552
Coal purchases (2)		(511)		(1,122)		(633)		
Totals	\$	1,797	\$	3,861	\$	2,189	\$	1,552

No ineffectiveness or amounts excluded from effectiveness testing relating to the Company's cash flow hedging relationships were recognized in the results of operations in the nine month periods ended September 30, 2013 and 2012.

Table of Contents**Derivatives Not Designated as Hedging Instruments (in thousands)****For the nine months ended September 30**

	Gain (Loss) Recognized	
	2013	2012
Coal unrealized ⁽³⁾	\$ (5,089)	\$ 23,670
Coal realized ⁽⁴⁾	\$ 25,725	\$ 25,901
Heating oil diesel purchase ⁽⁴⁾	\$ (9,760)	\$ (16,902)
Heating oil fuel surcharge ⁽⁴⁾	\$ (817)	\$ (1,140)

Location in statement of operations:

- (1) Revenues
- (2) Cost of sales
- (3) Change in fair value of coal derivatives and coal trading activities, net
- (4) Other operating income, net

The Company recognized net unrealized and realized gains of \$0.9 million and \$5.5 million during the three months ended September 30, 2013 and 2012, respectively, related to its trading portfolio. The Company recognized net unrealized and realized gains of \$3.0 million and \$6.2 million during the nine months ended September 30, 2013 and 2012, respectively, related to its trading portfolio, which are included in the caption "Change in fair value of coal derivatives and coal trading activities, net" in the accompanying condensed consolidated statements of operations, and are not included in the previous tables reflecting the effects of derivatives on measures of financial performance.

Based on fair values at September 30, 2013, gains on derivative contracts designated as hedge instruments in cash flow hedges of approximately \$2.9 million are expected to be reclassified from other comprehensive income into earnings during the next twelve months.

Table of Contents**10. Debt**

	September 30, 2013	December 31, 2012
	(In thousands)	
Term loan (\$1.63 billion face value) due 2018	\$ 1,617,097	\$ 1,627,384
8.75% senior notes (\$600.0 million face value) due 2016	592,646	590,999
7.00% senior notes due 2019 at par	1,000,000	1,000,000
9.875% senior notes (\$375.0 million face value) due 2019	361,779	360,042
7.25% senior notes due 2020 at par	500,000	500,000
7.25% senior notes due 2021 at par	1,000,000	1,000,000
Other	25,912	40,350
	5,097,434	5,118,775
Less current maturities of debt	23,050	32,896
Long-term debt	\$ 5,074,384	\$ 5,085,879

At September 30, 2013, the available borrowing capacity under the Company's lines of credit was approximately \$204.0 million.

11. Fair Value Measurements

The hierarchy of fair value measurements assigns a level to fair value measurements based on the inputs used in the respective valuation techniques. The levels of the hierarchy, as defined below, give the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

- Level 1 is defined as observable inputs such as quoted prices in active markets for identical assets. Level 1 assets include available-for-sale equity securities, U.S. Treasury securities, and coal futures that are submitted for clearing on the New York Mercantile Exchange.
- Level 2 is defined as observable inputs other than Level 1 prices. These include quoted prices for similar assets or liabilities in an active market, quoted prices for identical assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. The Company's level 2 assets and liabilities include U.S. government agency securities and commodity contracts (coal and heating oil) with fair values derived from quoted prices in over-the-counter markets or from prices received from direct broker quotes.
- Level 3 is defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. These include the Company's commodity option contracts (coal and heating oil) valued using modeling techniques, such as Black-Scholes, that require the use of inputs, particularly volatility, that are rarely observable. Changes in the unobservable inputs would not have a significant impact on the reported Level 3 fair values at September 30, 2013.

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The table below sets forth, by level, the Company's financial assets and liabilities that are recorded at fair value in the accompanying condensed consolidated balance sheet:

	Total	Fair Value at September 30, 2013		
		Level 1	Level 2	Level 3
(In thousands)				
Assets:				
Investments in marketable securities	\$ 261,414	\$ 101,338	\$ 160,076	\$
Derivatives	27,061	22,750		4,311
Total assets	\$ 288,475	\$ 124,088	\$ 160,076	\$ 4,311
Liabilities:				
Derivatives	\$ 421	\$	\$ 204	\$ 217

The Company's contracts with its counterparties allow for the settlement of contracts in an asset position with contracts in a liability position in the event of default or termination. For classification purposes, the Company records the net fair value of all

Table of Contents

the positions with these counterparties as a net asset or liability. Each level in the table above displays the underlying contracts according to their classification in the accompanying condensed consolidated balance sheet, based on this counterparty netting.

The following table summarizes the change in the fair values of financial instruments categorized as level 3.

	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2013
	(In thousands)	
Balance, beginning of period	\$ 3,438	\$ 8,174
Realized and unrealized losses recognized in earnings, net	(570)	(9,882)
Purchases	1,464	7,317
Issuances		(25)
Settlements	(238)	(1,490)
Ending balance	\$ 4,094	\$ 4,094

Net unrealized losses during the three and nine month periods ended September 30, 2013 related to level 3 financial instruments held on September 30, 2013 were \$0.2 million and \$4.8 million, respectively.

Fair Value of Long-Term Debt

At September 30, 2013 and December 31, 2012, the fair value of the Company's debt, including amounts classified as current, was \$4.5 billion and \$5.0 billion, respectively. Fair values are based upon observed prices in an active market, when available, or from valuation models using market information, which fall into Level 2 in the fair value hierarchy.

12. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following:

	September 30, 2013	December 31, 2012
	(In thousands)	
Payroll and employee benefits	\$ 68,245	\$ 72,405
Taxes other than income taxes	113,872	121,029
Interest	80,454	42,413
Acquired sales contracts	14,461	14,038
Workers' compensation	12,215	10,371
Asset retirement obligations	38,895	38,920
Other	20,891	18,842
	\$ 349,033	\$ 318,018

13. Stock-Based Compensation and Other Incentive Plans

The Company granted options to purchase approximately 2.0 million shares of common stock during the nine months ended September 30, 2013. The weighted average exercise price of the options was \$5.23 per share and the weighted average grant date fair value was \$2.37 per share. The options' fair value was determined using the Black-Scholes option pricing model, using a weighted average risk-free rate of 0.65%, a weighted average dividend yield of 2.30% and a weighted average volatility of 66.74%. The options' expected life is 4.5 years and the options vest ratably over three years and provide for the continuation of vesting after retirement for recipients that meet certain criteria. The expense for these options will be recognized through the date that the employee first becomes eligible to retire and is no longer required to provide service to earn all or part of the award.

During the nine months ended September 30, 2013, the Company also granted restricted stock units totaling 969,100 shares whose grant date fair value was \$5.20 per share. The shares vest at the end of three years.

The Company has a long-term incentive program that allows for the award of performance units. The total number of units earned by a participant is based on financial and operational performance measures, and may be paid out in cash or in shares of the Company's common stock. The Company recognizes compensation expense over the three-year term of the grant. Amounts

Table of Contents

accrued and unpaid for all grants under the plan totaled \$15.0 million and \$13.1 million as of September 30, 2013 and December 31, 2012, respectively.

14. Workers Compensation Expense

The following table details the components of workers compensation expense:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands)			
Service cost	\$ 363	\$ 419	\$ 1,373	\$ 1,458
Interest cost	709	629	2,022	1,708
Net amortization	262		731	(574)
Curtailments	816		816	1,933
Total occupational disease	2,150	1,048	4,942	4,525
Traumatic injury claims and assessments	4,114	7,453	16,263	19,052
Total workers compensation expense	\$ 6,264	\$ 8,501	\$ 21,205	\$ 23,577

15. Employee Benefit Plans

The following table details the components of pension benefit costs (credits):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands)			
Service cost	\$ 6,672	\$ 6,156	\$ 21,162	\$ 21,062
Interest cost	3,994	3,683	11,796	11,755
Curtailments	47		47	324
Expected return on plan assets	(5,848)	(5,508)	(17,690)	(16,523)
Amortization of prior service costs (credits)	(51)	273	(152)	200
Amortization of other actuarial losses	3,617	3,248	12,430	11,019
Net benefit cost	\$ 8,431	\$ 7,852	\$ 27,593	\$ 27,837

The following table details the components of other postretirement benefit costs (credits):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012

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	(In thousands)							
Service cost	\$	497	\$	541	\$	1,591	\$	1,629
Interest cost		427		508		1,273		1,519
Curtailments		(5,444)		(2,212)		(5,444)		(4,049)
Amortization of prior service credits		(2,641)		(2,837)		(8,121)		(8,708)
Amortization of other actuarial losses (gains)		(55)		(130)		(53)		(391)
Net benefit credit	\$	(7,216)	\$	(4,130)	\$	(10,754)	\$	(10,000)

A curtailment was triggered in the third quarter of 2013 by reductions in employees' expected years of future service resulting primarily from the sale of Canyon Fuel. Curtailments include the recognition of unamortized prior service costs and actuarial adjustments to the respective projected benefit obligations for the cash balance pension and medical plans and pneumoconiosis benefits.

Table of Contents

16. Earnings (Loss) Per Common Share

The effect of options, restricted stock and restricted stock units equaling 7.0 million and 5.8 million shares of common stock were excluded from the calculation of diluted weighted average shares outstanding for the three month periods ended September 30, 2013 and 2012, respectively, and 7.9 million and 5.0 million shares were excluded for the nine month periods ended September 30, 2013 and 2012, respectively, because the exercise price or grant price of the securities exceeded the average market price of the Company's common stock for these periods. The weighted average share impacts of options, restricted stock and restricted stock units that were excluded from the calculation of weighted average shares due to the Company's incurring a net loss for the three and nine month periods ended September 30, 2013 and the nine months ended September 30, 2012 were not significant.

17. Settlement with Patriot Coal

On December 31, 2005, Arch entered into a purchase and sale agreement to sell mining complexes to Magnum Coal Company (Magnum). On July 23, 2008, Patriot Coal Corporation acquired Magnum from Arc Light Capital Partners. On July 9, 2012, Patriot Coal Corporation and certain of its wholly owned subsidiaries, including Magnum, (collectively, Patriot) filed voluntary petitions for reorganization under Chapter 11 of the U.S. Code in the U.S. Bankruptcy Court for the Southern District of New York.

The Company entered into a settlement agreement with Patriot on October, 10, 2013 that resolves all pending and potential legal claims with Patriot stemming from the sale of coal companies to Magnum and the subsequent purchase of those companies by Patriot in 2008.

The Company will pay \$5.0 million in cash to Patriot upon its exit from bankruptcy, which is reflected in Other operating income, net in the condensed consolidated statement of operations for the three month and nine month periods ended September 30, 2013. Additionally, the settlement includes the release of a \$16.7 million letter of credit posted by Patriot in the Company's favor for surety bonds related to the companies sold to Magnum. The Company has also agreed to purchase Patriot's Guffey reserves for \$16.0 million in cash upon their exit from bankruptcy. The Guffey reserves border the Company's Leer metallurgical coal development.

