

ARCH COAL INC
Form 10-Q
May 10, 2016
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 March 31, 2016

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

Accelerated filer

Non-accelerated filer
(Do not check if a smaller reporting company)

Smaller reporting company

Edgar Filing: ARCH COAL INC - Form 10-Q

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

At April 22, 2016 there were 21,293,090 shares of the registrant's common stock outstanding.

Table of Contents

TABLE OF CONTENTS

	Page
<u>Part 1 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 Disclosure 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>	42
<u>Item 4. Mine Safety Disclosures</u>	42
<u>Item 6. Exhibits</u>	43

Table of Contents**Part I****FINANCIAL INFORMATION****Item 1. Financial Statements.****Arch Coal, Inc. and Subsidiaries****(Debtor-in-Possession)****Condensed Consolidated Statements of Operations****(in thousands, except per share data)**

	Three Months Ended March 31,	
	2016	2015
	(Unaudited)	
Revenues	\$ 428,106	\$ 677,005
Costs, expenses and other operating		
Cost of sales (exclusive of items shown separately below)	419,316	562,322
Depreciation, depletion and amortization	63,699	104,874
Amortization of acquired sales contracts, net	(833)	(3,390)
Change in fair value of coal derivatives and coal trading activities, net	1,210	1,220
Asset impairment and mine closure costs	85,520	
Selling, general and administrative expenses	19,826	22,605
Other operating (income) expense, net	(2,220)	9,086
	586,518	696,717
Loss from operations	(158,412)	(19,712)
Interest expense, net		
Interest expense (contractual interest of \$98,565 in 2016)	(44,451)	(99,252)
Interest and investment income	1,138	2,373
	(43,313)	(96,879)
Loss before nonoperating expenses	(201,725)	(116,591)
Nonoperating expenses		
Expenses related to proposed debt restructuring	(2,213)	
Reorganization items, net	(3,875)	
	(6,088)	
Loss before income taxes	(207,813)	(116,591)
Benefit from income taxes	(1,111)	(3,396)
Net loss	\$ (206,702)	\$ (113,195)
Net loss per common share		
Basic and diluted - Net loss per share	\$ (9.71)	\$ (5.32)

Edgar Filing: ARCH COAL INC - Form 10-Q

Basic and diluted weighted average shares outstanding	21,293	21,266
---	--------	--------

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

Table of Contents

Arch Coal, Inc. and Subsidiaries

(Debtor-in-Possession)

Condensed Consolidated Statements of Comprehensive Income (Loss)

(in thousands)

	Three Months Ended March 31,	
	2016	2015
	(Unaudited)	
Net loss	\$ (206,702)	\$ (113,195)
Derivative instruments		
Comprehensive income (loss) before tax	(224)	5,045
Income tax benefit (provision)	81	(1,817)
	(143)	3,228
Pension, postretirement and other post-employment benefits		
Comprehensive income (loss) before tax	(1,338)	294
Income tax benefit (provision)	481	(105)
	(857)	189
Available-for-sale securities		
Comprehensive income (loss) before tax		
	2,903	291
Income tax benefit (provision)	(1,043)	(104)
	1,860	187
Total other comprehensive income (loss)	860	3,604
Total comprehensive loss	\$ (205,842)	\$ (109,591)

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

Table of Contents

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

	March 31, 2016	December 31, 2015
	(Unaudited)	
Assets		
Current assets		
Cash and cash equivalents	\$ 395,398	\$ 450,781
Short term investments	198,788	200,192
Restricted cash	109,650	97,542
Trade accounts receivable (net of allowance for doubtful accounts of \$7.8 million for both periods, respectively)	113,005	117,405
Other receivables	15,589	18,362
Inventories	195,987	196,720
Prepaid royalties	8,075	10,022
Coal derivative assets	5,808	8,035
Other current assets	44,830	39,866
Total current assets	1,087,130	1,138,925
Property, plant and equipment, net	3,487,109	3,619,029
Other assets		
Prepaid royalties	20,997	23,671
Equity investments	201,517	201,877
Other noncurrent assets	58,657	58,379
Total other assets	281,171	283,927
Total assets	\$ 4,855,410	\$ 5,041,881
Liabilities and Stockholders Deficit		
Liabilities not subject to compromise		
Accounts payable	\$ 70,823	\$ 128,131
Accrued expenses and other current liabilities	102,590	329,450
Current maturities of debt		5,042,353
Total current liabilities	173,413	5,499,934
Long-term debt		30,953
Asset retirement obligations	401,569	396,659
Accrued pension benefits	20,646	27,373
Accrued postretirement benefits other than pension	89,779	99,810
Accrued workers compensation	113,782	112,270
Other noncurrent liabilities	18,023	119,171
Total liabilities not subject to compromise	817,212	6,286,170
Liabilities subject to compromise	5,487,326	
Total liabilities	6,304,538	6,286,170
Stockholders deficit		
Common stock, \$0.01 par value, authorized 26,000 shares, issued 21,448 shares and 21,446 shares at March 31, 2016 and December 31, 2015, respectively	2,145	2,145
Paid-in capital	3,055,214	3,054,211

Edgar Filing: ARCH COAL INC - Form 10-Q

Treasury stock, at cost, 152 shares at March 31, 2016 and December 31, 2015	(53,863)	(53,863)
Accumulated deficit	(4,451,669)	(4,244,967)
Accumulated other comprehensive loss	(955)	(1,815)
Total stockholders' deficit	(1,449,128)	(1,244,289)
Total liabilities and stockholders' deficit	\$ 4,855,410	\$ 5,041,881

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

Table of Contents**Arch Coal, Inc. and Subsidiaries****(Debtor-in-Possession)****Condensed Consolidated Statements of Cash Flows****(in thousands)**

	Three Months Ended March 31,	
	2016	2015
	(Unaudited)	
Operating activities		
Net loss	\$ (206,702)	\$ (113,195)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation, depletion and amortization	63,699	104,874
Amortization of acquired sales contracts, net	(833)	(3,390)
Amortization relating to financing activities	3,150	6,219
Prepaid royalties expensed	1,286	1,674
Employee stock-based compensation expense	1,003	1,760
Asset impairment and non-cash mine closure costs	77,550	
Non-cash bankruptcy reorganization items	(13,892)	
Expenses related to proposed debt restructuring	2,213	
Gains on disposals and divestitures, net	1	(46)
Deferred income taxes	(429)	(3,433)
Changes in:		
Receivables	7,815	18,252
Inventories	734	(49,860)
Accounts payable, accrued expenses and other current liabilities	39,441	7,186
Income taxes, net	(642)	40
Other	15,508	25,646
Cash used in operating activities	(10,098)	(4,273)
Investing activities		
Capital expenditures	(5,926)	(22,880)
Additions to prepaid royalties	(71)	(213)
Proceeds from disposals and divestitures		46
Purchases of marketable securities	(55,132)	(101,793)
Proceeds from sale or maturity of marketable securities and other investments	56,134	99,914
Investments in and advances to affiliates	(2,156)	(1,843)
Deposits of restricted cash	(12,108)	(3,532)
Cash used in investing activities	(19,259)	(30,301)
Financing activities		
Payments on term loan		(4,875)
Net payments on other debt	(5,410)	(4,810)
Expenses related to proposed debt restructuring	(2,213)	
Debt financing costs	(18,403)	
Cash used in financing activities	(26,026)	(9,685)
Decrease in cash and cash equivalents	(55,383)	(44,259)
Cash and cash equivalents, beginning of period	450,781	734,231
Cash and cash equivalents, end of period	\$ 395,398	\$ 689,972

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

Table of Contents

Arch Coal, Inc. and Subsidiaries

(Debtor-in-Possession)

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 (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, Virginia, Illinois, Wyoming and Colorado. All subsidiaries are wholly-owned. Intercompany transactions and accounts have been eliminated in consolidation.

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 months ended March 31, 2016 are not necessarily indicative of results to be expected for the year ending December 31, 2016. 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, 2015 included in the Company's Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission.

On August 4, 2015 we effected a 1-for-10 reverse stock split of our common stock. Each stockholder's percentage ownership and proportional voting power remained unchanged as a result of the reverse stock split. All applicable share data, per share amounts and related information in the Condensed Consolidated Financial Statements and notes thereto have been adjusted retroactively to give effect to the 1-for-10 reverse stock split.

Filing Under Chapter 11 of the United States Bankruptcy Code

On January 11, 2016 (the Petition Date), the Company and substantially all of its wholly owned domestic subsidiaries (the Filing Subsidiaries and, together with Arch, the Debtors) filed voluntary petitions for reorganization (collectively, the Bankruptcy Petitions) under Chapter 11 of Title 11 of the U.S. Code (the Bankruptcy Code) in the United States Bankruptcy Court for the Eastern District of Missouri (the Court). The Debtor's Chapter 11 Cases (collectively, the Chapter 11 Cases) are being jointly administered under the caption *In re Arch Coal, Inc., et al.* Case No. 16-40120 (lead case). Each Debtor will continue to operate its business as a debtor in possession under the jurisdiction of the Court and in accordance with the applicable provisions of the Bankruptcy Code and the orders of the Court.

Edgar Filing: ARCH COAL INC - Form 10-Q

The filing of the Bankruptcy Petitions constituted an event of default that accelerated the Company's obligations under the documents governing each of its 7.00% senior notes due 2019, 9.875% senior notes due 2019, 8.00% senior secured second lien notes due 2019, 7.25% senior notes due 2020, 7.25% senior notes due 2021 (together, the senior notes) and senior secured first lien term loan due 2018 (the Existing Credit Agreement) (collectively with the senior notes, the Debt Instruments). Immediately after filing the Bankruptcy Petitions, the Company began notifying all known current or potential creditors of the Debtors of the bankruptcy filings.

Additionally, on the Petition Date, the New York Stock Exchange (the NYSE) determined that the Company's stock was no longer suitable for listing pursuant to Section 8.02.01D of the NYSE continued listing standards and trading in the Company's common stock was suspended on January 11, 2016. We expect that the existing common stock of the Company will be extinguished upon the Company's emergence from Chapter 11 and existing equity holders will not receive consideration in respect of their equity interests.

On the Petition Date, the Debtors filed a number of motions with the Court generally designed to stabilize their operations and facilitate the Debtors' transition into Chapter 11. Certain of these motions sought authority from the Court for the Debtors to make payments upon, or otherwise honor, certain pre-petition obligations (e.g., obligations related to certain employee wages, salaries and benefits and certain vendors and other providers essential to the Debtors' businesses). The Court has entered orders approving the relief sought in these motions, in certain cases on an interim basis.

Pursuant to Section 362 of the Bankruptcy Code, the filing of the Bankruptcy Petitions automatically stayed most actions against the Debtors, including actions to collect indebtedness incurred prior to the Petition Date or to exercise control over the Debtors' property. Subject to certain exceptions under the Bankruptcy Code, the filing of the Debtors' Chapter 11 Cases also automatically stayed the continuation of most legal proceedings or the filing of other actions against or on behalf of the Debtors or their property to recover on, collect or secure a claim arising prior to the Petition Date or to exercise control over property of

Table of Contents

the Debtors' bankruptcy estates, unless and until the Court modifies or lifts the automatic stay as to any such claim. Notwithstanding the general application of the automatic stay described above, governmental authorities may determine to continue actions brought under their police and regulatory powers.

