

ARCH COAL INC  
Form 10-Q  
November 09, 2016  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

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FORM 10-Q  
(Mark One)

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

For the quarterly period ended September 30, 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 43-0921172

(State or other jurisdiction (I.R.S. Employer  
of incorporation or organization) Identification Number)

One CityPlace Drive, Suite 300, St. Louis, Missouri 63141

(Address of principal executive offices) (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  Smaller reporting company

(Do not check if a smaller reporting company)

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

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Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes  No

At November 1, 2016, there were 24,999,358 shares of the registrant's common stock outstanding.

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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 September 30, 2016		Nine Months Ended September 30, 2016	
	2015	2015	2015	2015
	(Unaudited)			
Revenues	\$550,305	\$688,544	\$1,398,709	\$2,010,011
Costs, expenses and other operating				
Cost of sales (exclusive of items shown separately below)	450,427	540,192	1,288,785	1,668,766
Depreciation, depletion and amortization	69,423	103,965	191,581	306,211
Amortization of acquired sales contracts, net	104	(1,994)	(728)	(7,028)
Change in fair value of coal derivatives and coal trading activities, net	488	(3,559)	2,856	(1,128)
Asset impairment and mine closure costs	46	2,120,292	129,267	2,139,438
Losses from disposed operations resulting from Patriot Coal bankruptcy	—	149,314	—	149,314
Selling, general and administrative expenses	20,498	25,731	59,343	72,604
Other operating (income) expense, net	(2,476)	(8,625)	(15,257)	7,864
	538,510	2,925,316	1,655,847	4,336,041
Income (loss) from operations	11,795	(2,236,772)	(257,138)	(2,326,030)
Interest expense, net				
Interest expense (contractual interest of \$101,520 and \$300,852 for the three and nine months ended September 30, 2016)	(46,164)	(99,759)	(135,888)	(298,585)
Interest and investment income	582	672	2,653	4,007
	(45,582)	(99,087)	(133,235)	(294,578)
Loss before nonoperating expenses	(33,787)	(2,335,859)	(390,373)	(2,620,608)
Nonoperating expenses				
Expenses related to proposed debt restructuring	—	(7,482)	(2,213)	(11,498)
Reorganization items, net	(20,904)	—	(46,050)	—
	(20,904)	(7,482)	(48,263)	(11,498)
Loss before income taxes	(54,691)	(2,343,341)	(438,636)	(2,632,106)
Benefit from income taxes	(3,270)	(343,865)	(4,626)	(351,332)
Net loss	\$(51,421)	\$(1,999,476)	\$(434,010)	\$(2,280,774)
Net loss per common share				
Basic and diluted - Net loss per share	\$(2.41)	\$(93.91)	\$(20.38)	\$(107.16)
Basic and diluted weighted average shares outstanding	21,293	21,292	21,293	21,283

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

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Arch Coal, Inc. and Subsidiaries  
 (Debtor-in-Possession)  
 Condensed Consolidated Statements of Comprehensive Income (Loss)  
 (in thousands)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
	(Unaudited)			
Net loss	\$ (51,421)	\$ (1,999,476)	\$ (434,010)	\$ (2,280,774)
Derivative instruments				
Comprehensive income (loss) before tax	(149 )	(2,527 )	(535 )	(681 )
Income tax benefit (provision)	—	910	81	246
	(149 )	(1,617 )	(454 )	(435 )
Pension, postretirement and other post-employment benefits				
Comprehensive income (loss) before tax	2,243	1,182	(1,844 )	4,950
Income tax benefit (provision)	—	(425 )	481	(1,782 )
	2,243	757	(1,363 )	3,168
Available-for-sale securities				
Comprehensive income (loss) before tax	(438 )	(362 )	2,969	(3 )
Income tax benefit (provision)	—	128	(1,043 )	(4 )
	(438 )	(234 )	1,926	(7 )
Total other comprehensive income (loss)	1,656	(1,094 )	109	2,726
Total comprehensive loss	\$ (49,765)	\$ (2,000,570)	\$ (433,901)	\$ (2,278,048)

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

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

	September 30, 2016 (Unaudited)	December 31, 2015
Assets		
Current assets		
Cash and cash equivalents	\$400,205	\$450,781
Short term investments	111,451	200,192
Restricted cash	81,563	97,542
Trade accounts receivable (net of allowance for doubtful accounts of \$0 and \$7.8 million, respectively)	165,522	117,405
Other receivables	17,227	18,362
Inventories	159,410	196,720
Prepaid royalties	4,805	10,022
Coal derivative assets	2,180	8,035
Other current assets	36,960	39,866
Total current assets	979,323	1,138,925
Property, plant and equipment, net	3,434,941	3,619,029
Other assets		
Prepaid royalties	20,997	23,671
Equity investments	164,232	201,877
Other noncurrent assets	58,569	58,379
Total other assets	243,798	283,927
Total assets	\$4,658,062	\$5,041,881
Liabilities and Stockholders' Deficit		
Liabilities not subject to compromise		
Accounts payable	\$89,966	\$128,131
Accrued expenses and other current liabilities	223,780	329,450
Current maturities of debt	3,398	5,042,353
Total current liabilities	317,144	5,499,934
Long-term debt	30,037	30,953
Asset retirement obligations	394,699	396,659
Accrued pension benefits	23,716	27,373
Accrued postretirement benefits other than pension	87,123	99,810
Accrued workers' compensation	119,828	112,270
Other noncurrent liabilities	65,824	119,171
Total liabilities not subject to compromise	1,038,371	6,286,170
Liabilities subject to compromise	5,295,785	—
Total liabilities	6,334,156	6,286,170
Stockholders' deficit		
Common stock, \$0.01 par value, authorized 26,000 shares, issued 21,448 shares and 21,446 shares at September 30, 2016 and December 31, 2015, respectively	2,145	2,145