18. Commitments and Contingencies

The Company accrues for cost related to contingencies when a loss is probable and the amount is reasonably determinable. Disclosure of contingencies is included in the financial statements when it is at least reasonably possible that a material loss or an additional material loss in excess of amounts already accrued may be incurred.

Allegheny Energy Supply (Allegheny), the sole customer of coal produced at the Company's subsidiary Wolf Run Mining Company's (Wolf Run) Sycamore No. 2 mine, filed a lawsuit against Wolf Run, Hunter Ridge Holdings, Inc. (Hunter Ridge), and ICG in state court in Allegheny County, Pennsylvania on December 28, 2006, and amended its complaint on April 23, 2007. Allegheny claimed that Wolf Run breached a coal supply contract when it declared force majeure under the contract upon idling the Sycamore No. 2 mine in the third quarter of 2006, and that Wolf Run continued to breach the contract by failing to ship in volumes referenced in the contract. The Sycamore No. 2 mine was idled after

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encountering adverse geologic conditions and abandoned gas wells that were previously unidentified and unmapped.

After extensive searching for gas wells and rehabilitation of the mine, it was re-opened in 2007, but with notice to Allegheny that it would necessarily operate at reduced volumes in order to safely and effectively avoid the many gas wells within the reserve. The amended complaint also alleged that the production stoppages constitute a breach of the guarantee agreement by Hunter Ridge and breach of certain representations made upon entering into the contract in early 2005. Allegheny voluntarily dropped the breach of representation claims later. Allegheny claimed that it would incur costs in excess of \$100 million to purchase replacement coal over the life of the contract. ICG, Wolf Run and Hunter Ridge answered the amended complaint on August 13, 2007, disputing all of the remaining claims.

On November 3, 2008, ICG, Wolf Run and Hunter Ridge filed an amended answer and counterclaim against the plaintiffs seeking to void the coal supply agreement due to, among other things, fraudulent inducement and conspiracy. On September 23, 2009, Allegheny filed a second amended complaint alleging several alternative theories of liability in its effort to extend contractual liability to ICG, which was not a party to the original contract and did not exist at the time Wolf Run and Allegheny entered into the contract. No new substantive claims were asserted. ICG answered the second amended complaint on October 13, 2009, denying all of the new claims. The Company's counterclaim was dismissed on motion for summary judgment entered on May 11, 2010. Allegheny's claims against ICG were also dismissed by summary judgment, but the claims

Table of Contents

against Wolf Run and Hunter Ridge were not. The court conducted a non-jury trial of this matter beginning on January 10, 2011 and concluding on February 1, 2011.

At the trial, Allegheny presented its evidence for breach of contract and claimed that it is entitled to past and future damages in the aggregate of between \$228 million and \$377 million. Wolf Run and Hunter Ridge presented their defense of the claims, including evidence with respect to the existence of force majeure conditions and excuse under the contract and applicable law. Wolf Run and Hunter Ridge presented evidence that Allegheny's damages calculations were significantly inflated because it did not seek to determine damages as of the time of the breach and in some instances artificially assumed future nondelivery or did not take into account the apparent requirement to supply coal in the future. On May 2, 2011, the trial court entered a Memorandum and Verdict determining that Wolf Run had breached the coal supply contract and that the performance shortfall was not excused by force majeure. The trial court awarded total damages and interest in the amount of \$104.1 million, which consisted of \$13.8 million for past damages, and \$90.3 million for future damages. ICG and Allegheny filed post-verdict motions in the trial court and on August 23, 2011, the court denied the parties' motions. The court entered a final judgment on August 25, 2011, in the amount of \$104.1 million, which included pre-judgment interest.

The parties appealed the lower court's decision to the Superior Court of Pennsylvania. On August 13, 2012, the Superior Court of Pennsylvania affirmed the award of past damages, but ruled that the lower court should have calculated future damages as of the date of breach, and remanded the matter back to the lower court with instructions to recalculate that portion of the award. On November 19, 2012, Allegheny filed a Petition for Allowance of Appeal with the Supreme Court of Pennsylvania and Wolf Run and Hunter Ridge filed an Answer. On July 2, 2013, the Supreme Court of Pennsylvania denied the Petition of Allowance. As this action finalized the past damage award, Wolf Run paid \$15.6 million for the past damage amount, including interest, to Allegheny in July 2013. The future damage award is now back before the lower court, but no hearing dates have been set at this time.

In addition, the Company is a party to numerous claims and lawsuits with respect to various matters. As of September 30, 2013 and December 31, 2012, the Company had accrued \$21.2 million and \$32.8 million, respectively, for all legal matters, including \$7.7 million and \$4.4 million, respectively, classified as current. The ultimate resolution of any such legal matter could result in outcomes which may be materially different from amounts the Company has accrued for such matters.

19. Segment Information

The Company has three reportable business segments, which are based on the major coal producing basins in which the Company operates. Each of these reportable business segments includes a number of mine complexes. The Company manages its coal sales by coal basin, not by individual mine complex. Geology, coal transportation routes to customers, regulatory environments and coal quality or type are characteristic to a basin. Accordingly, market and contract pricing have developed by coal basin. Mine operations are evaluated based on their per-ton operating costs (defined as including all mining costs but excluding pass-through transportation expenses), as well as on other non-financial measures, such as safety and environmental performance. The Company's reportable segments are the Powder River Basin (PRB) segment, with operations in Wyoming; the WBIT segment, with operations in Colorado; the Appalachia (APP) segment, with operations in West Virginia, Kentucky, Maryland and Virginia. The Other operating segment includes primarily the Company's Illinois operations and ADDCAR.

Operating segment results for the three and nine months ended September 30, 2013 and 2012 are presented below. Results for the reportable segments include all direct costs of mining, including all depreciation, depletion and amortization related to the mining operations, even if the assets are not recorded at the operating segment level. Corporate, Other and Eliminations includes these charges, as well as the change in fair value of coal derivatives and coal trading activities, net; corporate overhead; land management; other support functions; and the elimination of

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intercompany transactions. The operating segment results for the WBIT segment for all periods presented reflect only continuing operations, since Canyon Fuel results are classified as discontinued operations in the condensed consolidated statements of operations.

The asset amounts below represent an allocation of assets consistent with the basis used for the Company's incentive compensation plans. The amounts in Corporate, Other and Eliminations represent primarily corporate assets (cash, receivables, investments, plant, property and equipment) as well as unassigned coal reserves, above-market acquired sales contracts and other unassigned assets. Goodwill is allocated to the respective reporting units, even though it may not be reflected in the subsidiaries' financial statements. Asset balances for the WBIT segment as of September 30, 2012 include the Canyon Fuel assets. Prior year asset amounts have been restated to reflect a change in how certain unassigned coal reserves and goodwill amounts are presented.

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Table of Contents

	PRB	APP	WBIT	Other Operating Segments	Corporate, Other and Eliminations	Consolidated
	(in thousands)					
Three months ended September 30, 2013						
Revenues	\$ 420,521	\$ 263,188	\$ 78,022	\$ 29,538	\$	\$ 791,269
Income (loss) from operations	20,694	(157,883)	9,287	(9,231)	(97,620)	(234,753)
Depreciation, depletion and amortization	46,619	46,529	9,436	2,523	1,216	106,323
Amortization of acquired sales contracts, net	(864)	(2,691)		987		(2,568)
Asset impairment and mine closure costs		126,449		16,280	57,668	200,397
Capital expenditures	1,695	44,624	5,859	1,263	663	54,104
Three months ended September 30, 2012						
Revenues	\$ 406,719	\$ 436,409	\$ 105,515	\$ 26,527	\$	\$ 975,170
Income (loss) from operations	38,873	88,695	24,110	(1,298)	(31,138)	119,242
Depreciation, depletion and amortization	43,944	61,596	9,985	2,594	823	118,942
Amortization of acquired sales contracts, net	(589)	(3,711)		207		(4,093)
Asset impairment and mine closure costs		(1,801)		(210)	(133)	(2,144)
Capital expenditures	5,620	77,772	13,510	3,640	1,353	101,895
Nine months ended September 30, 2013						
Revenues	\$ 1,135,892	\$ 883,484	\$ 187,374	\$ 88,221	\$	\$ 2,294,971
Income (loss) from operations	53,244	(190,278)	23,766	(407)	(208,788)	(322,463)
Depreciation, depletion and amortization	130,993	157,866	26,528	7,792	4,422	327,601
Amortization of acquired sales contracts, net	(3,004)	(7,975)		3,392		(7,587)
Asset impairment and mine closure costs		126,449		16,280	78,150	220,879
Total assets	1,897,218	4,141,072	146,947	137,941	3,208,277	9,531,455
Capital expenditures	5,671	137,390	13,147	4,776	62,184	223,168
Nine months ended September 30, 2012						
Revenues	\$ 1,130,408	\$ 1,409,776	\$ 272,359	\$ 88,549	\$	\$ 2,901,092
Income (loss) from operations	94,163	(388,563)	34,937	(3,757)	(186,634)	(449,854)
Depreciation, depletion and amortization	122,298	210,789	29,894	9,704	1,946	374,631
Amortization of acquired sales contracts, net	(1,374)	(21,658)		471		(22,561)
Asset impairment and mine closure costs		524,115		(437)	(239)	523,439
Total assets	2,234,941	4,130,273	676,057	169,981	2,724,602	9,935,854
Capital expenditures	15,399	222,177	42,761	8,153	15,478	303,968

A reconciliation of segment income (loss) from operations to consolidated loss before income taxes follows:

Table of Contents

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands)			
Income (loss) from operations	\$ (234,753)	\$ 119,242	\$ (322,463)	\$ (449,854)
Interest expense	(95,624)	(75,710)	(285,454)	(229,210)
Interest and investment income	697	1,459	4,749	3,568
Other nonoperating expense	\$	\$	\$	\$ (19,042)
Income (loss) from continuing operations before income taxes	\$ (329,680)	\$ 44,991	\$ (603,168)	\$ (694,538)

20. Supplemental Condensed Consolidating Financial Information

Pursuant to the indentures governing Arch Coal, Inc.'s senior notes, certain wholly-owned subsidiaries of the Company have fully and unconditionally guaranteed the senior notes on a joint and several basis. The following tables present condensed consolidating financial information for (i) the Company, (ii) the issuer of the senior notes, (iii) the guarantors under the senior notes, and (iv) the entities which are not guarantors under the senior notes (Arch Receivable Company, LLC and the Company's subsidiaries outside the United States):

Table of Contents**Condensed Consolidating Statements of Operations****Three Months Ended September 30, 2013**