As required by the Bankruptcy Code, the U.S. Trustee for the Eastern District of Missouri appointed an official committee of unsecured creditors (the Creditors' Committee) on January 25, 2016. The Creditors' Committee represents all unsecured creditors of the Debtors and has a right to be heard on all matters that come before the Court.

For periods subsequent to filing the Bankruptcy Petitions, the Company will apply the Financial Accounting Standards Board (FASB)'s Accounting Standards Codification (ASC) 852, Reorganizations, in preparing its consolidated financial statements. ASC 852 requires that financial statements distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business. Accordingly, certain revenues, expenses, realized gains and losses and provisions for losses that are realized or incurred in the bankruptcy proceedings have been recorded in a reorganization line item on the Condensed Consolidated Statement of Operations. In addition, the pre-petition obligations that may be impacted by the bankruptcy reorganization process have been classified on the balance sheet as liabilities subject to compromise. These liabilities are reported as the amounts expected to be allowed by the Court, even if they may be settled for lesser amounts.

Restructuring Support Agreement

In connection with the filing of the Bankruptcy Petitions, the Company entered into a Restructuring Support Agreement, dated as of January 10, 2016 (as amended on February 25, 2016, March 28, 2016 and April 26, 2016, the Restructuring Support Agreement), among the Debtors and holders of over 50% of the Company's first lien term loans under the Existing Credit Agreement (the Supporting First Lien Creditors), providing that the Supporting First Lien Creditors will support a restructuring of the Debtors, subject to the following terms and conditions contemplated therein, among others:

- existing common stock of the Company would likely be extinguished upon the Company's emergence from Chapter 11, and existing equity holders would likely not receive consideration in respect of their equity interests;
- claims against the Debtors arising under the DIP Facility (as defined below) would be paid in full in cash or receive such other treatment as may be consented to by the holders of such claims;
- claims against the Debtors of holders of first lien term loans would be exchanged for (a) a combination of cash and \$326.5 million (principal amount) of new first lien debt that would be issued by the reorganized Company and (b) 100% of the common stock of the reorganized Company outstanding on the effective date of the plan, subject to dilution on account of a proposed new management incentive plan and the distribution to unsecured creditors of any new common stock and warrants (as described below);

- first lien term loan deficiency claims (subject to certain exceptions) as well as second lien notes, unsecured notes and general unsecured claims against the Debtors would be exchanged for either (1) common stock in the reorganized Company and warrants or (2) the value of the unencumbered assets of the Company, if any, after giving effect to certain other payments and claims;
- either the Company's existing accounts receivable securitization facility would be reinstated or a new letter of credit facility would be entered into by the Company, in either case on terms acceptable to Supporting First Lien Creditors holding more than 66 2/3% of the aggregate amount of the first lien term loans held by Supporting First Lien Creditors; and
- the board of directors of the reorganized Company would consist of seven directors, at least one of whom would be independent, including the Company's Chief Executive Officer and six directors selected by certain of the Company's first-lien term lenders in consultation with the Company's Chief Executive Officer.

The Restructuring Support Agreement, if utilized as the basis for a plan of reorganization, is expected to reduce the Company's long-term debt by more than \$4.5 billion.

Debtor-In-Possession Financing

On January 21, 2016, the Superpriority Secured Debtor-in-Possession Credit Agreement (as amended on March 4, 2016, March 28, 2016 and April 26, 2016, the "DIP Credit Agreement") was entered into by and among the Company, as borrower, certain of the Debtors, as guarantors (the "Guarantors" and, together with the Company, the "Loan Parties"), the lenders from

Table of Contents

time to time party thereto (the DIP Lenders) and Wilmington Trust, National Association, as administrative agent and collateral agent for the DIP Lenders (in such capacities, the DIP Agent).

The DIP Credit Agreement, which has been approved by the Court on a final basis, provides for a super-priority senior secured debtor-in-possession credit facility (the DIP Facility) consisting of term loans (collectively, the DIP Term Loan) in the aggregate principal amount of up to \$275 million that may be funded in not more than two draws not later than six months after the effective date of the DIP Facility (such six month period, the Availability Period). Any portion of the DIP Term Loan commitment that has not been funded on or prior to the end of the Availability Period will be permanently cancelled.

The maturity date of the DIP Facility is the earliest of (i) January 31, 2017, (ii) the date of the substantial consummation of a plan of reorganization that is confirmed pursuant to an order of the Court, (iii) the consummation of the sale of all or substantially all of the assets of the Loan Parties pursuant to Section 363 of the Bankruptcy Code and (iv) the date the obligations under the DIP Facility are accelerated pursuant to the terms of the DIP Credit Agreement. Borrowings under the DIP Facility bear interest at an interest rate per annum equal to, at the Company s option (i) LIBOR plus 9.00%, subject to a 1.00% LIBOR floor or (ii) the base rate plus 8.00%.

At a hearing held on February 23, 2016 in the Chapter 11 Cases, the Court approved the DIP Facility on a final basis, overruling the objections of the Creditors Committee and certain other parties who asserted, among other things, that the DIP Facility was unnecessary and argued that the Debtors should enter into an alternate debtor-in-possession financing facility proposed by certain members of the Creditors Committee.

Securitization Agreement

On January 13, 2016, the Company agreed with its securitization financing providers (the Securitization Financing Providers) that, subject to certain amendments (the Amendments), they will continue the \$200 million trade accounts receivable securitization facility provided to Arch Receivable Company, LLC, a non-debtor special-purpose entity that is a wholly owned subsidiary of the Company (Arch Receivable) (the Securitization Facility).

Pursuant to the Amendments, which have been approved by the Court on a final basis, the Debtors agreed to a revised schedule of fees payable to the administrator and the Securitization Financing Providers. The cost of an advance backstopping a letter of credit issued under the Securitization Facility is determined by two factors: (a) a program fee of 2.65% per year and payable on each settlement date to each Securitization Financing Provider deemed to have made such an advance and (b) the discount, which is calculated based on each Securitization Financing Provider s costs, including its cost of the issuance and placement of short term promissory notes to fund such an advance.

Going Concern

As a result of extremely challenging current market conditions, the Company believes it will require a significant restructuring of its balance sheet in order to continue as a going concern in the long term. The Company s ability to continue as a going concern is dependent upon, among other things, improvement in current market conditions, its ability to become profitable and maintain profitability and its ability to successfully

Edgar Filing: ARCH COAL INC - Form 10-Q

implement its Chapter 11 plan strategy. As a result of the Bankruptcy Petitions, the realization of the Debtors' assets and the satisfaction of liabilities are subject to significant uncertainty. While operating as a debtor-in-possession pursuant to the Bankruptcy Code, the Company may sell or otherwise dispose of or liquidate assets or settle liabilities, subject to the approval of the Court or as otherwise permitted in the ordinary course of business for amounts other than those reflected in the accompanying consolidated financial statements. Further, the Chapter 11 plan is likely to materially change the amounts and classifications of assets and liabilities reported in the Company's Condensed Consolidated Financial Statements.

The accompanying Condensed Consolidated Financial Statements have been prepared assuming that the Company will continue as a going concern. The Company's ability to continue as a going concern is contingent upon the Company's ability to restructure its balance sheet with the various creditor parties; there can be no assurance that these efforts will result in any such agreement. The accompanying consolidated financial statements do not include any adjustments related to the recoverability and classification of assets or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

Table of Contents**2. Accounting Policies**

In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2015-03 (ASU 2015-03), Simplifying the Presentation of Debt Issuance Costs. ASU 2015-03 requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of that liability, consistent with debt discounts. The company adopted ASU 2015-03 in the first quarter of 2016 as mandated by the standard. Previously reported other current assets and current maturities of debt have been revised to reflect the retrospective application of the standard.

The following reflects the retrospective application:

	December 31, 2015 (in thousands)
Other current assets, prior to revision	\$ 104,723
Revision of debt issuance costs	(64,857)
Other current assets, as revised	\$ 39,866
Current maturities of debt, prior to revision	\$ 5,107,210
Revision of debt issuance costs	(64,857)
Current maturities of debt, as revised	\$ 5,042,353

3. Accumulated Other Comprehensive Income

The following items are included in accumulated other comprehensive income (AOCI):

	Derivative Instruments	Pension, Postretirement and Other Post- Employment Benefits	Available-for- Sale Securities	Accumulated Other Comprehensive Income
	(In thousands)			
Balance at December 31, 2015	\$ 325	\$ (721)	\$ (1,419)	\$ (1,815)
Unrealized gains (losses)	1		3	4
Amounts reclassified from AOCI	(144)	(857)	1,857	856
Balance at March 31, 2016	\$ 182	\$ (1,578)	\$ 441	\$ (955)

Table of Contents

The following amounts were reclassified out of AOCI:

Details About AOCI Components	Amounts Reclassified from AOCI Three Months Ended March 31,		Line Item in the Condensed Consolidated Statement of Operations
	2016	2015	
	(In thousands)		
Derivative instruments	\$ 226	\$ 481	Revenues
	(82)	(174)	Benefit from income taxes
	\$ 144	\$ 307	Net of tax
Pension, postretirement and other post-employment benefits			
Amortization of prior service credits (1)	\$ 2,672	\$ 2,084	
Amortization of actuarial gains (losses), net (1)	(1,334)	(2,378)	
	1,338	(294)	
	(481)	105	Benefit from income taxes
	\$ 857	\$ (189)	Net of tax
Available-for-sale securities			
	\$ (2,895)	\$ (2,797)	Interest and investment income
	1,038	1,007	Benefit from income taxes
	\$ (1,857)	\$ (1,790)	Net of tax

(1) Production-related benefits and workers compensation costs are included in inventoriable production costs.

4. Reorganization items, net

In accordance with Accounting Codification Standard 852, Reorganizations, the statement of operations shall portray the results of operations of the reporting entity while it is in Chapter 11. Revenues, expenses (including professional fees), realized gains and losses, and provisions for losses resulting from reorganization and restructuring of the business shall be reported separately as reorganization items.

During the first quarter of 2016, the Company recorded a charge of \$3.9 million in Reorganization items, net comprised of professional fee expense of \$17.8 million, partially offset by non-cash gains on rejected contracts of \$13.9 million. Net cash paid for Reorganization items, net totaled \$1.5 million during the first quarter of 2016.

Table of Contents**5. Liabilities Subject to Compromise**

Liabilities subject to compromise include unsecured or under-secured liabilities incurred prior to the Chapter 11 filing. These liabilities represent the amounts expected to be allowed on known or potential claims to be resolved through the Chapter 11 proceedings and remain subject to future adjustments based on negotiated settlements with claimants, actions of the Court, rejection of executory contracts, proofs of claims or other events. Additionally, liabilities subject to compromise also include certain items that may be assumed under a plan of reorganization, and as such, may be subsequently reclassified to liabilities not subject to compromise. Generally, actions to enforce or otherwise effect payment of pre-petition liabilities are stayed.

Liabilities subject to compromise consists of the following:

Previously Reported Balance Sheet Line	March 31, 2016 (in thousands)
Debt	\$ 5,067,938
Accrued expenses and current liabilities	213,667
Accounts payable	106,590
Noncurrent liabilities	93,709
Accrued pension benefits	5,422
Total Liabilities Subject to Compromise	\$ 5,487,326

The debt balance included above is net of debt issuance costs of \$64.9 million; for additional information on debt, see Note 11, Debt and Financing Arrangements.