	Parent/Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries (In thousands)	Eliminations	Consolidated
Revenues	\$	\$ 791,269	\$	\$	\$ 791,269
Costs, expenses and other					
Cost of sales (exclusive of items shown separately below)	169	688,543			688,712
Depreciation, depletion and amortization	1,549	104,765	9		106,323
Amortization of acquired sales contracts, net		(2,568)			(2,568)
Change in fair value of coal derivatives and coal trading activities, net		9,753			9,753
Asset impairment and mine closure costs	57,668	142,729			200,397
Selling, general and administrative expenses	19,104	8,214	1,482		28,800
Other operating income, net	2,345	(7,740)			(5,395)
	80,835	943,696	1,491		1,026,022
Loss from investment in subsidiaries	(61,537)			61,537	
Loss from operations	(142,372)	(152,427)	(1,491)	61,537	(234,753)
Interest expense, net					
Interest expense	(114,536)	(6,222)	(1,070)	26,204	(95,624)
Interest and investment income	6,606	18,975	1,320	(26,204)	697
	(107,930)	12,753	250		(94,927)
Loss from continuing operations before income taxes	(250,302)	(139,674)	(1,241)	61,537	(329,680)
Provision for (benefit from) income taxes	(121,939)		26		(121,913)
Loss from continuing operations	(128,363)	(139,674)	(1,267)	61,537	(207,767)
Income from discontinued operations, including gain on sale-net of tax		79,404			79,404
Net loss	\$ (128,363)	\$ (60,270)	\$ (1,267)	\$ 61,537	\$ (128,363)
Total comprehensive loss	\$ (125,996)	\$ (59,241)	\$ (1,267)	\$ 60,508	\$ (125,996)

Table of Contents**Condensed Consolidating Statements of Operations****Nine Months Ended September 30, 2013**

	Parent/Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries (In thousands)	Eliminations	Consolidated
Revenues	\$	\$ 2,294,971	\$	\$	\$ 2,294,971
Costs, expenses and other					
Cost of sales (exclusive of items shown separately below)	4,881	1,989,772			1,994,653
Depreciation, depletion and amortization	4,430	323,144	27		327,601
Amortization of acquired sales contracts, net		(7,587)			(7,587)
Change in fair value of coal derivatives and coal trading activities, net		2,053			2,053
Asset impairment and mine closure costs	78,150	142,729			220,879
Selling, general and administrative expenses	63,006	28,978	4,327		96,311
Other operating income, net	(4,663)	(10,704)	(1,109)		(16,476)
	145,804	2,468,385	3,245		2,617,434
Loss from investment in subsidiaries	(42,199)			42,199	
Loss from operations	(188,003)	(173,414)	(3,245)	42,199	(322,463)
Interest expense, net					
Interest expense	(336,310)	(18,502)	(3,170)	72,528	(285,454)
Interest and investment income	22,917	49,986	4,374	(72,528)	4,749
	(313,393)	31,484	1,204		(280,705)
Loss from continuing operations before income taxes	(501,396)	(141,930)	(2,041)	42,199	(603,168)
Provision for (benefit from) income taxes	(230,778)		44		(230,734)
Loss from continuing operations	(270,618)	(141,930)	(2,085)	42,199	(372,434)
Income from discontinued operations, including gain on sale-net of tax		101,816			101,816
Net loss	\$ (270,618)	\$ (40,114)	\$ (2,085)	\$ 42,199	\$ (270,618)
Total comprehensive loss	\$ (262,717)	\$ (39,175)	\$ (2,085)	\$ 41,260	\$ (262,717)

Table of Contents**Condensed Consolidating Statements of Operations****Three Months Ended September 30, 2012**

	Parent/Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries (In thousands)	Eliminations	Consolidated
Revenues	\$	\$ 975,170	\$	\$	\$ 975,170
Costs, expenses and other					
Cost of sales (exclusive of items shown separately below)	2,437	806,052			808,489
Depreciation, depletion and amortization	1,399	117,534	9		118,942
Amortization of acquired sales contracts, net		(4,093)			(4,093)
Change in fair value of coal derivatives and coal trading activities, net		5,840			5,840
Asset impairment and mine closure costs		(2,144)			(2,144)
Legal contingencies		(79,532)			(79,532)
Selling, general and administrative expenses	22,051	9,432	1,783		33,266
Other operating income, net	(11,052)	(13,699)	(89)		(24,840)
	14,835	839,390	1,703		855,928
Income from investment in subsidiaries	164,152			(164,152)	
Income (loss) from operations	149,317	135,780	(1,703)	(164,152)	119,242
Interest expense, net					
Interest expense	(91,577)	(6,870)	(649)	23,386	(75,710)
Interest and investment income	8,329	14,570	1,946	(23,386)	1,459
	(83,248)	7,700	1,297		(74,251)
Income (loss) from continuing operations before income taxes	66,069	143,480	(406)	(164,152)	44,991
Provision for income taxes	20,318				20,318
Income (loss) from continuing operations	45,751	143,480	(406)	(164,152)	24,673
Income from discontinued operations, net of tax		21,078			21,078
Net income (loss)	\$ 45,751	\$ 164,558	\$ (406)	\$ (164,152)	\$ 45,751
Total comprehensive income (loss)	\$ 44,299	\$ 163,375	\$ (406)	\$ (162,969)	\$ 44,299

Table of Contents**Condensed Consolidating Statements of Operations****Nine Months Ended September 30, 2012**

	Parent/Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries (In thousands)	Eliminations	Consolidated
Revenues	\$	\$ 2,901,092	\$	\$	\$ 2,901,092
Costs, expenses and other					
Cost of sales (exclusive of items shown separately below)	7,694	2,406,612			2,414,306
Depreciation, depletion and amortization	3,959	370,648	24		374,631
Amortization of acquired sales contracts, net		(22,561)			(22,561)
Change in fair value of coal derivatives and coal trading activities, net		(29,827)			(29,827)
Asset impairment and mine closure costs		523,439			523,439
Goodwill impairment		115,791			115,791
Legal contingencies		(79,532)			(79,532)
Selling, general and administrative expenses	62,469	30,965	5,871		99,305
Other operating income, net	(7,693)	(23,811)	(13,102)		(44,606)
	66,429	3,291,724	(7,207)		3,350,946
Loss from investment in subsidiaries	(324,429)			324,429	
Income (loss) from operations	(390,858)	(390,632)	7,207	324,429	(449,854)
Interest expense, net					
Interest expense	(263,381)	(27,285)	(2,382)	63,838	(229,210)
Interest and investment income	19,087	42,508	5,811	(63,838)	3,568
	(244,294)	15,223	3,429		(225,642)
Other non-operating expense					
Net loss resulting from early retirement of ICG debt	(17,349)	(1,693)			(19,042)
Income (loss) from continuing operations before income taxes	(652,501)	(377,102)	10,636	324,429	(694,538)
Provision for (benefit from) income taxes	(264,237)		1,581		(262,656)
Income (loss) from continuing operations	(388,264)	(377,102)	9,055	324,429	(431,882)
Income from discontinued operations, net of tax		43,618			43,618
Net Income (loss)	(388,264)	(333,484)	9,055	324,429	(388,264)
Less: Net income attributable to noncontrolling interest	(268)				(268)
Net Income (loss) attributable to Arch Coal, Inc.	\$ (388,532)	\$ (333,484)	\$ 9,055	\$ 324,429	\$ (388,532)
Total comprehensive income (loss)	\$ (385,523)	\$ (336,648)	\$ 9,055	\$ 327,593	\$ (385,523)

Table of Contents**Condensed Consolidating Balance Sheets**

September 30, 2013

	Parent/Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (In thousands)	Eliminations	Consolidated
Assets					
Cash and cash equivalents	\$ 1,021,245	\$ 100,410	\$ 11,473	\$	\$ 1,133,128
Restricted cash					
Short term investments	248,724				248,724
Receivables	7,847	21,178	190,493	(4,679)	214,839
Inventories		287,409			287,409
Other	96,992	48,270	277		145,539
Total current assets	1,374,808	457,267	202,243	(4,679)	2,029,639
Property, plant and equipment, net	25,526	6,752,687	46	(34)	6,778,225
Investment in subsidiaries	7,992,601			(7,992,601)	
Intercompany receivables		1,986,992		(1,986,992)	
Note receivable from Arch Western	675,000			(675,000)	
Other	147,950	575,551	90		723,591
Total other assets	8,815,551	2,562,543	90	(10,654,593)	723,591
Total assets	\$ 10,215,885	\$ 9,772,497	\$ 202,379	\$ (10,659,306)	\$ 9,531,455
Liabilities and Stockholders Equity					
Accounts payable	\$ 20,728	\$ 186,468	\$ 77	\$	\$ 207,273
Accrued expenses and other current liabilities	107,756	246,063	314	(4,679)	349,454
Current maturities of debt	19,343	3,707			23,050
Total current liabilities	147,827	436,238	391	(4,679)	579,777
Long-term debt	5,055,021	19,363			5,074,384
Intercompany payables	1,810,718		176,274	(1,986,992)	
Note payable to Arch Coal		675,000		(675,000)	
Asset retirement obligations	1,150	409,971			411,121
Accrued pension benefits	36,304	32,235			68,539
Accrued postretirement benefits other than pension	14,267	30,012			44,279
Accrued workers compensation	25,601	56,413			82,014
Deferred income taxes	484,130				484,130
Other noncurrent liabilities	59,179	146,055	323		205,557
Total liabilities	7,634,197	1,805,287	176,988	(2,666,671)	6,949,801
Stockholders equity	2,581,688	7,967,210	25,391	(7,992,635)	2,581,654
Total liabilities and stockholders equity	\$ 10,215,885	\$ 9,772,497	\$ 202,379	\$ (10,659,306)	\$ 9,531,455

Table of Contents**Condensed Consolidating Balance Sheets**

December 31, 2012

	Parent/Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (In thousands)	Eliminations	Consolidated
Assets					
Cash and cash equivalents	\$ 671,313	\$ 100,468	\$ 12,841	\$	\$ 784,622
Restricted cash	3,453				3,453
Short term investments	234,305				234,305
Receivables	49,281	40,452	247,171	(4,824)	332,080
Inventories		365,424			365,424
Other	106,786	86,877	557		194,220
Total current assets	1,065,138	593,221	260,569	(4,824)	1,914,104
Property, plant and equipment, net	27,476	7,309,550	72		7,337,098
Investment in subsidiaries	8,254,508			(8,254,508)	
Intercompany receivables		1,600,311		(1,600,311)	
Note receivable from Arch Western	675,000			(675,000)	
Other	187,171	568,314	90		755,575
Total other assets	9,116,679	2,168,625	90	(10,529,819)	755,575
Total assets	\$ 10,209,293	\$ 10,071,396	\$ 260,731	\$ (10,534,643)	\$ 10,006,777
Liabilities and Stockholders Equity					
Accounts payable	\$ 19,859	\$ 204,370	\$ 189	\$	\$ 224,418
Accrued expenses and other current liabilities	65,293	259,162	124	(4,824)	319,755
Current maturities of debt	32,054	842			32,896
Total current liabilities	117,206	464,374	313	(4,824)	577,069
Long-term debt	5,061,925	23,954			5,085,879
Intercompany payables	1,367,739		232,572	(1,600,311)	
Note payable to Arch Coal		675,000		(675,000)	
Asset retirement obligations	1,646	408,059			409,705
Accrued pension benefits	33,456	34,174			67,630
Accrued postretirement benefits other than pension	13,953	31,133			45,086
Accrued workers compensation	25,323	56,306			81,629
Deferred income taxes	664,182				664,182
Other noncurrent liabilities	69,296	151,360	374		221,030
Total liabilities	7,354,726	1,844,360	233,259	(2,280,135)	7,152,210
Stockholders equity	2,854,567	8,227,036	27,472	(8,254,508)	2,854,567
Total liabilities and stockholders equity	\$ 10,209,293	\$ 10,071,396	\$ 260,731	\$ (10,534,643)	\$ 10,006,777