6. Asset Impairment and Mine Closure Costs

During the first quarter of 2016, the company recorded \$85.5 million of Asset impairment and mine closure costs in the Condensed Consolidated Statements of Operations. The amount includes the following: a \$74.1 million impairment of coal reserves and surface land in Kentucky that are being leased to a mining company that announced plans to idle its current mining operations related to those reserves during the quarter; \$5.1 million of severance expense related to headcount reductions at Company operations; \$3.4 million related to an impairment charge on the portion of an advance royalty balance on a reserve base mined at the Company's Mountain Laurel operation that will not be recouped; and \$2.9 million related to an other-than-temporary-impairment charge on an available-for-sale security.

7. Inventories

Inventories consist of the following:

Edgar Filing: ARCH COAL INC - Form 10-Q

	March 31, 2016	December 31, 2015
	(In thousands)	
Coal	\$ 85,987	\$ 85,043
Repair parts and supplies	110,000	111,677
	\$ 195,987	\$ 196,720

The repair parts and supplies are stated net of an allowance for slow-moving and obsolete inventories of \$6.4 million at March 31, 2016 and \$6.0 million at December 31, 2015.

8. Investments in Available-for-Sale Securities

The Company has invested in marketable debt securities, primarily highly liquid investment grade corporate bonds. 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.

Edgar Filing: ARCH COAL INC - Form 10-Q

Table of Contents

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

March 31, 2016							
	Cost Basis	Gross Unrealized		Fair Value	Balance Sheet Classification		
		Gains	Losses		Short-Term Investments	Other Assets	
(In thousands)							
Available-for-sale:							
U.S. government and agency securities	\$ 47,001	\$ 66	\$	\$ 47,067	\$ 47,067	\$	
Corporate notes and bonds	\$ 151,782	\$ 38	\$ (99)	\$ 151,721	\$ 151,721	\$	
Equity securities	1,049	676		1,725			1,725
Total Investments	\$ 199,832	\$ 780	\$ (99)	\$ 200,513	\$ 198,788	\$	1,725

December 31, 2015							
	Cost Basis	Gross Unrealized		Fair Value	Balance Sheet Classification		
		Gains	Losses		Short-Term Investments	Other Assets	
(In thousands)							
Available-for-sale:							
U.S. government and agency securities	\$ 10,007	\$	\$ (12)	\$ 9,995	\$ 9,995	\$	
Corporate notes and bonds	\$ 190,496	\$	\$ (299)	\$ 190,197	\$ 190,197	\$	
Equity securities	3,938	668	(2,888)	1,718			1,718
Total Investments	\$ 204,441	\$ 668	\$ (3,199)	\$ 201,910	\$ 200,192	\$	1,718

The aggregate fair value of investments with unrealized losses that were owned for less than a year was \$78.5 million and \$184.6 million at March 31, 2016 and December 31, 2015, respectively. The aggregate fair value of investments with unrealized losses that were owned for over a year, and were also in a continuous unrealized loss position during that time, was \$8.0 million and \$15.8 million at March 31, 2016 and December 31, 2015, respectively. During the quarter, the Company identified and recorded an other-than-temporary impairment charge of \$2.9 million which represented the unrealized loss in accumulated other comprehensive income related to an individual available-for-sale security. This charge is included in the line item "Asset impairment and mine closure costs" within the Condensed Consolidated Statement of Operations. The unrealized losses in the Company's portfolio at March 31, 2016 are the result of normal market fluctuations. The Company does not currently intend to sell these investments before recovery of their amortized cost base.

The debt securities outstanding at March 31, 2016 have maturity dates ranging from the second quarter of 2016 through the third quarter of 2017. 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.

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 50 to 55 million gallons of diesel fuel for use in its operations during 2016. 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 March 31, 2016, the Company had protected the price of approximately 66% of its expected purchases for the remainder of the year with out-of-the-money call options with an average strike price of \$2.26 per gallon. Due to the drop in heating oil prices, the Company has layered in 16.5 million gallons of at-the-money call options for the remainder of 2016 representing 42% of expected purchases at an average strike price of \$1.30 per gallon. Additionally, the Company has protected approximately 5% of our expected 2017 purchases with out-of-the-money call options with an average strike price of \$1.40 per gallon. At March 31, 2016, the Company had outstanding heating oil call options for approximately 29 million gallons for the purpose of managing the price risk associated with future diesel purchases. These positions are not accounted for as hedges.

Table of Contents

Coal price 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 March 31, 2016, the Company held derivatives for risk management purposes that are expected to settle in the following years:

(Tons in thousands)	2016
Coal sales	325
Coal purchases	225

The Company has also entered into a nominal quantity of natural gas put options to protect the Company from decreases in natural gas prices, which could impact coal demand. These options are not accounted for as hedges. Additionally, the company has also entered into a nominal quantity of foreign currency put options protecting for decreases in the Australian to United States dollar exchange rate, which could impact coal demand. These options are not accounted for as hedges.

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 \$4.9 million of gains during the remainder of 2016.

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)	March 31, 2016		December 31, 2015	
	Asset Derivative	Liability Derivative	Asset Derivative	Liability Derivative

Edgar Filing: ARCH COAL INC - Form 10-Q

Derivatives Designated as Hedging Instruments					
Coal	\$	2	\$	4	\$ (20)
Derivatives Not Designated as Hedging Instruments					
Heating oil diesel purchases		1,173		1,017	
Coal held for trading purposes		76,276	(71,370)	110,653	(104,814)
Coal risk management		1,531	(681)	3,912	(1,947)
Natural gas		61	(11)	494	(247)
Foreign currency		208			
Total		79,249	(72,062)	116,076	(107,008)
Total derivatives		79,251	(72,062)	116,080	(107,028)
Effect of counterparty netting		(72,062)	72,062	(107,028)	107,028
Net derivatives as classified in the balance sheets					
	\$	7,189	\$	7,189	\$ 9,052

Edgar Filing: ARCH COAL INC - Form 10-Q

Table of Contents

		March 31, 2016		December 31, 2015	
Net derivatives as reflected on the balance sheets (in thousands)					
Heating oil and foreign currency	Other current assets	\$	1,381	\$	1,017
Coal and natural gas	Coal derivative assets		5,808		8,035
	Accrued expenses and other current liabilities				
		\$	7,189	\$	9,052

The Company had a current liability for the obligation to post cash collateral of \$0.9 million at March 31, 2016 and the right to reclaim cash collateral of \$1.7 million at December 31, 2015, respectively. 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)

Three Months Ended March 31,

		Gain (Loss) Recognized in Other Comprehensive Income (Effective Portion)		Gains (Losses) Reclassified from Other Comprehensive Income into Income (Effective Portion)	
		2016	2015	2016	2015
Coal sales	(1) \$	13	\$ 10,265	\$ 1,369	\$ 882
Coal purchases	(2)	(11)	(4,738)	(1,143)	(401)
Totals	\$	2	\$ 5,527	\$ 226	\$ 481

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 March 31, 2016 and 2015.

Derivatives Not Designated as Hedging Instruments (in thousands)

Three Months Ended March 31,

		Gain (Loss) Recognized	
		2016	2015
Coal unrealized	(3) \$	(1,115)	\$ (411)
Coal realized	(4) \$	163	\$ 1,091
Natural gas unrealized	(3) \$	(469)	\$ 159
Heating oil diesel purchases	(4) \$	(443)	\$ (2,365)

Foreign currency	(4)	\$	(171)	\$
------------------	-----	----	-------	----

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) expense, net

Based on fair values at March 31, 2016, amounts on derivative contracts designated as hedge instruments in cash flow hedges to be reclassified from other comprehensive income into earnings during the next twelve months are immaterial.

Related to its trading portfolio, the Company recognized net unrealized and realized gains of \$0.1 million and net unrealized and realized losses of \$1.0 million during the three months ended March 31, 2016 and 2015, respectively. Gains and losses from trading activities 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.

Table of Contents**10. Accrued Expenses and Other Current Liabilities**

Accrued expenses and other current liabilities consist of the following:

	March 31, 2016	December 31, 2015
	(In thousands)	
Payroll and employee benefits	\$ 52,458	\$ 58,423
Taxes other than income taxes	97,361	104,755
Interest	127,773	119,785
Acquired sales contracts	543	3,852
Workers compensation	15,429	16,875
Asset retirement obligations	13,788	13,795
Other	8,905	11,965
	\$ 316,257	\$ 329,450
Less: liabilities subject to compromise	(213,667)	
	\$ 102,590	\$ 329,450

11. Debt and Financing Arrangements

	March 31, 2016	December 31, 2015
	(In thousands)	
Term loan due 2018 (\$1.9 billion face value)	\$ 1,875,429	\$ 1,875,429
7.00% senior notes due 2019 at par	1,000,000	1,000,000
9.875% senior notes due 2019 (\$375.0 million face value)	365,600	365,600
8.00% senior secured notes due 2019 at par	350,000	350,000
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	41,766	47,134
Debt issuance costs	(64,857)	(64,857)
	5,067,938	5,073,306
Less: liabilities subject to compromise	5,067,938	
Less: current maturities of debt		5,042,353
Long-term debt	\$	\$ 30,953

Acceleration of Debt Obligations; Automatic Stay

The filing of the Bankruptcy Petitions constituted an event of default that accelerated the Company's obligations under the documents governing each of its 7.00% senior notes due 2019, 9.875% senior notes due 2019, 8.00% senior secured second lien notes due 2019, 7.25% senior notes due 2020, 7.25% senior notes due 2021 (together, the senior notes) and senior secured first lien term loan due 2018. Immediately after filing the Bankruptcy Petitions, the Company began notifying all known current or potential creditors of the Debtors of the bankruptcy filings.

Edgar Filing: ARCH COAL INC - Form 10-Q

Pursuant to Section 362 of the Bankruptcy Code, the filing of the Bankruptcy Petitions automatically stayed most actions against the Debtors, including actions to collect indebtedness incurred prior to the Petition Date or to exercise control over the Debtors' property. Subject to certain exceptions under the Bankruptcy Code, the filing of the Debtors' Chapter 11 Cases also automatically stayed the continuation of most legal proceedings or the filing of other actions against or on behalf of the Debtors or their property to recover on, collect or secure a claim arising prior to the Petition Date or to exercise control over property of the Debtors' bankruptcy estates, unless and until the Court modifies or lifts the automatic stay as to any such claim. Notwithstanding the general application of the automatic stay described above, governmental authorities may determine to continue actions brought under their police and regulatory powers.

Table of Contents

Securitization Agreement

On January 13, 2016, the Company agreed with its securitization financing providers (the **Securitization Financing Providers**) that, subject to certain amendments (the **Amendments**), they will continue the \$200 million trade accounts receivable securitization facility provided to Arch Receivable Company, LLC, a non-debtor special-purpose entity that is a wholly owned subsidiary of the Company (**Arch Receivable**) (the **Securitization Facility**).

Pursuant to the **Amendments**, which have been approved by the Court on a final basis, the Debtors agreed to a revised schedule of fees payable to the administrator and the **Securitization Financing Providers**. The cost of an advance backstopping a letter of credit issued under the **Securitization Facility** is determined by two factors: (a) a program fee of 2.65% per year and payable on each settlement date to each **Securitization Financing Provider** deemed to have made such an advance and (b) the **discount**, which is calculated based on each **Securitization Financing Provider**'s costs, including its cost of the issuance and placement of short term promissory notes to fund such an advance.