Table of Contents**Condensed Consolidating Statements of Cash Flows****Nine Months Ended September 30, 2013**

	Parent/Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (In thousands)	Eliminations	Consolidated
Cash provided by (used in) operating activities	\$ (22,206)	\$ 153,868	\$ 54,930	\$	\$ 186,592
Investing Activities					
Capital expenditures	(2,488)	(220,680)			(223,168)
Minimum royalty payments		(10,901)			(10,901)
Proceeds from dispositions of property, plant and equipment		8,799			8,799
Proceeds from sales-leaseback transactions		34,919			34,919
Proceeds from sale of Canyon Fuel		422,663			422,663
Purchases of short term investments	(85,418)				(85,418)
Proceeds from sales of short term investments	67,255				67,255
Investments in and advances to affiliates	(4,016)	(7,492)		384	(11,124)
Change in restricted cash	3,453				3,453
Cash provided by (used in) investing activities	(21,214)	227,308		384	206,478
Financing Activities					
Contributions from parent		384		(384)	
Payments on term loan	(12,375)				(12,375)
Payments to retire debt		(384)			(384)
Net payments on other debt	(12,700)				(12,700)
Dividends paid	(19,105)				(19,105)
Transactions with affiliates, net	437,532	(381,234)	(56,298)		
Cash provided by (used in) financing activities	393,352	(381,234)	(56,298)	(384)	(44,564)
Increase (decrease) in cash and cash equivalents	349,932	(58)	(1,368)		348,506
Cash and cash equivalents, beginning of period	671,313	100,468	12,841		784,622
Cash and cash equivalents, end of period	\$ 1,021,245	\$ 100,410	\$ 11,473	\$	\$ 1,133,128

Table of Contents**Condensed Consolidating Statements of Cash Flows****Nine Months Ended September 30, 2012**

	Parent/Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (In thousands)	Eliminations	Consolidated
Cash provided by (used in) operating activities	\$ (610,129)	\$ 874,545	\$ 91,979	\$	\$ 356,395
Investing Activities					
Capital expenditures	(4,150)	(299,818)			(303,968)
Minimum royalty payments		(9,192)			(9,192)
Proceeds from dispositions of property, plant and equipment		1,127	21,497		22,624
Purchases of short term investments	(99,628)				(99,628)
Investments in and advances to affiliates	(5,138)	(9,082)		1,535	(12,685)
Purchase of noncontrolling interest		(17,500)			(17,500)
Change in restricted cash	6,872				6,872
Cash provided by (used in) investing activities	(102,044)	(334,465)	21,497	1,535	(413,477)
Financing Activities					
Contributions from parent		1,535		(1,535)	
Proceeds from issuance of term loan	1,386,000				1,386,000
Payments on term loan	(3,500)				(3,500)
Payments to retire debt		(452,806)			(452,806)
Net decrease in borrowings under lines of credit	(375,000)		(6,300)		(381,300)
Net payments from other debt	(13,078)				(13,078)
Debt financing costs	(34,640)		(46)		(34,686)
Dividends paid	(36,072)				(36,072)
Proceeds from exercise of options under incentive plans	5,131				5,131
Transactions with affiliates, net	30,338	66,364	(96,702)		
Cash provided by (used in) financing activities	959,179	(384,907)	(103,048)	(1,535)	469,689
Increase in cash and cash equivalents	247,006	155,173	10,428		412,607
Cash and cash equivalents, beginning of period	66,542	70,258	1,349		138,149
Cash and cash equivalents, end of period	\$ 313,548	\$ 225,431	\$ 11,777	\$	\$ 550,756

Table of Contents**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.****Overview**

The weakness in global coal markets continued in the third quarter of 2013, impacting our results for the period from lower pricing and a decrease in sales volumes in our Appalachian segment. International thermal markets are not showing signs of near-term improvement, and we expect U.S. coal exports to be less than 2012 levels, but still high by historical standards. We exported 8.5 million tons in the first nine months of 2013, compared to approximately 10.5 million tons in the first nine months of 2012.

Metallurgical markets remain oversupplied, and prices have remained lower than in the first nine months of 2012. At the same time, trends relating to the domestic thermal coal markets are improving. Though power demand declined slightly through August 2013 as a result of cooler summer weather, coal consumption by electric generation facilities increased by more than 30 million tons through August of 2013 aided by higher natural gas prices. As a result, the significant U.S. coal stockpile overhang that was built during 2012 has decreased over the course of the year. However, the correction has been geographically uneven, and stockpiles in the Eastern U.S. remain high. We expect the weakness in Appalachian thermal coal demand to continue unless natural gas prices rise further, and we currently project that production in that region will fall in 2013. Primarily due to the persisting weakness in the Appalachian thermal market, we recorded impairment charges of approximately \$200 million during the third quarter of 2013.

Management has continued to focus on capital spending reductions, cost containment and efficiency efforts and working capital and liquidity management to improve cash flows and prepare the company to capitalize on opportunities when coal markets recover.

As part of a strategy to divest non-core thermal coal assets, on August 16, 2013, we sold Canyon Fuel Company, LLC (Canyon Fuel) to Bowie Resources, LLC for \$423 million. Canyon Fuel operated the Sufco and Skyline longwall mining complexes and the Dugout Canyon continuous miner operation in Utah. We recognized a gain on the sale of Canyon Fuel, net of tax, of \$74.0 million during the third quarter of 2013. See Note 3 to the condensed consolidated financial statements, Discontinued Operations, for further information.

Operational performance

The following table shows results by operating segment for the three and nine months ended September 30, 2013 and compares it with the information for the three and nine months ended September 30, 2012:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
<i>Powder River Basin</i>				
Tons sold (in thousands)	31,485	27,703	85,229	76,751
Coal sales realization per ton sold(1)	\$ 12.26	\$ 13.79	\$ 12.49	\$ 13.78

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Cost per ton sold	\$	11.66	\$	12.49	\$	11.96	\$	12.64
Operating margin per ton sold(2)	\$	0.60	\$	1.30	\$	0.53	\$	1.14
Adjusted EBITDA(3) (in thousands)	\$	66,449	\$	82,392	\$	181,233	\$	218,559
<i>Appalachia</i>								
Tons sold (in thousands)		3,314		4,661		10,743		14,528
Coal sales realization per ton sold(1)	\$	73.71	\$	83.84	\$	74.22	\$	85.97
Cost per ton sold	\$	81.22	\$	81.62	\$	81.31	\$	84.09
Operating margin (loss) per ton sold(2)	\$	(7.51)	\$	2.22	\$	(7.09)	\$	1.88
Adjusted EBITDA(3) (in thousands)	\$	12,404	\$	143,919	\$	86,062	\$	352,419
<i>Western Bituminous (includes Canyon Fuel)</i>								
Tons sold (in thousands)		2,938		4,580		9,625		11,826
Coal sales realization per ton sold(1)	\$	32.16	\$	35.50	\$	34.62	\$	35.13
Cost per ton sold	\$	27.94	\$	27.84	\$	29.12	\$	27.96
Operating margin per ton sold(2)	\$	4.22	\$	7.66	\$	5.50	\$	7.17
Adjusted EBITDA(3) (in thousands)	\$	142,708	\$	53,479	\$	219,427	\$	140,846

Table of Contents

(1) These per-ton measurements reflect classification adjustments to numbers reported under U.S. GAAP to reflect the results we achieved within our operating segments. Since other companies may calculate these per ton amounts differently, our calculation may not be comparable to similarly titled measures used by those companies.

(2) Operating margin per ton sold is calculated as coal sales revenues less cost of coal sales, depreciation, depletion and amortization and sales contract amortization divided by tons sold.

(3) Adjusted EBITDA is defined as net income or loss attributable to the segment before the effect of net interest expense, income taxes, depreciation, depletion and amortization and the amortization of acquired sales contracts. Adjusted EBITDA may also be adjusted for items that may not reflect the trend of future results. Segment Adjusted EBITDA is reconciled to net loss at the end of this Results of Operations section.

Powder River Basin Segment Adjusted EBITDA decreased in the third quarter and first nine months of 2013 when compared to the third quarter and first nine months of 2012 due to continued weak coal market conditions, which resulted in lower per-ton realizations on market-based and export tons. The increase in coal consumption by electric generation facilities contributed to an increase in sales volumes (14% in the third quarter and 11% in the first nine months of 2013 compared to the respective periods in 2012). Per-ton costs decreased in both the quarter (7%) and year-to-date (5%) periods when compared with the respective prior year periods as a result of cost control efforts and the increase in sales volumes, as well as a decrease in production taxes and royalties that fluctuate with selling prices (\$0.22/ton for both the third quarter and first nine months of 2013, respectively, when compared with 2012).

Appalachia Segment Adjusted EBITDA decreased significantly in the third quarter and first nine months of 2013 when compared to 2012 due to the weaker coal market conditions, which resulted in lower thermal coal sales volumes and also lower average coal pricing. The decrease in pricing was particularly pronounced on metallurgical coal shipments, which also decreased slightly. We sold 1.5 million tons of metallurgical-quality coal in the third quarter of 2013 compared to 2.1 million tons in the third quarter of 2012. We sold 5.3 million tons of metallurgical-quality coal in the first nine months of 2013 compared to 5.6 million tons in the first nine months of 2012. Per-ton costs have decreased, despite the significant decrease in sales volumes, as the thermal coal operations we closed in 2012 in response to the challenging market conditions had a higher cost structure, which resulted in higher costs of \$6.85 per ton for the nine months ended September 30, 2012. In addition, our cost containment and efficiency efforts contributed to lower costs in 2013, as did a decrease in production taxes and royalties that fluctuate with selling prices, which decreased \$0.32/ton in the third quarter of 2013 and \$1.11/ton in the first nine months of 2013, when compared with the respective periods in 2012.