In connection with the **Securitization Facility**, Arch Receivable has granted to the administrator (for the benefit of the securitization purchasers) a first priority security interest in all of its assets, including all outstanding accounts receivable generated by the Debtors from the sale of coal and sold through the **Securitization Facility** (including collections, proceeds and certain other interests related thereto) (the **Receivables**) and all proceeds thereof.

The agreements governing the **Securitization Facility** provide for the grant of analogous security interests by certain Debtors that generate **Receivables** from the sale of coal (such Debtors, the **Originators**). The agreements expressly state that the transfers of **Receivables** from the **Originators** to Arch and from Arch to Arch Receivable are intended to be true sales of the **Receivables**. However, if, against the intent of the parties (and notwithstanding entry of an order by the Court which provides that the transfers of the **Receivables** constitute true sales), any such transfer is recharacterized as a loan or extension of credit, each **Originator** has granted a first priority prepetition security interest in the **Receivables** and certain related collateral, pursuant to the agreements governing the **Securitization Facility**, for the ultimate benefit of the administrator and the **Securitization Financing Providers** (the **Liens**). The Debtors have agreed, in connection with the **Amendments**, to effectively extend such **Liens** to cover **Receivables** generated on or after the **Petition Date**.

The **Originators** do not guarantee the collection of **Receivables** that have been transferred to Arch Receivable. However, the **Originators** are obligated to reimburse Arch Receivable for inaccuracy of certain representations and warranties, dilution items with respect to **Receivables** and certain other limited indemnities (such obligations, the **Repayment Amounts**). Under the agreements governing the **Securitization Facility**, Arch Receivable is entitled to apply **Repayment Amounts** to amounts owed under the **Securitization Facility**.

Further, the Company has executed a performance guarantee through which it has promised to fulfill, or cause Arch Receivable, the designated servicer and each **Originator** to fulfill, each of their obligations under the agreements governing the **Securitization Facility**. In addition, as contemplated by the **Amendments**, the **Originators** have also executed a performance guarantee promising to fulfill obligations of all **Originators** under the agreements.

In addition, in connection with the **Amendments**, the Debtors have granted superpriority claims against the Debtors and in favor of Arch Receivable, the administrator and the **Securitization Financing Providers** in respect of certain of the Debtors' obligations under the agreements

governing the Securitization Facility, including the Repayment Amounts and certain other limited indemnification and other obligations of the Debtors under the agreements.

Debtor-In-Possession Financing

On January 21, 2016, the Superpriority Secured Debtor-in-Possession Credit Agreement (as amended on March 4, 2016, March 28, 2016 and April 26, 2016, the DIP Credit Agreement) was entered into by and among the Company, as borrower, certain of the Debtors, as guarantors (the Guarantors and, together with the Company, the Loan Parties), the lenders from time to time party thereto (the DIP Lenders) and Wilmington Trust, National Association, as administrative agent and collateral agent for the DIP Lenders (in such capacities, the DIP Agent).

The DIP Credit Agreement, which has been approved by the Court on a final basis, provides for a super-priority senior secured debtor-in-possession credit facility (the DIP Facility) consisting of term loans (collectively, the DIP Term Loan) in the aggregate principal amount of up to \$275 million that may be funded in not more than two draws not later than six months after the effective date of the DIP Facility (such six month period, the Availability Period). Any portion of the DIP Term Loan commitment that has not been funded on or prior to the end of the Availability Period will be permanently cancelled.

Table of Contents

The maturity date of the DIP Facility is the earliest of (i) January 31, 2017, (ii) the date of the substantial consummation of a plan of reorganization that is confirmed pursuant to an order of the Court, (iii) the consummation of the sale of all or substantially all of the assets of the Loan Parties pursuant to Section 363 of the Bankruptcy Code and (iv) the date the obligations under the DIP Facility are accelerated pursuant to the terms of the DIP Credit Agreement. Borrowings under the DIP Facility bear interest at an interest rate per annum equal to, at the Company's option (i) LIBOR plus 9.00%, subject to a 1.00% LIBOR floor or (ii) the base rate plus 8.00%.

Obligations under the DIP Credit Agreement are guaranteed on a super-priority senior secured basis by all existing and future wholly-owned domestic subsidiaries of Arch, and all newly created or acquired wholly-owned domestic subsidiaries of Arch, subject to customary limited exceptions.

The lenders under the DIP Credit Agreement have a first priority lien on all encumbered and unencumbered assets of the Loan Parties (the "DIP Lien"), subject to a \$75 million carve-out for super-priority claims relating to the Debtors' self-bonding obligations in Wyoming, a customary professional fees carve-out and certain exceptions.

The Loan Parties are subject to certain financial maintenance covenants under the DIP Credit Agreement, including, without limitation, (i) maximum capital expenditures and (ii) minimum liquidity (defined as unrestricted cash and cash equivalents of the Company and its domestic subsidiaries (other than any securitization subsidiary or bonding subsidiary), plus withdrawable funds from brokerage accounts of the Company and its domestic subsidiaries (other than any securitization subsidiary or bonding subsidiary) plus any unused commitments that are available to be drawn by the Company pursuant to the terms of the DIP Credit Agreement) of (A) \$300 million prior to the entry of the Final Order and (B) \$500 million following the entry of the Final Order, in each case tested on a monthly basis. The DIP Credit Agreement contains customary affirmative and negative covenants and representations for debtor-in-possession financings. In addition to customary events of default for debtor-in-possession financings, the DIP Credit Agreement contains milestones relating to the Chapter 11 Cases and any failure to comply with such milestones constitutes an event of default.

The DIP Facility is subject to certain usual and customary prepayment events, including 100% of net cash proceeds of (i) debt issuances (other than debt permitted to be incurred under the terms of the DIP Credit Agreement), (ii) non-ordinary course asset sales or dispositions in excess of \$50 million in the aggregate (with no individual asset sale or disposition in excess of \$7.5 million) and (iii) any casualty event in excess of \$50 million in the aggregate, subject to customary reinvestment rights, in each case to be applied to prepay the DIP Term Loan. At a hearing held on February 23, 2016 in the Chapter 11 Cases, the Court approved the DIP Facility on a final basis, overruling the objections of the Creditors Committee and certain other parties who asserted, among other things, that the DIP Facility was unnecessary and argued that the Debtors should enter into an alternate debtor-in-possession financing facility proposed by certain members of the Creditors' Committee.

The Company entered into an amendment to the DIP Credit Agreement, dated as of April 26, 2016, which extended the deadline for the filing of a plan of reorganization and accompanying disclosure statement from April 26, 2016 to May 5, 2016. See Note 18, "Subsequent Events."

Table of Contents

12. Income Taxes

During the first quarter of 2016, the Company determined it was more likely than not that the federal and state net operating losses it expects to generate in 2016 will not be realized based on projections of future taxable income. Accordingly, the estimated annual effective rate for the year ended December 31, 2016 includes the impact of recording a valuation allowance against these attributes. During the three months ended March 31, 2016, the Company realized a net tax benefit of \$1.1 million, which included a valuation allowance of \$96.1 million for federal net operating losses and tax credits and \$4.5 million for the state net operating losses.

During the first three months of 2015, the Company increased its valuation allowance for the portion of the federal and state net operating losses it expected to generate in 2015. The Company increased its valuation allowance by \$45.3 million for the federal net operating losses and \$2.6 million for the state net operating losses.

13. 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, natural gas 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 March 31, 2016.

Edgar Filing: ARCH COAL INC - Form 10-Q

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	March 31, 2016		
		Level 1	Level 2	Level 3
(In thousands)				
Assets:				
Investments in marketable securities	\$ 200,513	\$ 48,792	\$ 151,721	\$
Derivatives	7,189	4,487		2,702
Total assets	\$ 207,702	\$ 53,279	\$ 151,721	\$ 2,702
Liabilities:				
Derivatives	\$	\$	\$	\$

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 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.

Table of Contents

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

	Three Months Ended March 31, 2016 (In thousands)	
Balance, beginning of period	\$	2,432
Realized and unrealized losses recognized in earnings, net		(859)
Realized and unrealized gains recognized in other comprehensive income, net		
Purchases		1,362
Issuances		(233)
Ending balance	\$	2,702

Net unrealized losses of \$0.6 million were recognized in the Condensed Consolidated Statement of Operations during the three months ended March 31, 2016 related to Level 3 financial instruments held on March 31, 2016.

Fair Value of Long-Term Debt

At March 31, 2016 and December 31, 2015, the fair value of the Company's debt, including amounts classified as current, was \$712.7 million and \$937.1 million, 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.

14. Loss Per Common Share

The effect of options, restricted stock and restricted stock units that were excluded from the calculation of diluted weighted average shares outstanding because the exercise price or grant price of the securities exceeded the average market price of the Company's common stock were immaterial for both the three months ended March 31, 2016, and 2015, respectively. 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 were immaterial for both the three months ended March 31, 2016 and 2015, respectively.

15. Employee Benefit Plans

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

Three Months Ended March 31,	
2016	2015
(In thousands)	

Edgar Filing: ARCH COAL INC - Form 10-Q

Service cost	\$		\$	4
Interest cost		3,338		3,570
Expected return on plan assets		(4,538)		(5,764)
Amortization of other actuarial losses		757		2,058
Net credit	\$	(443)	\$	(132)

Table of Contents

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

	Three Months Ended March 31,	
	2016	2015
	(In thousands)	
Service cost	\$ 160	\$ 233
Interest cost	1,134	335
Amortization of prior service credits	(2,673)	(2,084)
Amortization of other actuarial losses (gains)	(566)	(456)
Net credit	\$ (1,945)	\$ (1,972)

16. Commitments and Contingencies

The Company accrues for costs 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.

In addition, the Company is a party to numerous other claims and lawsuits with respect to various matters. As of March 31, 2016 and December 31, 2015, the Company had accrued \$2.8 million and \$2.8 million, respectively, for all legal matters, of which all amounts are 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.

Pursuant to Section 362 of the Bankruptcy Code, the filing of the Bankruptcy Petitions automatically stayed most actions against the Debtors, including actions to collect indebtedness incurred prior to the Petition Date or to exercise control over the Debtors' property. Subject to certain exceptions under the Bankruptcy Code, the filing of the Debtors' Chapter 11 Cases also automatically stayed the continuation of most legal proceedings or the filing of other actions against or on behalf of the Debtors or their property to recover on, collect or secure a claim arising prior to the Petition Date or to exercise control over property of the Debtors' bankruptcy estates, unless and until the Court modifies or lifts the automatic stay as to any such claim. Notwithstanding the general application of the automatic stay described above, governmental authorities may determine to continue actions brought under their police and regulatory powers.

17. Segment Information

The Company's reportable business segments are based on the major coal producing basins in which the Company operates and may include a number of mine complexes. The Company manages its coal sales by coal basin, not by individual mining complex. Geology, coal transportation routes to customers, regulatory environments and coal quality or type are characteristic to a basin, and, accordingly, market and contract pricing have developed by coal basin. Mining operations are evaluated based on adjusted EBITDA, 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; and the Appalachia (APP) segment, with operations primarily in West Virginia. The Other category combines other operating segments and includes the Company's coal mining operations in Colorado and Illinois.

Edgar Filing: ARCH COAL INC - Form 10-Q

Operating segment results for the three months ended March 31, 2016 and 2015 are presented below. The Company uses Adjusted EBITDA to assess the operating segments' performance and to allocate resources. The Company's management believes that Adjusted EBITDA presents a useful measure of the Company's ability to service existing debt and incur additional debt based on ongoing operations. Corporate, Other and Eliminations includes the change in fair value of coal derivatives and coal trading activities, net; corporate overhead; land management; other support functions; and the elimination of intercompany transactions.