Western Bituminous The amounts in the above table include the results of Canyon Fuel through the August 16, 2013 disposition date. Operating margin per ton decreased in the third quarter of 2013 from the third quarter of 2012 due to a decrease in pricing on export sales, lower sales volumes, which resulted in an increase in per-ton costs, and the impact of longwall moves at the Canyon Fuel operations. The before-tax gain on the sale of Canyon Fuel of \$115.7 million offset the impact of the lower operating margins and Segment Adjusted EBITDA increased from 2012 as a result.

Reconciliation to amounts reported in statement of operations

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Impact of Canyon Fuel results included in per ton amounts but segregated and included in discontinued operations in statement of operations				
Western Bituminous per-ton realizations	\$ 4.62	\$ 2.75	\$ 5.46	\$ 3.65
Western Bituminous per-ton cost of sales	\$ 5.81	\$ 4.18	\$ 5.14	\$ 3.17
Tons sold	1,200	2,477	5,366	6,518
Gain on sale included in EBITDA but reported in discontinued operations (in 000 \$)				
	115,679		115,679	
Transportation costs netted against per-ton realizations to reflect netback price to the region				
Powder River Basin	\$ 1.10	\$ 0.89	\$ 0.84	\$ 0.95
Appalachia	\$ 6.62	\$ 10.37	\$ 8.80	\$ 11.71
Western Bituminous	\$ 12.30	\$ 14.19	\$ 9.39	\$ 13.65
API-2 risk management position settlements included in per-ton realizations not classified as coal sales revenues in statement of operations				
Appalachia	\$ 0.94	\$ 0.58	\$ 0.79	\$ 0.64
Western Bituminous	\$ 2.32	\$ 2.11	\$ 1.79	\$ 1.25
Diesel risk management position settlements not classified as cost of coal sales in statement of operations				
Powder River Basin	\$ 0.07	\$ 0.14	\$ 0.10	\$ 0.07
Appalachia	\$ 0.28	\$ 0.15	\$ 0.26	\$ 0.07

Table of Contents**Results of Operations**

The following tables reflect the amounts as presented in our condensed consolidated statements of operations. Individual line items exclude the results of Canyon Fuel, including the gain on the sale, as those amounts are presented as one line item, Income from discontinued operations, including gain on sale - net of tax, in the condensed consolidated statements of operations.

Three Months Ended September 30, 2013 Compared to Three Months Ended September 30, 2012

Summary. Our results during the third quarter of 2013, when compared to the third quarter of 2012, were impacted by weaker market conditions and related impairment charges, in part offset by the gain on the sale of Canyon Fuel in 2013.

Revenues. Our revenues consist of coal sales and revenues from our ADDCAR subsidiary.

Coal sales. The following table summarizes information about our coal sales during the three months ended September 30, 2013 and compares it with the information for the three months ended September 30, 2012:

	Three Months Ended September 30,			
	2013	2012	Increase (Decrease)	
	(In thousands)			
Coal sales	\$ 786,613	\$ 974,818	\$	(188,205)
Tons sold	37,165	35,073		2,092

Coal sales decreased 19% in the third quarter of 2013 from the third quarter of 2012 due to lower realized prices. Lower average realizations per ton sold, due to the weak coal markets and a lower percentage of higher-priced coal sales out of Appalachia, resulted in a decrease in revenues of approximately \$102 million. The increase in sales volumes in our Powder River Basin segment (an increase of \$56 million) was offset by the impact of lower volumes from the Appalachia and Western Bituminous segments (a decrease of \$144 million).

Costs, expenses and other. The following table summarizes costs, expenses and other components of operating income for the three months ended September 30, 2013 and compares it with the information for the three months ended September 30, 2012:

	Three Months Ended September 30,			
	2013	2012	(Increase) Decrease	
	(In thousands)			
Cost of sales (exclusive of items shown separately below)	\$ 688,712	\$ 808,489	\$	119,777
Depreciation, depletion and amortization	106,323	118,942		12,619
Amortization of acquired sales contracts, net	(2,568)	(4,093)		(1,525)

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Change in fair value of coal derivatives and coal trading activities, net	9,753	5,840	(3,913)
Asset impairment and mine closure costs	200,397	(2,144)	(202,541)
Legal contingencies		(79,532)	(79,532)
Selling, general and administrative expenses	28,800	33,266	4,466
Other operating income, net	(5,395)	(24,840)	(19,445)
Total costs, expenses and other	\$ 1,026,022	\$ 855,928	\$ (170,094)

Cost of sales. Our cost of sales decreased in the third quarter of 2013 from the third quarter of 2012 primarily due to lower per-ton average production costs (\$134 million), the result of a change in regional mix that reflects lower sales volumes from the Appalachia segment. In addition, transportation costs decreased \$30 million in the third quarter of 2013 from the third quarter of 2012 due to a decrease in export shipments. The increase in sales volumes resulted in an increase of \$40 million in cost of sales. These factors are discussed in detail in the Operational performance section.

Depreciation, depletion and amortization. When compared with the third quarter of 2012, depreciation, depletion and amortization costs decreased in 2013 due to the decreases in production in the Appalachia and Western Bituminous segments for the respective periods, including the impact of mine closures in 2012.

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Table of Contents

Asset impairment and mine closure costs. In response to market conditions, we recorded impairment charges related to a Kentucky coal operation and our highwall mining equipment subsidiary, in the third quarter of 2013. In addition, we recorded an other-than-temporary impairment of our investment in a coal-to-liquids project and a related receivable balance. See further information in Note 5 to the condensed consolidated financial statements.

Legal contingencies. As a result of a legal ruling in the third quarter of 2012 in a lawsuit against former ICG subsidiaries, we changed our assessment of the probable loss related to the lawsuit. The suit is discussed in detail in Note 18 to the condensed consolidated financial statements.

Selling, general and administrative expenses. Total selling, general and administrative expenses decreased slightly when compared with the third quarter of 2012, as increases in retirement plan costs of \$1.3 million and employee incentive costs of \$0.5 million were offset by a decrease in discretionary spending, including a decrease in professional fees of \$3.4 million and a decrease in industry fees and dues of \$3.2 million.

Other operating income, net. When compared with the third quarter of 2012, other operating income, net decreased for the third quarter of 2013, primarily the result of an increase in commercial losses of \$9.1 million, a decrease of \$4.6 million in unrealized gains on our diesel purchase and fuel surcharge risk management programs, and an increase in land management costs of \$2.8 million. These were partially offset by gains of \$1.9 million recognized in the third quarter of 2013 on the sale of surplus equipment.

Net interest expense. The following table summarizes our net interest expense for the three months ended September 30, 2013 and compares it with the information for the three months ended September 30, 2012:

	Three Months Ended September 30,			Increase
	2013	2012		in Net Loss
	(In thousands)			
Interest expense	\$ (95,624)	\$ (75,710)	\$	(19,914)
Interest and investment income	697	1,459		(762)
	\$ (94,927)	\$ (74,251)	\$	(20,676)

The increase in interest expense is due to an increase in our average outstanding debt in the third quarter of 2013 when compared with the third quarter of 2012, primarily as a result of financing transactions completed during 2012.

Income taxes. Our effective income tax rate is sensitive to changes in and the relationship between annual profitability and the deduction for percentage depletion. The income tax benefit is primarily the result of the reported losses for the third quarter of 2013 when compared to income in the third quarter of 2012.

	Three Months Ended September 30,			Decrease
	2013	2012		in Net Loss
	(In thousands)			

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Provision for (benefit from) income taxes	(121,913)	20,318	142,231
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Income from discontinued operations, net of tax. Canyon Fuel's results and the gain from its sale, net of the related income tax impacts, are segregated from continuing operations. See Note 3, "Discontinued Operations", to the condensed consolidated financial statements for further information.

	Three Months Ended September 30, 2013	2012 (In thousands)	Decrease in Net Loss
Income from discontinued operations, including gain on sale - net of tax	79,404	21,078	58,326

Nine Months Ended September 30, 2013 Compared to Nine Months Ended September 30, 2012

Summary. Our results during the first nine months of 2013, when compared to the first nine months of 2012, were impacted by weaker market conditions and related impairment charges in both 2013 and 2012, in part offset by the gain on the sale of Canyon Fuel in 2013.

Revenues. Our revenues consist of coal sales and revenues from our ADDCAR subsidiary.

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Table of Contents

Coal sales. The following table compares information about coal sales during the nine months ended September 30, 2013 with the information for the nine months ended September 30, 2012:

	Nine Months Ended September 30,		Increase (Decrease)
	2013	2012 (In thousands)	
Coal sales	\$ 2,284,704	\$ 2,882,913	\$ (598,209)
Tons sold	102,043	98,206	3,837

Coal sales decreased approximately 21% in the first nine months of 2013 from the first nine months of 2012, due to lower realized prices. Lower average realizations per ton sold, the result of the weak coal markets and a lower percentage of higher-priced coal sales out of Appalachia, resulted in a decrease in revenues of approximately \$314 million. The increase in sales volumes in our Powder River Basin segment (an increase of \$125 million) was offset by the impact of lower volumes from the Appalachia and Western Bituminous segment (\$421 million).

Costs, expenses and other. The following table compares costs, expenses and other components of operating income for the nine months ended September 30, 2013 with the information for the nine months ended September 30, 2012:

	Nine Months Ended September 30,		(Increase) Decrease in Net Loss
	2013	2012 (Amounts in thousands, except percentages)	
Cost of sales (exclusive of items shown separately below)	\$ 1,994,653	\$ 2,414,306	\$ 419,653
Depreciation, depletion and amortization	327,601	374,631	47,030
Amortization of acquired sales contracts, net	(7,587)	(22,561)	(14,974)
Change in fair value of coal derivatives and coal trading activities, net	2,053	(29,827)	(31,880)
Asset impairment and mine closure costs	220,879	523,439	302,560
Goodwill impairment		115,791	115,791
Legal contingencies		(79,532)	(79,532)
Selling, general and administrative expenses	96,311	99,305	\$ 2,994
Other operating income, net	(16,476)	(44,606)	\$ (28,130)
Total costs, expenses and other	\$ 2,617,434	\$ 3,350,946	\$ 733,512

Cost of sales. Our cost of sales decreased in the first nine months of 2013 from the first nine months of 2012 primarily due to lower average per-ton production costs (\$382 million), the result of a change in regional mix that reflects lower sales volumes from the Appalachia segment. In addition, transportation costs decreased \$120 million in the first nine months of 2013 from the first nine months of 2012 due to a decrease in export shipments. The increase in sales volumes resulted in an increase of \$79 million in cost of sales. These factors are discussed in detail in the Operational performance section.

Depreciation, depletion and amortization. When compared with first nine months of 2012, depreciation, depletion and amortization costs decreased in first nine months of 2013 due to the decreases in production in the Appalachia and Western Bituminous segments for the respective periods, including the impact of mine closures in 2012.