Table of Contents

	PRB	APP	Other Operating Segments (in thousands)	Corporate, Other and Eliminations	Consolidated
Three Months Ended March 31, 2016					
Revenues	\$ 223,122	\$ 173,618	\$ 31,366	\$	\$ 428,106
Adjusted EBITDA	7,010	7,607	(3,328)	(21,315)	(10,026)
Depreciation, depletion and amortization	32,760	22,329	7,932	678	63,699
Amortization of acquired sales contracts, net	(46)	(787)			(833)
Capital expenditures	10	3,630	1,961	325	5,926
Three Months Ended March 31, 2015					
Revenues	\$ 391,206	\$ 223,439	\$ 62,360	\$	\$ 677,005
Adjusted EBITDA	72,062	39,807	1,691	(31,788)	81,772
Depreciation, depletion and amortization	44,361	50,832	10,055	(374)	104,874
Amortization of acquired sales contracts, net	(1,285)	(2,105)			(3,390)
Capital expenditures	16,969	3,385	2,642	(116)	22,880

A reconciliation of adjusted EBITDA to consolidated loss before income taxes follows:

	Three Months Ended March 31,	
	2016	2015
	(In thousands)	
Adjusted EBITDA	\$ (10,026)	\$ 81,772
Depreciation, depletion and amortization	(63,699)	(104,874)
Amortization of acquired sales contracts, net	833	3,390
Asset impairment and mine closure costs	(85,520)	
Interest expense, net	(43,313)	(96,879)
Nonoperating expenses	(6,088)	
Loss before income taxes	\$ (207,813)	\$ (116,591)

18. Subsequent Events**Bankruptcy Items**

The Company entered into an amendment to the Restructuring Support Agreement on April 26, 2016 (the "RSA Amendment"), which provides for the waiver of the termination event that would have occurred on April 10, 2016 as a result of the Debtors not having obtained Court approval of the assumption of the Restructuring Support Agreement within 90 days of the Petition Date. Following entry into the RSA Amendment, the Debtors are required to obtain Court approval of the assumption of the Restructuring Support Agreement prior to June 10, 2016 or such later date as may be agreed to by the Majority Consenting Lenders under the Restructuring Support Agreement.

The RSA Amendment further waives any termination event arising out of the Debtors' failure to file the plan of reorganization and accompanying disclosure statement no later than 90 days after the Petition Date, so long as the Debtors: (i) file the plan and disclosure statement

Edgar Filing: ARCH COAL INC - Form 10-Q

no later than May 5, 2016 or such later date as may be agreed to by the Majority Consenting Lenders, and (ii) obtain Court approval of the disclosure statement no later than June 10, 2016.

The RSA Amendment also provides for an extension of the date after which the Debtors and the Majority Consenting Lenders may modify the proposed distributions to holders of unsecured claims if holders of more than \$1.6125 billion of unsecured claims against the Debtors have not executed a restructuring support agreement substantially in the form of the Restructuring Support Agreement from April 22, 2016 to June 10, 2016. The Restructuring Support Agreement was further amended on May 5, 2016 to remove the right of holders of unsecured claims to elect to receive a distribution in the form of common stock and warrants issued by the reorganized Debtors.

Table of Contents

The Company entered into an amendment to the DIP Credit Agreement, dated as of April 26, 2016, which extended the deadline for the filing of a plan of reorganization and accompanying disclosure statement from April 26, 2016 to May 5, 2016.

On May 5, 2016, the Company filed its plan of reorganization and accompanying disclosure statement with the Court.

19. Supplemental 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 Company and the subsidiaries which are guarantors under the senior notes are Debtors in the Chapter 11 Cases. The following tables present condensed consolidating financial information for (i) the Company (Debtor), (ii) the issuer of the senior notes (Debtor), (iii) the guarantors under the senior notes (Debtor), 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) (Non-Debtors). These tables provide substantially the same information as would be presented pursuant to the disclosure requirements of ASC 852 with respect to condensed combined financial statements of entities in reorganization proceedings.

Table of Contents**Arch Coal, Inc. and Subsidiaries****(Debtor-in-Possession)****Condensed Consolidating Statements of Operations****Three Months Ended March 31, 2016**

	Parent/Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries (In thousands)	Eliminations	Consolidated
Revenues	\$	\$ 428,106	\$	\$	\$ 428,106
Costs, expenses and other					
Cost of sales (exclusive of items shown separately below)	2,186	417,677		(547)	419,316
Depreciation, depletion and amortization	755	62,944			63,699
Amortization of acquired sales contracts, net		(833)			(833)
Change in fair value of coal derivatives and coal trading activities, net		1,210			1,210
Asset impairment and mine closure costs	3,229	82,291			85,520
Selling, general and administrative expenses	13,540	5,382	1,272	(368)	19,826
Other operating (income) expense, net	(1,098)	(1,151)	(886)	915	(2,220)
	18,612	567,520	386		586,518
Loss from investment in subsidiaries	(123,988)			123,988	
Loss from operations	(142,600)	(139,414)	(386)	123,988	(158,412)
Interest expense, net					
Interest expense (contractual interest of \$98,565 in 2016)	(66,239)	(6,365)	(2,229)	30,382	(44,451)
Interest and investment income	7,110	23,292	1,118	(30,382)	1,138
	(59,129)	16,927	(1,111)		(43,313)
Expenses related to proposed debt restructuring	(2,213)				(2,213)
Reorganization items, net	(3,875)				(3,875)
	(6,088)				(6,088)
Income (loss) from continuing operations before income taxes	(207,817)	(122,487)	(1,497)	123,988	(207,813)
Provision for (benefit from) income taxes	(1,115)		4		(1,111)
Net income (loss)	\$ (206,702)	\$ (122,487)	\$ (1,501)	\$ 123,988	\$ (206,702)
Total comprehensive income (loss)	\$ (205,842)	\$ (123,489)	\$ (1,501)	\$ 124,990	\$ (205,842)

Table of Contents**Arch Coal, Inc. and Subsidiaries****(Debtor-in-Possession)****Condensed Consolidating Statements of Operations****Three Months Ended March 31, 2015**

	Parent/Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries (In thousands)	Eliminations	Consolidated
Revenues	\$	\$ 677,005	\$	\$	\$ 677,005
Costs, expenses and other					
Cost of sales (exclusive of items shown separately below)	7,470	555,686		(834)	562,322
Depreciation, depletion and amortization	1,060	103,812	2		104,874
Amortization of acquired sales contracts, net		(3,390)			(3,390)
Change in fair value of coal derivatives and coal trading activities, net		1,220			1,220
Selling, general and administrative expenses	15,439	6,243	1,448	(525)	22,605
Other operating (income) expense, net	3,700	5,278	(1,251)	1,359	9,086
	27,669	668,849	199		696,717
Income from investment in subsidiaries	21,050			(21,050)	
Loss from operations	(6,619)	8,156	(199)	(21,050)	(19,712)
Interest expense, net					
Interest expense	(118,056)	(6,763)	(1,275)	26,842	(99,252)
Interest and investment income	8,072	19,774	1,369	(26,842)	2,373
	(109,984)	13,011	94		(96,879)
Income (loss) from continuing operations before income taxes	(116,603)	21,167	(105)	(21,050)	(116,591)
Provision for (benefit from) income taxes	(3,408)		12		(3,396)
Net income (loss)	\$ (113,195)	\$ 21,167	\$ (117)	\$ (21,050)	\$ (113,195)
Total comprehensive income (loss)	\$ (109,591)	\$ 24,407	\$ (117)	\$ (24,290)	\$ (109,591)

Table of Contents

Arch Coal, Inc. and Subsidiaries

(Debtor-in-Possession)

Condensed Consolidating Balance Sheets

March 31, 2016

	Parent/Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries (In thousands)	Eliminations	Consolidated
Assets					
Cash and cash equivalents	\$ 283,309	\$ 100,432	\$ 11,657	\$	\$ 395,398
Short term investments	198,788				198,788
Restricted cash			109,650		109,650
Receivables	12,756	394	120,359	(4,915)	128,594
Inventories		195,987			195,987
Other	26,272	29,886	2,555		58,713
Total current assets	521,125	326,699	244,221	(4,915)	1,087,130
Property, plant and equipment, net	7,036	3,479,653		420	3,487,109
Investment in subsidiaries	4,729,318			(4,729,318)	
Intercompany receivables		2,283,438		(2,283,438)	
Note receivable from Arch Western	675,000			(675,000)	
Other	38,578	240,872	1,721		281,171
Total other assets	5,442,896	2,524,310	1,721	(7,687,756)	281,171
Total assets	\$ 5,971,057	\$ 6,330,662	\$ 245,942	\$ (7,692,251)	\$ 4,855,410
Liabilities and Stockholders Deficit					
Liabilities not subject to compromise					
Accounts payable	\$ 22,369	\$ 48,446	\$ 8	\$	\$ 70,823
Accrued expenses and other current liabilities	26,357	80,396	752	(4,915)	102,590
Current maturities of debt					
Total current liabilities	48,726	128,842	760	(4,915)	173,413
Long-term debt					
Intercompany payables	2,062,135		221,302	(2,283,437)	
Note payable to Arch Coal		675,000		(675,000)	
Asset retirement obligations	1,024	400,545			401,569
Accrued pension benefits	4,115	16,531			20,646
Accrued postretirement benefits other than pension	75,226	14,553			89,779
Accrued workers compensation	9,500	104,282			113,782
Other noncurrent liabilities	6,502	11,366	155		18,023
Total liabilities not subject to compromise	2,207,228	1,351,119	222,217	(2,963,352)	817,212
Liabilities subject to compromise	5,213,376	273,950			5,487,326
Total liabilities	7,420,604	1,625,069	222,217	(2,963,352)	6,304,538
Stockholders equity (deficit)	(1,449,547)	4,705,593	23,725	(4,728,899)	(1,449,128)

Edgar Filing: ARCH COAL INC - Form 10-Q

Total liabilities and stockholders deficit \$ 5,971,057 \$ 6,330,662 \$ 245,942 \$ (7,692,251) \$ 4,855,410

Table of Contents**Arch Coal, Inc. and Subsidiaries****(Debtor-in-Possession)****Condensed Consolidating Balance Sheets****December 31, 2015**

	Parent/Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries (In thousands)	Eliminations	Consolidated
Assets					
Cash and cash equivalents	\$ 337,646	\$ 100,428	\$ 12,707	\$	\$ 450,781
Short term investments	200,192				200,192
Restricted cash			97,542		97,542
Receivables	12,463	3,153	124,581	(4,430)	135,767
Inventories		196,720			196,720
Other	18,160	38,794	969		57,923
Total current assets	568,461	339,095	235,799	(4,430)	1,138,925
Property, plant and equipment, net	7,747	3,610,869		413	3,619,029
Investment in subsidiaries	4,887,905			(4,887,905)	
Intercompany receivables		2,253,312		(2,253,312)	
Note receivable from Arch Western	675,000			(675,000)	
Other	39,302	243,806	819		283,927
Total other assets	5,602,207	2,497,118	819	(7,816,217)	283,927
Total assets	\$ 6,178,415	\$ 6,447,082	\$ 236,618	\$ (7,820,234)	\$ 5,041,881
Liabilities and Stockholders Deficit					
Accounts payable	\$ 8,495	\$ 119,633	\$ 3	\$	\$ 128,131
Accrued expenses and other current liabilities	162,268	170,575	1,037	(4,430)	329,450
Current maturities of debt	5,031,603	10,750			5,042,353
Total current liabilities	5,202,366	300,958	1,040	(4,430)	5,499,934
Long-term debt		30,953			30,953
Intercompany payables	2,043,308		210,005	(2,253,313)	
Note payable to Arch Coal		675,000		(675,000)	
Asset retirement obligations	1,005	395,654			396,659
Accrued pension benefits	12,390	14,983			27,373
Accrued postretirement benefits other than pension	79,826	19,984			99,810
Accrued workers compensation	24,247	88,023			112,270
Other noncurrent liabilities	59,976	58,847	348		119,171
Total liabilities	7,423,118	1,584,402	211,393	(2,932,743)	6,286,170
Stockholders equity (deficit)	(1,244,703)	4,862,680	25,225	(4,887,491)	(1,244,289)
Total liabilities and stockholders deficit	\$ 6,178,415	\$ 6,447,082	\$ 236,618	\$ (7,820,234)	\$ 5,041,881

Table of Contents

Arch Coal, Inc. and Subsidiaries

(Debtor-in-Possession)

Condensed Consolidating Statements of Cash Flows

Three Months Ended March 31, 2016

	Parent/Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries (In thousands)	Eliminations	Consolidated
Cash provided by (used in) operating activities	\$ (56,374)	\$ 43,335	\$ 2,941	\$	\$ (10,098)
Investing Activities					
Capital expenditures	(22)	(5,904)			(5,926)
Additions to prepaid royalties		(71)			(71)
Purchases of marketable securities	(55,132)				(55,132)
Proceeds from sale or maturity of marketable securities and other investments	56,134				56,134
Investments in and advances to affiliates		(2,156)			(2,156)
Withdrawals (deposits) of restricted cash			(12,108)		(12,108)
Cash provided by (used in) investing activities	980	(8,131)	(12,108)		(19,259)
Financing Activities					
Net payments on other debt	(2,658)	(2,752)			(5,410)
Expenses related to proposed debt restructuring	(2,213)				(2,213)
Debt financing costs	(15,222)		(3,181)		(18,403)
Transactions with affiliates, net	21,150	(32,448)	11,298		
Cash provided by (used in) financing activities	1,057	(35,200)	8,117		(26,026)
Increase (decrease) in cash and cash equivalents	(54,337)	4	(1,050)		(55,383)
Cash and cash equivalents, beginning of period	337,646	100,428	12,707		450,781
Cash and cash equivalents, end of period	\$ 283,309	\$ 100,432	\$ 11,657	\$	\$ 395,398

Table of Contents

Arch Coal, Inc. and Subsidiaries

(Debtor-in-Possession)

Condensed Consolidating Statements of Cash Flows

Three Months Ended March 31, 2015

	Parent/Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries (In thousands)	Eliminations	Consolidated
Cash provided by (used in) operating activities	\$ (114,542)	\$ 96,944	\$ 13,325	\$	\$ (4,273)
Investing Activities					
Capital expenditures	(450)	(22,430)			(22,880)
Additions to prepaid royalties		(213)			(213)
Proceeds from disposals and divestitures		46			46
Purchases of short term investments	(101,793)				(101,793)
Proceeds from sales of short term investments	99,914				99,914
Investments in and advances to affiliates		(1,843)			(1,843)
Change in restricted cash			(3,532)		(3,532)
Cash used in investing activities	(2,329)	(24,440)	(3,532)		(30,301)
Financing Activities					
Payments on term loan	(4,875)				(4,875)
Net payments on other debt	(2,751)	(2,059)			(4,810)
Transactions with affiliates, net	130,144	(120,373)	(9,771)		
Cash provided by (used in) financing activities	122,518	(122,432)	(9,771)		(9,685)
Increase (decrease) in cash and cash equivalents	5,647	(49,928)	22		(44,259)
Cash and cash equivalents, beginning of period	572,185	150,358	11,688		734,231
Cash and cash equivalents, end of period	\$ 577,832	\$ 100,430	\$ 11,710	\$	\$ 689,972

Table of Contents

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

Overview

Our regional results during the first quarter of 2016, when compared to the first quarter of 2015, were impacted by significant declines in volume and pricing, reflecting continued weakness in all of the markets in which we participate. We have responded by continuing to rationalize volumes and shifting volumes to lower cost operations wherever possible. Additionally we continue to manage input costs and capital expenditures. We have also benefited from lower input pricing, particularly lower diesel fuel pricing.

Pricing for our metallurgical sales during the current quarter declined due to continued global oversupply and the relative strength of the U.S. dollar. Slow economic growth in China and globally has reduced demand growth, and supply rationalization has been slow to take effect. The relative strength of the U.S. dollar benefits our foreign competitors in the global metallurgical and thermal markets as much of their input costs are in their local currencies. Late in the current quarter, we began to see some stabilization in metallurgical pricing in conjunction with some weakening of the U.S. dollar. We sold 1.6 million tons of metallurgical coal during the first quarter of 2016 compared to 1.5 million tons during the first quarter of 2015. Overseas thermal markets are uneconomic for substantially all U.S. production at current pricing levels.

Domestic thermal coal volumes decreased dramatically in all of our operating segments. A historically mild winter, low natural gas pricing, high generator stockpiles, and the effects of the implementation of the Mercury Air Toxics Standards, (MATS), combined to significantly decrease demand in the domestic thermal markets. The mild winter decreased space heating demand for natural gas, driving pricing of the competing fuel during the first quarter of 2016 to levels low enough to displace significant amounts of coal-fueled electric generation throughout the country. Even PRB coal, with its lower cost structure, was significantly impacted by competition from low natural gas prices. The reduced coal burn has left utilities with historically high coal stockpile levels, further depressing demand. Closure of some coal fueled facilities to comply with the MATS regulation further reduced demand compared to the prior year quarter. Although the closed coal-fueled plants were generally older, smaller, and less utilized than the remaining fleet, the closures have nevertheless had a negative impact on demand.

On January 11, 2016 (the *Petition Date*), Arch and substantially all of its wholly owned domestic subsidiaries (the *Filing Subsidiaries* and, together with Arch, the *Debtors*) filed voluntary petitions for reorganization (collectively, the *Bankruptcy Petitions*) under Chapter 11 of Title 11 of the U.S. Code (the *Bankruptcy Code*) in the United States Bankruptcy Court for the Eastern District of Missouri (the *Court*). The *Debtors*' Chapter 11 Cases (collectively, the *Chapter 11 Cases*) are being jointly administered under the caption *In re Arch Coal, Inc., et al.* Case No. 16-40120 (lead case). Each Debtor will continue to operate its business as a *debtor in possession* under the jurisdiction of the Court and in accordance with the applicable provisions of the Bankruptcy Code and the orders of the Court.

As a result of extremely challenging current market conditions, the Company believes it will require a significant restructuring of its balance sheet in order to continue as a going concern in the long term. The Company's ability to continue as a going concern is dependent upon, among other things, improvement in current market conditions, its ability to become profitable and maintain profitability and its ability to successfully implement its Chapter 11 plan strategy. As a result of the Bankruptcy Petitions, the realization of the Debtors' assets and the satisfaction of liabilities are subject to significant uncertainty. While operating as a debtor-in-possession pursuant to the Bankruptcy Code, the Company may sell or otherwise dispose of or liquidate assets or settle liabilities, subject to the approval of the Court or as otherwise permitted in the ordinary course of business for amounts other than those reflected in the accompanying consolidated financial statements. Further, the Chapter 11 plan is likely to materially change the amounts and classifications of assets and liabilities reported in the Company's Condensed Consolidated Financial Statements.

Regional Performance

The following table shows results by operating segment for the three months ended March 31, 2016 and compares them with the information for the three months ended March 31, 2015. The "Other" category represents the results of our other bituminous thermal operations: our West Elk mining complex in Colorado and our Viper mining complex in Illinois.

Table of Contents

	Three Months Ended March 31,	
	2016	2015
<i>Powder River Basin</i>		
Tons sold (in thousands)	16,506	28,471
Coal sales per ton sold	\$ 13.24	\$ 13.48
Cost per ton sold	\$ 14.79	\$ 12.52
Operating margin per ton sold	\$ (1.55)	\$ 0.96
Adjusted EBITDA (in thousands)	\$ 7,010	\$ 72,062
<i>Appalachia</i>		
Tons sold (in thousands)	2,832	3,018
Coal sales per ton sold	\$ 51.40	\$ 65.23
Cost per ton sold	\$ 56.98	\$ 68.55
Operating loss per ton sold	\$ (5.58)	\$ (3.32)
Adjusted EBITDA (in thousands)	\$ 7,607	\$ 39,807
<i>Other</i>		
Tons sold (in thousands)	811	1,619
Coal sales per ton sold	\$ 32.55	\$ 33.42
Cost per ton sold	\$ 45.37	\$ 31.21
Operating margin per ton sold	\$ (12.82)	\$ 2.21
Adjusted EBITDA (in thousands)	\$ (3,328)	\$ 1,691

This table reflects numbers reported under a basis that differs from U.S. GAAP. See the Reconciliation of Non-GAAP measurements for explanation and reconciliation of these amounts to the nearest GAAP figures. Other companies may calculate these per ton amounts differently, and our calculation may not be comparable to other similarly titled measures.

Powder River Basin Adjusted EBITDA decreased approximately 90% in the first quarter of 2016 when compared to the first quarter of 2015. The primary driver of the decline in Adjusted EBITDA is the 42% reduction in shipment volume discussed further in the Overview above. Pricing declined slightly in the current quarter primarily due to the annual roll off and replacement of sales orders for 2016. Cost per ton sold increased in the first quarter of 2016 when compared to the first quarter of 2015 due to the decrease in volume partially offset by reduced maintenance activity, lower supply usage, and lower input pricing, particularly lower diesel fuel pricing. Our strategy of protecting against oil price spikes while preserving downside price participation has allowed us to benefit from the decrease in oil pricing in the current period versus the prior year period.

Appalachia Adjusted EBITDA decreased approximately 81% in the first quarter of 2016 when compared to the first quarter of 2015. Shipment volume and coal sales per ton sold both declined in the current year period versus the prior year. Coal sales volumes decreased in the first quarter of 2016 when compared to the first quarter of 2015, due to the idling of three operations impacting the comparative periods, and reduced thermal demand. Metallurgical volume increased slightly. Pricing declined in the first quarter of 2016 compared to the first quarter of 2015 across all major quality specifications, with the greatest deterioration occurring in metallurgical pricing. Oversupply in the Asian metallurgical coal market continued to depress metallurgical pricing in the first quarter of 2016. Meanwhile, the relative strength of the US dollar, and low dry bulk shipping rates continued to support Australian competition in the Atlantic metallurgical coal market. Unit cost decreased significantly in the current quarter compared to the prior year period, largely due to the impairment of certain long lived assets in the third and fourth quarters of 2015 which significantly reduced depreciation, depletion, and amortization costs in the current quarter. Additionally our continued shift of volume to lower cost operations, particularly the Leer complex, has reduced cost per ton sold.

Other Adjusted EBITDA declined in the first quarter of 2016 when compared to the first quarter of 2015 due to a nearly 50% decline in sales volumes in the current year quarter. Unit cost increased in the current year periods due to reduced production and shipment volume. Pricing decreased in the first quarter of 2016 when compared to the first quarter of 2015 due to renegotiation of a long term supply contract with a major customer.