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Change in fair value of coal derivatives and coal trading activities, net. The gains reflected in 2012 relate primarily to positions in the API-2 market, the derivatives market for coal delivered into Europe. We entered into these positions to manage price risk on physical export sales into Europe. As these positions are not accounted for as hedges, changes in the positions' fair value prior to settlement are recognized in the condensed consolidated statement of operations. When the positions settle, the realized gains and losses are reclassified to other operating income, net. The decrease in gains in the first nine months of 2013 from the first nine months of 2012 is the result of a decrease in positions outstanding, due to settlements during the year.

Asset impairment and mine closure costs. In response to market conditions, we closed or idled five mining operations, along with other production curtailments in the second quarter of 2012. As a result, we recognized impairment charges to write down property, plant, and equipment, and incurred other costs, primary labor and contract termination, related to the closures. For a discussion of the 2013 impairments, see the analysis of the three month periods ended September 30, 2013 and 2012.

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Table of Contents

Goodwill impairment. We recorded a complete write down of our goodwill related to our Black Thunder mining complex during the second quarter of 2012 due to expectations of lower thermal coal demand and its impact on near-term sales volumes and pricing.

Legal contingencies. See discussion in the results of the third quarter of 2013.

Selling, general and administrative expenses. Selling, general and administrative expenses in the first nine months of 2013 decreased slightly when compared with the first nine months of 2012 primarily as a decrease in discretionary spending was offset by an increase in bonus plan costs and costs related to the deferred compensation plan (\$1.4 million), which are impacted by investment performance and our stock price. Bonus plan costs increased from the first nine months of 2012 due to a reduction of \$3.8 million in 2012 of accrued bonus plan costs relating to ICG employees, which caused our expense to be lower in 2012. Cost reductions were achieved primarily through a decrease in industry group dues and fees of \$6.0 million.

Other operating income, net. When compared with the first nine months of 2012, other operating income, net decreased for the first nine months of 2013 primarily as a result of an increase in liquidated damages we accrued under throughput commitments of \$12.3 million, a decrease in other commercial related income of \$12.7 million and a decrease in gains on asset sales from \$12.4 million in 2012 to \$4.6 million in 2013. These were partially offset by a decrease in unrealized losses relating to our diesel purchase and fuel surcharge risk management programs of \$5.0 million.

Net interest expense. The following table summarizes our net interest expense for the nine months ended September 30, 2013 and compares it with the information for the nine months ended September 30, 2012:

	Nine Months Ended September 30,		(Increase) Decrease	
	2013	2012	in Net Loss	
	(In thousands)			
Interest expense	\$ (285,454)	\$ (229,210)	\$	(56,244)
Interest and investment income	4,749	3,568		1,181
	\$ (280,705)	\$ (225,642)	\$	(55,063)

The increase in interest expense is due to an increase in our outstanding debt in the first nine months of 2013 when compared with the first nine months of 2012, primarily as a result of financing transactions completed during 2012, which resulted in a net increase in debt outstanding of over \$1 billion.

Income taxes. Our effective income tax rate is sensitive to changes in and the relationship between annual profitability and the deduction for percentage depletion.

	Nine Months Ended September 30,		Increase	
	2013	2012	in Net Loss	
	(In thousands)			

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Benefit from income taxes	(230,734)	(262,656)	(31,922)
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Income from discontinued operations, net of tax. Canyon Fuel's results and the gain from its sale, net of the related income tax impacts, are segregated from continuing operations. See Note 3, *Discontinued Operations*, to the condensed consolidated financial statements for further information.

	Nine Months Ended September 30,		Decrease
	2013	2012	in Net Loss
	(In thousands)		
Income from discontinued operations, net of tax	101,816	43,618	58,198

Reconciliation of Segment Adjusted EBITDA to Net Income

The discussion in *Results of Operations* includes references to our Adjusted EBITDA. Adjusted EBITDA is defined as net income attributable to the Company before the effect of net interest expense, income taxes, depreciation, depletion and amortization and the amortization of acquired sales contracts. Adjusted EBITDA may also be adjusted for items that may not reflect the trend of future results. We believe that Adjusted EBITDA presents a useful measure of our ability to service and

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Table of Contents

incur debt based on ongoing operations. Investors should be aware that our presentation of Adjusted EBITDA may not be comparable to similarly titled measures used by other companies. The table below shows how we calculate Adjusted EBITDA.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands)			
Reported Segment Adjusted EBITDA	\$ 221,561	\$ 279,790	\$ 486,722	\$ 711,824
Corporate and other(1)	(28,177)	(23,279)	(99,159)	(94,565)
Adjusted EBITDA	193,384	256,511	387,563	617,259
Income tax (expense) benefit	121,913	(20,318)	230,734	262,656
Interest expense, net	(94,927)	(74,251)	(280,705)	(225,642)
Depreciation, depletion and amortization	(106,323)	(118,942)	(327,601)	(374,631)
Amortization of acquired sales contracts, net	2,568	4,093	7,587	22,561
Asset impairment and mine closure costs	(200,397)	2,144	(220,879)	(523,439)
Goodwill impairment				(115,791)
Other nonoperating expenses				(19,042)
Interest, depreciation, depletion and amortization classified as discontinued operations	(44,581)	(3,486)	(67,317)	(32,463)
Net loss attributable to Arch Coal	\$ (128,363)	\$ 45,751	\$ (270,618)	\$ (388,532)

(1) Corporate and other Adjusted EBITDA includes primarily selling, general and administrative expenses, income from our equity investments and certain changes in the fair value of coal derivatives and coal trading activities.

Liquidity and Capital Resources

Our primary sources of cash are coal sales to customers, borrowings under our credit facilities and other financing arrangements, and debt and equity offerings related to significant transactions or refinancing activity. Excluding any significant mineral reserve acquisitions, we generally satisfy our working capital requirements and fund capital expenditures and debt-service obligations with cash generated from operations, cash on hand or borrowings under our lines of credit. Such plans are subject to change based on our cash needs. Availability under our sources of liquidity, including cash and short-term investments, totaled \$1.6 billion at September 30, 2013.

There were no borrowings under lines of credit during the three and nine months ended September 30, 2013. Our average borrowing level under lines of credit was approximately \$19.1 million for the three months ended September 30, 2012, and approximately \$266.4 million for the nine months ended September 30, 2012.

The following is a summary of cash provided by or used in each of the indicated types of activities during the nine months ended September 30, 2013 and 2012:

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	Nine Months Ended September 30,	
	2013	2012
(In thousands)		
Cash provided by (used in):		
Operating activities	\$ 186,592	\$ 356,395
Investing activities	206,478	(413,477)
Financing activities	(44,564)	469,689

Cash provided by operating activities decreased in the first nine months of 2013 compared to the first nine months of 2012, driven by the decrease in our operating profitability resulting from weak coal market conditions.

We generated cash from investing activities of \$206.5 million in the first nine months of 2013 compared to cash used in investing activities of \$413.5 million in the first nine months of 2012. We received cash of \$422.7 million from the sale of Canyon Fuel in the third quarter of 2013. Capital expenditures decreased approximately \$81 million during the nine months

Table of Contents

ended September 30, 2013 when compared with the nine months ended September 30, 2012 due to cash conservation efforts. We spent approximately \$118.9 million during the nine months ended September 30, 2013 on the development of the Leer mine and made a \$60.0 million payment on the South Hilight lease. We expect the Leer mine's longwall to begin production in December 2013. Proceeds from dispositions of property, plant and equipment decreased by \$13.8 million, but we received proceeds of \$34.9 million in 2013 from the sale and leaseback of longwall shields at the Leer mine. We purchased short term investments of \$85.4 million and \$99.6 million in the first nine months of 2013 and the first nine months of 2012, respectively, and received proceeds from the sales of short term investments of \$67.3 million in the first nine months of 2013. In the first nine months of 2012, we purchased the noncontrolling interest in Arch Western for \$17.5 million.

Cash used in financing activities was approximately \$44.6 million in the first nine months of 2013, compared to cash provided by financing activities of approximately \$469.7 million in the first nine months of 2012. There were no borrowings under lines of credit during the nine months ended September 30, 2013. In 2012, the proceeds from the \$1.4 billion term loan in conjunction with the refinancing of our revolving credit facility were used, in part, to retire the remaining outstanding senior secured notes due in 2013 and the outstanding borrowings under our lines of credit. The decrease in the dividend rate in the second quarter of 2012 from \$0.11 to \$0.03 reduced dividends paid from \$36.1 million to \$19.1 million during the first nine months of 2013 compared to the first nine months of 2012.

Ratio of Earnings to Fixed Charges

The following table sets forth our ratios of earnings to combined fixed charges and preference dividends for the periods indicated:

	Nine Months Ended September 30,	
	2013	2012
Ratio of earnings to combined fixed charges and preference dividends(1)	N/A	N/A(2)

(1) Earnings consist of income from continuing operations before income taxes and are adjusted to include only distributed income from affiliates accounted for on the equity method and fixed charges (excluding capitalized interest). Fixed charges consist of interest incurred on indebtedness, the portion of operating lease rentals deemed representative of the interest factor and the amortization of debt expense.

(2) Total losses for the ratio calculation were \$308.3 million and total fixed charges were \$305.3 million for the nine months ended September 30, 2013. Total losses for the ratio calculation were \$433.6 million and total fixed charges were \$267.7 million for the nine months ended September 30, 2012.

Table of Contents**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

We manage our commodity price risk for our non-trading, thermal coal sales through the use of long-term coal supply agreements, and to a limited extent, through the use of derivative instruments. Sales commitments in the metallurgical coal market are typically not long-term in nature, and we are therefore subject to fluctuations market pricing. We expect to sell a total of approximately 8 million tons of metallurgical coal in 2013.

Our commitments for 2013 and 2014 are as follows:

	2013		2014	
	Tons (in millions)	\$ per ton	Tons (in millions)	\$ per ton
Powder River Basin				
Committed, Priced	114.1	\$ 12.55	83.7	\$ 13.31
Committed, Unpriced	1.5		9.0	
Appalachia				
Committed, Priced Thermal	7.6	\$ 61.77	4.3	\$ 57.75
Committed, Unpriced Thermal			0.3	
Committed, Priced Metallurgical	6.7	\$ 88.95	0.5	\$ 96.40
Committed, Unpriced Metallurgical	0.2		0.7	
Other Bituminous				
Committed, Priced	7.9	\$ 33.23	3.1	\$ 38.50
Committed, Unpriced	0.5		0.2	

We are also exposed to commodity price risk in our coal trading activities, which represents the potential future loss that could be caused by an adverse change in the market value of coal. Our coal trading portfolio included forward, swap and put and call option contracts at September 30, 2013. The estimated future realization of the value of the trading portfolio is \$0.4 million of gains in the remainder of 2013 and \$7.0 million of gains in 2014.

We monitor and manage market price risk for our trading activities with a variety of tools, including Value at Risk (VaR), position limits, management alerts for mark to market monitoring and loss limits, scenario analysis, sensitivity analysis and review of daily changes in market dynamics. Management believes that presenting high, low, end of year and average VaR is the best available method to give investors insight into the level of commodity risk of our trading positions. Illiquid positions, such as long-dated trades that are not quoted by brokers or exchanges, are not included in VaR.

VaR is a statistical one-tail confidence interval and down side risk estimate that relies on recent history to estimate how the value of the portfolio of positions will change if markets behave in the same way as they have in the recent past. While presenting VaR will provide a similar framework for discussing risk across companies, VaR estimates from two independent sources are rarely calculated in the same way. Without a thorough understanding of how each VaR model was calculated, it would be difficult to compare two different VaR calculations from different sources. The level of confidence is 95%. The time across which these possible value changes are being estimated is through the end of the next business day. A closed-form delta-neutral method used throughout the finance and energy sectors is employed to calculate this VaR. VaR is back tested to verify usefulness.

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On average, portfolio value should not fall more than VaR on 95 out of 100 business days. Conversely, portfolio value declines of more than VaR should be expected, on average, 5 out of 100 business days. When more value than VaR is lost due to market price changes, VaR is not representative of how much value beyond VaR will be lost.

During the nine months ended September 30, 2013, VaR for our coal trading positions that are recorded at fair value through earnings ranged from under \$0.1 million to \$0.7 million. The linear mean of each daily VaR was \$0.3 million. The final VaR at September 30, 2013 was \$0.4 million.

We are exposed to fluctuations in the fair value of coal derivatives that we enter into to manage the price risk related to future coal sales, but for which we do not elect hedge accounting. Any gains or losses on these derivative instruments would be offset in the pricing of the physical coal sale. During the nine months ended September 30, 2013 VaR for our risk management positions that are recorded at fair value through earnings ranged from \$0.6 million to \$1.9 million. The linear mean of each daily VaR was \$1.1 million. The final VaR at September 30, 2013 was \$1.0 million.

Table of Contents

We are also exposed to the risk of fluctuations in cash flows related to our purchase of diesel fuel. We expect to use approximately 57 to 67 million gallons of diesel fuel for use in our operations during 2013. We enter into forward physical purchase contracts, as well as purchased heating oil options, to reduce volatility in the price of diesel fuel for our operations. At September 30, 2013, we had protected the price of approximately 94% of our expected purchases for the remainder of 2013 and 82% of our 2014 purchases. At September 30, 2013, we had purchased heating oil call options for approximately 65 million gallons for the purpose of managing the price risk associated with future diesel purchases. We also purchase heating oil call options manage the price risk associated with fuel surcharges on barge and rail shipments, which cover increases in diesel fuel prices. At September 30, 2013, we held purchased call options for approximately 6.5 million gallons for the purpose of managing the fluctuations in cash flows associated with fuel surcharges on future shipments. These positions reduce our risk of cash flow fluctuations related to these surcharges but the positions are not accounted for as hedges. A \$0.25 per gallon decrease in the price of heating oil would not result in an increase in our expense related to the heating oil derivatives.

We are exposed to market risk associated with interest rates due to our existing level of indebtedness. At September 30, 2013, of our \$5.1 billion principal amount of debt outstanding, approximately \$1.6 billion of outstanding borrowings have interest rates that fluctuate based on changes in the market rates. An increase in the interest rates related to these borrowings of 25 basis points would not result in an annualized increase in interest expense based on interest rates in effect at September 30, 2013, because our term loan has a minimum interest rate that exceeds the current market rates.

Item 4. Controls and Procedures.

We performed an evaluation under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2013. Based on that evaluation, our management, including our chief executive officer and chief financial officer, concluded that the disclosure controls and procedures were effective as of such date. There were no changes in our internal control over financial reporting during the three months ended September 30, 2013 to which this report relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

OTHER INFORMATION

Item 1. Legal Proceedings.

In addition to the following matters, we are involved in various claims and legal actions arising in the ordinary course of business, including employee injury claims. After conferring with counsel, it is the opinion of management that the ultimate resolution of these claims, to the extent not previously provided for, will not have a material adverse effect on our consolidated financial condition, results of operations or liquidity.

Permit Litigation Matters

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Surface mines at our Mingo Logan and Coal-Mac mining operations were identified in an existing lawsuit brought by the Ohio Valley Environmental Coalition (OVEC) in the U.S. District Court for the Southern District of West Virginia as having been granted Clean Water Act § 404 permits by the Army Corps of Engineers (Corps), allegedly in violation of the Clean Water Act and the National Environmental Policy Act. The lawsuit, brought by OVEC in September 2005, originally was filed against the Corps for permits it had issued to four subsidiaries of a company unrelated to us or our operating subsidiaries. The suit claimed that the Corps had issued permits to the subsidiaries of the unrelated company that did not comply with the National Environmental Policy Act and violated the Clean Water Act.

The court ruled on the claims associated with those four permits in orders of March 23 and June 13, 2007. In the first of those orders, the court rescinded the four permits, finding that the Corps had inadequately assessed the likely impact of valley fills on headwater streams and had relied on inadequate or unproven mitigation to offset those impacts. In the second order, the court entered a declaratory judgment that discharges of sediment from the valley fills into sediment control ponds constructed in-stream to control that sediment must themselves be permitted under a different provision of the Clean Water Act, § 402, and meet the effluent limits imposed on discharges from these ponds. Both of the district court rulings were appealed to the U.S. Court of Appeals for the Fourth Circuit.

Before the court entered its first order, the plaintiffs were permitted to amend their complaint to challenge the Coal-Mac and Mingo Logan permits. Plaintiffs sought preliminary injunctions against both operations, but later reached agreements

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Table of Contents

with our operating subsidiaries that have allowed mining to progress in limited areas while the district court's rulings were on appeal. The claims against Coal-Mac were thereafter dismissed.

In February 2009, the Fourth Circuit reversed the district court. The Fourth Circuit held that the Corps' jurisdiction under Section 404 of the Clean Water Act is limited to the narrow issue of the filling of jurisdictional waters. The court also held that the Corps' findings of no significant impact under the National Environmental Policy Act and no significant degradation under the Clean Water Act are entitled to deference. Such findings entitle the Corps to avoid preparing an environmental impact statement, the absence of which was one issue on appeal. These holdings also validated the type of mitigation projects proposed by our operations to minimize impacts and comply with the relevant statutes. Finally, the Fourth Circuit found that stream segments, together with the sediment ponds to which they connect, are unitary waste treatment systems, not waters of the United States, and that the Corps had not exceeded its authority in permitting them.

OVEC sought rehearing before the entire appellate court, which was denied in May 2009, and the decision was given legal effect in June 2009. An appeal to the U.S. Supreme Court was then filed in August 2009. On August 3, 2010 OVEC withdrew its appeal.

Mingo Logan filed a motion for summary judgment with the district court in July 2009, asking that judgment be entered in its favor because no outstanding legal issues remained for decision as a result of the Fourth Circuit's February 2009 decision. By a series of motions, the United States obtained extensions and stays of the obligation to respond to the motion in the wake of its letters to the Corps dated September 3 and October 16, 2009 (discussed below). By order dated April 22, 2010, the district court stayed the case as to Mingo Logan for the shorter of either six months or the completion of the U.S. Environmental Protection Agency's (the "EPA") proposed action to deny Mingo Logan the right to use its Corps permit (as discussed below).

On October 15, 2010, the United States moved to extend the existing stay for an additional 120 days (until February 22, 2011) while the EPA Administrator reviewed the Recommended Determination issued by the EPA Region 3. By Memorandum Opinion and Order dated November 2, 2010, the court granted the United States' motion. On January 13, 2011, the EPA issued its Final Determination to withdraw the specification of two of the three watersheds as a disposal site for dredged or fill material approved under the current Section 404 permit. The court was notified of the Final Determination and by order dated March 21, 2011 stayed further proceedings in the case until further order of the court, in light of the challenge to the EPA's Final Determination then pending in federal court in Washington, DC. In a Memorandum and Opinion and separate Order, each dated March 23, 2012, the federal court granted Mingo Logan's motion for summary judgment, vacated the EPA's Final Determination and found valid and in full force Mingo Logan's Section 404 permit. As described more fully below, the EPA appealed that order to the United States Court of Appeals for the DC circuit and by Opinion of the Court dated April 23, 2013, the court reversed the lower court's order and remanded the matter to the district court for further proceedings.

On April 5, 2012, Mingo Logan moved to lift the stay referenced above. On June 5, 2012, the court entered an order lifting the stay and allowing the case to proceed on Mingo Logan's Motion for Summary Judgment. Shortly thereafter, OVEC filed a motion for leave to file a seventh amended and supplemental complaint seeking to update existing counts and raising two new claims (one, to enforce EPA's Final Determination and, the other, that the Corps' refusal to prepare a Supplemental Environmental Impact Statement violates the APA and NEPA). By Memorandum, Opinion and Order dated July 25, 2012, the court granted OVEC's motion and directed the Clerk to file OVEC's Seventh Amended and Supplemental Complaint. Mingo Logan filed its Motion for Summary Judgment on August 31, 2012, along with its Answer to the Seventh Amended and Supplemental Complaint and the matter remains pending before the court.

EPA Actions Related to Water Discharges from the Spruce Permit

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By letter of September 3, 2009, the EPA asked the Corps to suspend, revoke or modify the existing permit it issued in January 2007 to Mingo Logan under Section 404 of the Clean Water Act, claiming that new information and circumstances have arisen which justify reconsideration of the permit. By letter of September 30, 2009, the Corps advised the EPA that it would not reconsider its decision to issue the permit. By letter of October 16, 2009, the EPA advised the Corps that it has reason to believe that the Mingo Logan mine will have unacceptable adverse impacts to fish and wildlife resources and that it intends to issue a public notice of a proposed determination to restrict or prohibit discharges of fill material that already are approved by the Corps permit. By federal register publication dated April 2, 2010, the EPA issued its Proposed Determination to Prohibit, Restrict or Deny the Specification, or the Use for Specification of an Area as a Disposal Site: Spruce No. 1 Surface Mine, Logan County, WV pursuant to Section 404(c) of the Clean Water Act, the EPA accepted written comments on its proposed action (sometimes known as a veto proceeding), through June 4, 2010 and conducted a public hearing, as well, on May 18, 2010. We submitted comments on the action during this period. On September 24, 2010, the EPA Region 3 issued a

Table of Contents

Recommended Determination to the EPA Administrator recommending that the EPA prohibit the placement of fill material in two of the three watersheds for which filling is approved under the current Section 404 permit. Mingo Logan, along with the Corps, West Virginia DEP and the mineral owner, engaged in a consultation with the EPA as required by the regulations, to discuss corrective action to address the unacceptable adverse effects identified. On January 13, 2011, the EPA issued its Final Determination pursuant to Section 404(c) of the Clean Water Act to withdraw the specification of two of the three watersheds approved in the current Section 404 permit as a disposal site for dredged or fill material. By separate action, Mingo Logan sued the EPA on April 2, 2010 in federal court in Washington, D.C. seeking a ruling that the EPA has no authority under the Clean Water Act to veto a previously issued permit (Mingo Logan Coal Company, Inc. v. USEPA, No. 1:10-cv-00541(D.D.C.)). The EPA moved to dismiss that action, and we responded to that motion.