Table of Contents**Results of Operations***Three Months Ended March 31, 2016 Compared to Three Months Ended March 31, 2015*

Revenues. Our revenues consist of coal sales. The following table summarizes information about our coal sales during the three months ended March 31, 2016 and compares it with the information for the three months ended March 31, 2015:

	Three Months Ended March 31,		
	2016	2015	(Decrease) / Increase
	(In thousands)		
Coal sales	\$ 428,106	\$ 677,005	\$ (248,899)
Tons sold	20,149	33,108	(12,959)

On a consolidated basis, coal sales decreased in the first quarter of 2016 from the first quarter of 2015, primarily due to the reduction in thermal volume of approximately \$203 million. The Powder River Basin accounts for approximately 83% of the value of the thermal volume decrease. Metallurgical and thermal pricing contributed approximately \$35 million and \$20 million to the reduction in coal sales respectively. Increased metallurgical volume offset these decreases by approximately \$8 million. See discussion in *Regional Performance* for further information about regional results.

Costs, expenses and other. The following table summarizes costs, expenses and other components of operating income for the three months ended March 31, 2016 and compares it with the information for the three months ended March 31, 2015:

	Three Months Ended March 31,		
	2016	2015	(Increase) Decrease in Net Loss
	(In thousands)		
Cost of sales (exclusive of items shown separately below)	\$ 419,316	\$ 562,322	\$ 143,006
Depreciation, depletion and amortization	63,699	104,874	41,175
Amortization of acquired sales contracts, net	(833)	(3,390)	(2,557)
Change in fair value of coal derivatives and coal trading activities, net	1,210	1,220	10
Asset impairment and mine closure costs	85,520		(85,520)
Selling, general and administrative expenses	19,826	22,605	2,779
Other operating (income) expense, net	(2,220)	9,086	11,306
Total costs, expenses and other	\$ 586,518	\$ 696,717	\$ 110,199

Cost of sales. Our cost of sales decreased in the first quarter of 2016 from the first quarter of 2015 due to reduced operating activity related to the significant volume decline, and lower input pricing, particularly for diesel fuel. Major categories of reduction include sales sensitive costs (approximately \$51 million), maintenance (approximately \$29

million), contractor mining costs (approximately \$22 million), labor and benefits (approximately \$22 million), and diesel fuel (approximately \$15 million). See discussion in *Regional Performance* for further information about regional results.

Depreciation, depletion and amortization. When compared with the first quarter of 2015, depreciation, depletion and amortization costs decreased in 2016 due to the impairment of certain long lived assets in the third and fourth quarters of 2015 and the significantly reduced volume levels.

Asset impairment and mine closure costs. During the first quarter of 2016 we received notification of intent to idle operations by a third party to whom we leased certain Appalachian reserves. As a result of the idling and weakness in the thermal coal market, we determined these reserves were impaired. See Note 6, *Asset Impairment and Mine Closure Costs* to the condensed consolidated financial statements for further discussion.

Selling, general and administrative expenses. Total selling, general and administrative expenses decreased when compared with the first quarter of 2015, primarily due to lower compensation and professional services expense.

Table of Contents

Other operating (income) expense, net. Other operating income for the first quarter of 2016 was favorable to other operating expense for the first quarter of 2015 primarily due to a reduction in cost for liquidated damages on logistics contracts of approximately \$11 million. Substantially all of our agreements for export logistics that resulted in liquidated damages have been rejected in our Chapter 11 bankruptcy proceedings.

Nonoperating Expense. The following table summarizes our nonoperating expense for the three months ended March 31, 2016 and compares it with the information for the three months ended March 31, 2015:

	Three Months Ended March 31, 2016		2015 (In thousands)		(Increase) Decrease in Net Loss
Expenses related to proposed debt restructuring	\$	(2,213)	\$		(2,213)
Reorganization items, net		(3,875)			(3,875)
Total nonoperating expense	\$	(6,088)	\$		(6,088)

Nonoperating expenses in the first quarter of 2016 are related to our proposed debt restructuring activities and Chapter 11 reorganization efforts.

Benefit from income taxes. The following table summarizes our benefit from income taxes for the three months ended March 31, 2016 and compares it with the information for the three months ended March 31, 2015:

	Three Months Ended March 31, 2016		2015 (In thousands)		(Increase) Decrease in Net Loss
Benefit from income taxes	\$	(1,111)	\$	(3,396)	(2,285)

The income tax benefit rate of 0.5% in the first quarter of 2016 decreased from 2.9% in the first quarter of 2015 due to an increase in the percentage of calculated tax benefit subject to a valuation allowance. See further discussion in Note 12, *Income Taxes*, to the condensed consolidated financial statements.

Reconciliation of NON-GAAP measures*Segment coal sales per ton sold*

Segment coal sales per ton sold are calculated as the segment's coal sales revenues divided by segment tons sold. The segment's sales per tons sold are adjusted for transportation costs, and may be adjusted for other items that, due to accounting rules, are classified in other operating (income) expense, net on the statement of operations, but relate to price protection on the sale of coal. Segment sales per ton sold is not a

Edgar Filing: ARCH COAL INC - Form 10-Q

measure of financial performance in accordance with generally accepted accounting principles. We believe segment sales per ton sold better reflects our revenue for the quality of coal sold and our operating results by including all income from coal sales. The adjustments made to arrive at these measures are significant in understanding and assessing our financial condition. Therefore, segment coal sales revenues should not be considered in isolation, nor as an alternative to coal sales revenues under generally accepted accounting principles.

Table of Contents

	Three Months Ended March 31,	
	2016	2015
	(In thousands)	
Reported segment coal sales revenues	\$ 390,461	\$ 634,903
Coal risk management derivative settlements classified in other (income) expense, net	146	(971)
Transportation costs	37,499	43,073
Coal sales	\$ 428,106	\$ 677,005

Segment cost per ton sold

Segment costs per ton sold are calculated as the segment's cost of tons sold divided by segment tons sold. The segment's cost of tons sold are adjusted for transportation costs, and may be adjusted for other items that, due to accounting rules, are classified in other (income) expense, net on the statement of operations, but relate directly to the costs incurred to produce coal. Segment cost of tons sold is not a measure of financial performance in accordance with generally accepted accounting principles. We believe segment cost of tons sold better reflects our controllable costs and our operating results by including all costs incurred to produce coal. The adjustments made to arrive at these measures are significant in understanding and assessing our financial condition. Therefore, segment cost of tons sold should not be considered in isolation, nor as an alternative to cost of sales under generally accepted accounting principles.

	Three Months Ended March 31,	
	2016	2015
	(In thousands)	
Reported segment cost of tons sold	\$ 442,351	\$ 612,758
Diesel fuel risk management derivative settlements classified in other (income) expense, net	(1,334)	(1,224)
Transportation costs	37,499	43,073
Depreciation, depletion and amortization in reported segment cost of tons sold presented on separate line on statement of operations	(62,234)	(103,143)
Other (other operating segments, operating overhead, etc.)	3,034	10,858
Cost of sales	\$ 419,316	\$ 562,322

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 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.

Table of Contents

	Three Months Ended March 31,	
	2016	2015
	(In thousands)	
Reported Segment Adjusted EBITDA	\$ 11,289	\$ 113,560
Corporate and other	(21,315)	(31,788)
Adjusted EBITDA	(10,026)	81,772
Benefit from income taxes	1,111	3,396
Interest expense, net	(43,313)	(96,879)
Depreciation, depletion and amortization	(63,699)	(104,874)
Amortization of acquired sales contracts, net	833	3,390
Asset impairment and mine closure costs	(85,520)	
Nonoperating expenses	(6,088)	
Net loss	\$ (206,702)	\$ (113,195)

Corporate and other includes primarily selling, general and administrative expenses, income from our equity investments, certain actuarial adjustments, and certain changes in the fair value of coal derivatives and coal trading activities. Corporate and other adjusted EBITDA improved \$10.5 million in the first quarter 2016 when compared to the first quarter 2015 due to \$2.8 million of reduced expenses recorded in the Statement of Operations line item Selling, general and administrative expenses, \$2.8 million in losses on investments in the prior year quarter, \$2.8 million accrued for a customer settlement in the prior year quarter, and \$2.0 million improvement in mark to market of heating oil derivatives.

Liquidity and Capital Resources

Our primary sources of liquidity are proceeds from coal sales to customers and certain financing arrangements. Excluding significant investing activity, we have historically satisfied our working capital requirements and funded capital expenditures and debt-service obligations with cash generated from operations, cash on hand and credit extensions under any available lines of credit. During the market down cycle our focus is preserving liquidity and prudently managing costs, including capital expenditures.

The filing of the Bankruptcy Petitions constituted an event of default that accelerated our obligations under our Debt Instruments, all as further described in Note 11, Debt and Financing Arrangements, to this Form 10-Q. Pursuant to the Bankruptcy Code, the filing of the Bankruptcy Petitions automatically stayed most actions against the Debtors, including most actions to collect indebtedness incurred prior to the Petition Date or to exercise control over the Debtors' property. Accordingly, although the filing of the Bankruptcy Petitions triggered defaults under Debt Instruments, creditors are stayed from taking action as a result of these defaults. Additionally, under Section 502(b)(2) of the Bankruptcy Code, the Company is no longer required to pay interest on its senior unsecured notes and senior secured notes accruing on or after the Petition Date. However, the Debtors will be required to pay interest on amounts borrowed under the Superpriority Secured Debtor-in-Possession Credit Agreement (as amended on March 4, 2016, March 28, 2016 and April 26, 2016, the DIP Credit Agreement).

On March 31, 2016, we had \$594.2 million of cash and liquid securities on hand. Based on our current internal financial forecasts, we believe that our cash on hand, cash generated from the results of our operations and funds available under our DIP Credit Agreement will be sufficient to fund anticipated cash requirements until a plan of reorganization is confirmed for minimum operating and capital expenditures and for working capital purposes. However, given the current level of volatility in the market and the unpredictability of certain costs that could potentially arise in our operations, our liquidity needs could be significantly higher than we currently anticipate. In particular, weak coal market industry conditions, depressed metallurgical coal prices and reduced domestic thermal coal demand may continue to impact our results of operations and our available liquidity.

Debtor-In-Possession Financing

On January 21, 2016, the Superpriority Secured Debtor-in-Possession Credit Agreement (as amended on March 4, 2016, March 28, 2016 and April 26, 2016, the DIP Credit Agreement) was entered into by and among us, as borrower, certain of the Debtors, as guarantors (the Guarantors and, together with us, the Loan Parties), the lenders from time to time party thereto (the DIP Lenders) and Wilmington Trust, National Association, as administrative agent and collateral agent for the DIP Lenders (in such capacities, the DIP Agent).

Table of Contents

The DIP Credit Agreement which has been approved by the Court on a final basis provides for a super-priority senior secured debtor-in-possession credit facility (the DIP Facility) consisting of term loans (collectively, the DIP Term Loan) in the aggregate principal amount of up to \$275 million that may be funded in not more than two draws not later than six months after the effective date of the DIP Facility (such six month period, the Availability Period). Any portion of the DIP Term Loan commitment that has not been funded on or prior to the end of the Availability Period will be permanently cancelled.