Pursuant to a scheduling order for summary disposition of the case, motions and cross-motions for summary judgment by both parties were filed. On November 30, 2011, the court heard arguments from the parties limited only to the threshold issue of whether the EPA had the authority under Section 404(c) of the Clean Water Act to withdraw the specification of the disposal site after the Corps had already issued a permit under Section 404(a). The court deferred consideration of the remaining issue (i.e. whether the EPA's Final Determination is otherwise lawful) until after consideration of the threshold issue. On March 23, 2012, the court entered an Order and a Memorandum Opinion granting Mingo Logan's motion for summary judgment, denying the EPA's cross-motion for summary judgment, vacating the Final Determination and ordering that Mingo Logan's Section 404 permit remains valid and in full force.

On May 11, 2012, the EPA filed a notice of appeal to the United States Court of Appeals for the District of Columbia Circuit. The court heard oral arguments on March 14, 2013. By opinion of the court filed on April 23, 2013, the court reversed the district court on the threshold issue and remanded the matter to the district court to address the merits of our APA challenge to the Final Determination. On June 6, 2013, Mingo Logan filed a Petition for Rehearing En Banc and by Order filed July 25, 2013, the court denied the petition. Mingo Logan intends to seek further review of this case and will file a petition for writ of certiorari in the Supreme Court of the United States.

Allegheny Energy Contract Matter

Allegheny Energy Supply (Allegheny), the sole customer of coal produced at our subsidiary Wolf Run Mining Company's (Wolf Run) Sycamore No. 2 mine, filed a lawsuit against Wolf Run, Hunter Ridge Holdings, Inc. (Hunter Ridge), and ICG in state court in Allegheny County, Pennsylvania on December 28, 2006, and amended its complaint on April 23, 2007. Allegheny claimed that Wolf Run breached a coal supply contract when it declared force majeure under the contract upon idling the Sycamore No. 2 mine in the third quarter of 2006, and that Wolf Run continued to breach the contract by failing to ship in volumes referenced in the contract. The Sycamore No. 2 mine was idled after encountering adverse geologic conditions and abandoned gas wells that were previously unidentified and unmapped.

After extensive searching for gas wells and rehabilitation of the mine, it was re-opened in 2007, but with notice to Allegheny that it would necessarily operate at reduced volumes in order to safely and effectively avoid the many gas wells within the reserve. The amended complaint also alleged that the production stoppages constitute a breach of the guarantee agreement by Hunter Ridge and breach of certain representations made upon entering into the contract in early 2005. Allegheny voluntarily dropped the breach of representation claims later. Allegheny claimed that it would incur costs in excess of \$100 million to purchase replacement coal over the life of the contract. ICG, Wolf Run and Hunter Ridge answered the amended complaint on August 13, 2007, disputing all of the remaining claims.

On November 3, 2008, ICG, Wolf Run and Hunter Ridge filed an amended answer and counterclaim against the plaintiffs seeking to void the coal supply agreement due to, among other things, fraudulent inducement and conspiracy. On September 23, 2009, Allegheny filed a second amended complaint alleging several alternative theories of liability in its effort to extend contractual liability to ICG, which was not a party to

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the original contract and did not exist at the time Wolf Run and Allegheny entered into the contract. No new substantive claims were asserted. ICG answered the second amended complaint on October 13, 2009, denying all of the new claims. The Company's counterclaim was dismissed on motion for summary judgment entered on May 11, 2010. Allegheny's claims against ICG were also dismissed by summary judgment, but the claims against Wolf Run and Hunter Ridge were not. The court conducted a non-jury trial of this matter beginning on January 10, 2011 and concluding on February 1, 2011.

At the trial, Allegheny presented its evidence for breach of contract and claimed that it is entitled to past and future damages in the aggregate of between \$228 million and \$377 million. Wolf Run and Hunter Ridge presented their defense of the claims, including evidence with respect to the existence of force majeure conditions and excuse under the contract and applicable law. Wolf Run and Hunter Ridge presented evidence that Allegheny's damages calculations were significantly inflated because it did not seek to determine damages as of the time of the breach and in some instances artificially assumed

Table of Contents

future nondelivery or did not take into account the apparent requirement to supply coal in the future. On May 2, 2011, the trial court entered a Memorandum and Verdict determining that Wolf Run had breached the coal supply contract and that the performance shortfall was not excused by force majeure. The trial court awarded total damages and interest in the amount of \$104.1 million, which consisted of \$13.8 million for past damages, and \$90.3 million for future damages. ICG and Allegheny filed post-verdict motions in the trial court and on August 23, 2011, the court denied the parties' motions. The court entered a final judgment on August 25, 2011, in the amount of \$104.1 million, which included pre-judgment interest.

The parties appealed the lower court's decision to the Superior Court of Pennsylvania. On August 13, 2012, the Superior Court of Pennsylvania affirmed the award of past damages, but ruled that the lower court should have calculated future damages as of the date of breach, and remanded the matter back to the lower court with instructions to recalculate that portion of the award. On November 19, 2012, Allegheny filed a Petition for Allowance of Appeal with the Supreme Court of Pennsylvania and Wolf Run and Hunter Ridge filed an Answer. On July 2, 2013, the Supreme Court of Pennsylvania denied the Petition of Allowance. As this action finalized the past damage award, Wolf Run paid \$15.6 million for the past damage amount, including interest, to Allegheny in July 2013. The future damage award is now back before the lower court, but no hearing dates have been set at this time.

ICG Hazard

The Sierra Club, on December 3, 2010, filed a Notice of Intent (NOI) to sue ICG Hazard, LLC (Hazard), alleging violations of the Clean Water Act and the Surface Mining Control and Reclamation Act of 1977 at Hazard's Thunder Ridge surface mine. The NOI, which was supplemented by a revised filing on February 24, 2011, claims that Hazard is discharging selenium and contributing to conductivity levels in the receiving streams in violation of state and federal regulations. On May 24, 2011, the Sierra Club sued Hazard in U.S. District Court for the Eastern District of Kentucky under the Citizens Suit provisions of the Clean Water Act and the Surface Mining Control and Reclamation Act seeking civil penalties, injunctive relief and attorneys' fees. On February 17, 2012, ICG Hazard filed a motion for summary judgment. Also on February 17, 2012, the Sierra Club filed a competing motion for summary judgment.

On September 28, 2012, the court entered a Memorandum Opinion and Order granting Hazard summary judgment on both Clean Water Act (CWA) and Surface Mining Control and Reclamation Act (SMCRA) claims finding that the CWA permit shield applies and that the SMCRA cannot be used to circumvent the CWA permit shield with respect to point source discharges. The court denied summary judgment to the extent the facts showed there were non-point source discharges from areas disturbed by surface mining activities. On October 4, 2012, the Sierra Club filed a Motion to Clarify Claims and Request Final Judgment Order notifying the court that all of its claims in the matter involved discharges from discrete point sources and that there remain no issues of law or fact that require court resolution. The court entered a final judgment on January 11, 2013. On January 22, 2013, the Sierra Club filed a notice of appeal to the United States Court of Appeals for the Sixth Circuit. The court heard oral arguments from the parties on October 8, 2013 and the matter is pending a decision by the court.

Patriot Coal Corporation Bankruptcy

On December 31, 2005, we entered into a purchase and sale agreement with Magnum Coal Company (Magnum) to sell certain assets to Magnum. On July 23, 2008, Patriot Coal Corporation acquired Magnum. On July 9, 2012, Patriot Coal Corporation and certain of its wholly owned subsidiaries, including Magnum (collectively, Patriot), filed voluntary petitions for reorganization under Chapter 11 of the U.S. Code in the U.S. Bankruptcy Court for the Southern District of New York.

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On September 20, 2012, Patriot filed a motion with the U.S. Bankruptcy Court for the Southern District of New York to reject a master coal sales agreement entered into on December 31, 2005 between us and Magnum, which was established in order to meet obligations under a coal sales agreement with a customer who did not consent to the assignment of their contract to Magnum. On December 18, 2012, the court accepted Patriot's motion to reject the master coal sales agreement. As a result of the court's decision, Arch accrued \$58.3 million, representing the discounted value of the remaining monthly buyout amounts under the underlying coal sales agreement.

On October 4, 2013, we entered into a term sheet that set forth the principle terms of a settlement with Patriot, resolving all pending and potential legal claims arising out of the December 31, 2005 sale of assets to Magnum. We agreed to pay \$5.0 million to Patriot upon its exit from bankruptcy as part of the settlement agreement.

Table of Contents

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

In September 2006, our board of directors authorized a share repurchase program for the purchase of up to 14,000,000 shares of our common stock. There is no expiration date on the current authorization, and we have not made any decisions to suspend or cancel purchases under the program. As of September 30, 2013, there were 10,925,800 shares of our common stock available for purchase under this program. We did not purchase any shares of our common stock under this program during the quarter ended September 30, 2013. Based on the closing price of our common stock as reported on the New York Stock Exchange on November 4, 2013, the approximate dollar value of our common stock that may yet be purchased under this program was \$51 million.

Item 4. Mine Safety Disclosures.

The statement concerning mine safety violations or other regulatory matters required by Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K is included in Exhibit 95 to this Quarterly Report on Form 10-Q for the period ended September 30, 2013.

Item 6. Exhibits.

The following is a list of exhibits filed as part of this Quarterly Report on Form 10-Q:

12.1	Computation of ratio of earnings to combined fixed charges and preference dividends.
31.1	Rule 13a-14(a)/15d-14(a) Certification of John W. Eaves.
31.2	Rule 13a-14(a)/15d-14(a) Certification of John T. Drexler.
32.1	Section 1350 Certification of John W. Eaves.
32.2	Section 1350 Certification of John T. Drexler.
95	Mine Safety Disclosure Exhibit
101	Interactive Data File (Form 10-Q for the period ended September 30, 2013 filed in XBRL). The financial information contained in the XBRL-related documents is unaudited and unreviewed.

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.

Arch Coal, Inc.

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By:

/s/ John T. Drexler
John T. Drexler
Senior Vice President and Chief Financial Officer (On
behalf of the registrant and as Principal Financial
Officer)

November 12, 2013