The maturity date of the DIP Facility is the earliest of (i) January 31, 2017, (ii) the date of the substantial consummation of a plan of reorganization that is confirmed pursuant to an order of the Court, (iii) the consummation of the sale of all or substantially all of the assets of the Loan Parties pursuant to Section 363 of the Bankruptcy Code and (iv) the date the obligations under the DIP Facility are accelerated pursuant to the terms of the DIP Credit Agreement. Borrowings under the DIP Facility bear interest at an interest rate per annum equal to, at the Company's option (i) LIBOR plus 9.00%, subject to a 1.00% LIBOR floor or (ii) the base rate plus 8.00%.

Obligations under the DIP Credit Agreement are guaranteed on a super-priority senior secured basis by all of our existing and future wholly-owned domestic subsidiaries, and all newly created or acquired wholly-owned domestic subsidiaries, subject to customary limited exceptions.

The lenders under the DIP Credit Agreement have a first priority lien on all encumbered and unencumbered assets of the Loan Parties (the DIP Lien), subject to a \$75 million carve-out for super-priority claims relating to the Debtors' bonding obligations, a customary professional fees carve-out and certain exceptions.

The following is a summary of cash provided by or used in each of the indicated types of activities during the three months ended March 31, 2016 and 2015:

	Three Months Ended March 31,	
	2016	2015
	(In thousands)	
Cash provided by (used in):		
Operating activities	\$ (10,098)	\$ (4,273)
Investing activities	(19,259)	(30,301)
Financing activities	(26,026)	(9,685)

Cash used in operating activities during the first quarter 2016 increased to \$10.1 million compared to \$4.3 million in the first quarter of 2015. The increased use of cash was driven by the increase in our net loss of \$93.5 million primarily related to the significant volume declines discussed in the Overview and Operational Performance sections of Management's Discussion and Analysis of Financial Condition and Results of Operations. This was partially offset by improvement in working capital compared to the prior year period, particularly inventory of \$50.6 million, and payables and other current liabilities of \$32.2 million, largely related to the automatic stay protections of our Chapter 11 bankruptcy filing.

We used \$19.3 million of cash in investing activities during the first quarter of 2016 compared to using \$30.3 million of cash in the first quarter of 2015, due to reduced capital expenditures of \$17.0 million and increased net proceeds from marketable securities transactions of \$2.9 million partially offset by increased deposits of restricted cash of \$8.6 million related to additional cash collateral required to support letters of credit

outstanding under our accounts receivable securitization facility.

Cash used in financing activities increased \$16.3 million in the first quarter of 2016, compared to the first quarter of 2015, due to financing costs associated with our DIP Facility of \$15.2 million and our amended accounts receivable securitization facility of \$3.2 million and pre-filing debt restructuring costs of \$2.2 million in the current quarter. These uses of cash were partially offset by the fact that no principal payment was made on the \$1.9 billion term loan facility as compared to \$4.9 million in the prior period.

Table of Contents**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:

	Three Months Ended March 31,	
	2016	2015
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 round to \$157.8 million and total fixed charges were \$46.7 million for the three months ended March 31, 2016. Total losses for the ratio calculation were \$0.0 million and total fixed charges were \$102.1 million for the three months ended March 31, 2015.

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 in market pricing.

Our sales commitments for 2016 and 2017 were as follows as of March 31, 2016:

	Tons (in millions)	2016 \$ per ton	Tons (in millions)	2017 \$ per ton
<u>Powder River Basin</u>				
Committed, Priced	70.5	\$ 13.31	38.6	\$ 13.83
Committed, Unpriced	3.7		8.5	
<u>Appalachia</u>				
Committed, Priced Thermal	3.7	\$ 53.06	1.4	\$ 46.76
Committed, Unpriced Thermal				
Committed, Priced Metallurgical	4.1	\$ 58.64		\$
Committed, Unpriced Metallurgical	0.4			
<u>Other Bituminous</u>				
Committed, Priced	3.8	\$ 32.54	3.3	\$ 33.57
Committed, Unpriced				

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 March 31, 2016. The estimated future realization of the value of the trading portfolio is \$4.9 million of gains in the remainder of 2016.

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. 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 its usefulness.

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.

Edgar Filing: ARCH COAL INC - Form 10-Q

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.

During the three months ended March 31, 2016, VaR for our coal trading positions that are recorded at fair value through earnings ranged from under \$0.1 million to \$0.3 million. The linear mean of each daily VaR was \$0.2 million. The final VaR at March 31, 2016 was \$0.2 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. Gains or losses on these derivative instruments would be largely offset in the pricing of the physical coal sale. During the three months ended March 31, 2016, VaR for our risk management positions that are recorded at fair value through earnings ranged from \$0.1 million to \$0.1 million. The linear mean of each daily VaR was \$0.1 million. The final VaR at March 31, 2016 was \$0.1 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 50 to 55 million gallons per year of diesel fuel for use in our operations during 2016. 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 March 31, 2016, we had protected the price of approximately 66% of its expected purchases for the remainder of the year with out-of-the-money call options with an average strike price of \$2.26 per gallon. Due to the drop in heating oil prices, the Company has layered in 16.5 million gallons of at-the-money call options for the remainder of 2016 representing 42% of expected purchases at an average strike price of \$1.30 per gallon. Additionally, we have protected approximately 5% of our expected 2017 purchases with out-of-the-money call options with an average strike price of 1.40 per gallon. At March 31, 2016, we had purchased heating oil call options for approximately 29 million gallons for the purpose of managing the price risk associated with future diesel purchases. 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.

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 March 31, 2016. 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 fiscal quarter 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.

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. Also, as a result of historical acquisitions or dispositions by us or other companies in our industry, we may time to time be subject to claims or legal actions, including in respect of certain employee or retiree health or pension benefits.

Permit Litigation Matters

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 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

Table of Contents

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 (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, D.C. 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 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 D.C. 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.

As a result of the Bankruptcy Petitions, much of the pending litigation against the Debtors is stayed. Subject to certain exceptions and approval by the Court, during the Chapter 11 process, no party can take further actions to recover pre-petition claims against the Debtors.

EPA Actions Related to Water Discharges from the Spruce Permit

Edgar Filing: ARCH COAL INC - Form 10-Q

By letter of September 3, 2009, the EPA asked the Corps of Engineers 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 of Engineers 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 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

Table of Contents

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.

On November 13, 2013, Mingo Logan filed a Petition for Writ of Certiorari with the Supreme Court of the United States seeking review of the D.C. Circuit's decision. On March 24, 2014, the Supreme Court denied Mingo Logan's Petition for Writ of Certiorari and remanded the matter to the federal district court for the District of Columbia for further consideration on the merits of the Final Determination. On September 30, 2014, the court entered an opinion and order denying Mingo Logan's motion for summary judgment and granting the government's motion for summary judgment. The court upheld the Final Determination finding that EPA's decision to withdraw the specifications for filling in Oldhouse Branch and Pigeonroost Branch under Mingo Logan's Section 404 permit was not arbitrary and capricious. On November 11, 2014, Mingo Logan filed a notice of appeal to the United States Court of Appeals for the District of Columbia Circuit. The court heard oral arguments on April 11, 2016 and the case stands submitted.

UMWA 1974 Pension Plan et al. v Peabody Energy and Arch

On July 16, 2015, the UMWA 1974 Pension Trust (Plan) and its Trustees filed a Complaint for Declaratory Judgment against Peabody Energy Corporation, Peabody Holding Company, LLC and Arch, in the U.S. District Court in Washington D.C., seeking an order from the court requiring the defendants to submit to arbitration to determine their responsibility for pension withdrawal liability (triggered by Patriot Coal Corporation's (Patriot) recent bankruptcy filing) for Plan participants of Patriot who formerly worked for Peabody and Arch subsidiaries. In the alternative, the complaint asks the court to declare that Peabody and Arch are liable for Patriot's withdrawal liability. With respect to Arch, plaintiffs allege that Arch engaged in actions to avoid and evade pension fund withdrawal liability when it sold subsidiaries that were signatory to UMWA agreements, to Magnum Coal Company (Magnum) in 2005, allegedly in violation of ERISA law. Patriot subsequently purchased Magnum in 2008. On October 29, 2015, plaintiffs filed an amended complaint to reflect that Patriot formally rejected its obligations to contribute to the Plan, triggering a withdrawal. The amended complaint further alleged that Arch owes \$299.8 million in withdrawal liability. On October 29, 2015, the UMWA Funds issued a letter to Arch demanding payment of this withdrawal liability amount. We believe there is no basis in the law to support any claim that Arch is responsible for Patriot's withdrawal liability and we plan to vigorously defend this complaint. Arch notified the District Court and the parties to the litigation of its bankruptcy filing and the automatic stay and, on January 21, 2016, the plaintiffs agreed that the automatic stay in the Chapter 11 Case applies to Arch and its affiliates that have filed bankruptcy petitions.

Filing Under Chapter 11 of the United States Bankruptcy Code

On January 11, 2016 (the *Petition Date*), Arch and substantially all of its wholly owned domestic subsidiaries (the *Filing Subsidiaries* and, together with Arch, the *Debtors*) filed voluntary petitions for reorganization (collectively, the *Bankruptcy Petitions*) under Chapter 11 of Title 11 of the U.S. Code (the *Bankruptcy Code*) in the United States Bankruptcy Court for the Eastern District of Missouri (the *Court*). The *Debtors* Chapter 11 Cases (collectively, the *Chapter 11 Cases*) are being jointly administered under the caption *In re Arch Coal, Inc., et al.* Case No. 16-40120 (lead case). Each Debtor will continue to operate its business as a *debtor in possession* under the jurisdiction of the Court and in accordance with the applicable

Table of Contents

provisions of the Bankruptcy Code and the orders of the Court. See Note 1, Basis of Presentation to the condensed consolidated financial statements for further discussion of these proceedings.

Pursuant to Section 362 of the Bankruptcy Code, the filing of the Bankruptcy Petitions automatically stayed most actions against the Debtors, including actions to collect indebtedness incurred prior to the Petition Date or to exercise control over the Debtors' property. Subject to certain exceptions under the Bankruptcy Code, the filing of the Debtors' Chapter 11 Cases also automatically stayed the continuation of most legal proceedings or the filing of other actions against or on behalf of the Debtors or their property to recover on, collect or secure a claim arising prior to the Petition Date or to exercise control over property of the Debtors' bankruptcy estates, unless and until the Court modifies or lifts the automatic stay as to any such claim. Notwithstanding the general application of the automatic stay described above, governmental authorities may determine to continue actions brought under their police and regulatory powers.

Item 1A. Risk Factors.

See Risk Factors in Item 1A of Part I of the Company's Annual Report on Form 10-K for the year ended December 31, 2015 for a complete review of important risk factors.

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 1,400,000 shares of our common stock. As of March 31, 2016, there were 1,092,580 shares of our common stock available for purchase under this program. We are prohibited from purchasing shares under this program during the pendency of our Chapter 11 Cases.

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 March 31, 2016.

Table of Contents

Item 6. Exhibits.

- 10.1 Amendment No. 2, dated as of March 25, 2016, to the Superpriority Secured Debtor-in-Possession Credit Agreement dated January 21, 2016.
- 10.2 Amendment No. 2, dated as of March 28, 2016, to the Restructuring Support Agreement dated January 10, 2016.
- 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.
- 95.0 Mine Safety Disclosure Exhibit.
- 101.0 Interactive Data File (Form 10-Q for the three months ended March 31, 2016 filed in XBRL). The financial information contained in the XBRL-related documents is unaudited and unreviewed.

Table of Contents

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.

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)

May 10, 2016