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Paid-in capital	3,056,307	3,054,211
Treasury stock, at cost, 152 shares at September 30, 2016 and December 31, 2015	(53,863 )	(53,863 )
Accumulated deficit	(4,678,977 )	(4,244,967 )
Accumulated other comprehensive loss	(1,706 )	(1,815 )
Total stockholders' deficit	(1,676,094 )	(1,244,289 )
Total liabilities and stockholders' deficit	\$4,658,062	\$5,041,881

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



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

	Nine Months Ended September 30,	
	2016	2015
	(Unaudited)	
Operating activities		
Net loss	\$(434,010)	\$(2,280,774)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation, depletion and amortization	191,581	306,211
Amortization of acquired sales contracts, net	(728)	(7,028)
Amortization relating to financing activities	12,800	18,960
Prepaid royalties expensed	4,791	6,661
Employee stock-based compensation expense	2,096	4,459
Asset impairment and non-cash mine closure costs	119,194	2,136,610
Non-cash bankruptcy reorganization items	(16,634)	—
Losses from disposed operations resulting from Patriot Coal bankruptcy	—	149,314
Expenses related to proposed debt restructuring	2,213	11,498
Gains on disposals and divestitures, net	(6,628)	(1,191)
Deferred income taxes	(419)	(347,180)
Changes in:		
Receivables	(42,787)	(3,165)
Inventories	34,604	(48,848)
Accounts payable, accrued expenses and other current liabilities	90,920	(19,338)
Income taxes, net	(4,217)	(4,303)
Other	15,990	(1,568)
Cash used in operating activities	(31,234)	(79,682)
Investing activities		
Capital expenditures	(82,434)	(109,250)
Additions to prepaid royalties	(305)	(5,808)
Proceeds from (consideration paid for) disposals and divestitures	(2,921)	1,020
Purchases of marketable securities	(98,750)	(203,094)
Proceeds from sale or maturity of marketable securities and other investments	187,006	248,362
Investments in and advances to affiliates	(3,440)	(7,944)
Withdrawals (deposits) of restricted cash	15,979	(44,732)
Cash provided by (used in) investing activities	15,135	(121,446)
Financing activities		
Payments on term loan	—	(14,625)
Net payments on other debt	(12,083)	(12,192)
Expenses related to proposed debt restructuring	(2,213)	(11,498)
Debt financing costs	(20,181)	—
Cash used in financing activities	(34,477)	(38,315)
Decrease in cash and cash equivalents	(50,576)	(239,443)
Cash and cash equivalents, beginning of period	450,781	734,231
Cash and cash equivalents, end of period	\$400,205	\$494,788

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

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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. ("Arch Coal") 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 and nine months ended September 30, 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 the Company affected a 1-for-10 reverse stock split of its 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"), Arch Coal and substantially all of its wholly owned domestic subsidiaries (the "Filing Subsidiaries" and, together with Arch Coal, the "Debtors"; the Debtors, solely following the effective date of the Plan, the "Reorganized 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). During the Chapter 11 Cases, each Debtor continues 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.

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.

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 the Debtors' bankruptcy estates, unless and until the Court modifies or lifts the automatic stay as to any such claim.

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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. During the Chapter 11 Cases, 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”) 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.

The Plan (as defined below) was confirmed by the Bankruptcy Court on September 13, 2016 and the Debtors emerged from bankruptcy on October 5, 2016. For further information, see Note 19, “Subsequent Events.”

### Restructuring Support Agreement

As previously disclosed, prior to the Petition Date, certain of the Debtors entered into a Restructuring Support Agreement, dated as of January 10, 2016, which agreement was amended (on February 25, 2016, March 28, 2016, April 26, 2016, May 5, 2016, June 10, 2016 and June 23, 2016). On July 5, 2016, the Debtors entered into an Amended and Restated Restructuring Support Agreement (the “Amended and Restated RSA”) with lenders holding more than 75% of the aggregate principal amount of loans outstanding under Arch’s pre-petition first lien credit facility, the statutory committee of unsecured creditors appointed in the Chapter 11 Cases pursuant to Section 1102 of the Bankruptcy Code (the “Committee”) and certain members of the Committee. On September 29, 2016, the Amended and Restated RSA was amended to extend the deadline for substantial consummation of the Plan to coincide with the Company’s emergence from bankruptcy on October 5, 2016.

### Confirmation of Plan of Reorganization

On September 13, 2016, the Bankruptcy Court entered an order, Docket No. 1324 (the “Confirmation Order”) confirming the Debtors’ Fourth Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code, dated September 11, 2016 (the “Plan”), which order was amended on September 15, 2016, Docket No. 1334.

The Plan’s effectiveness is subject to certain conditions being satisfied or waived, including, (a) the documents governing the Reorganized Debtors’ new \$326.5 million first lien debt facility (the “New First Lien Debt Facility”) shall have been duly executed and delivered by the Reorganized Debtors parties thereto, and all conditions precedent to the consummation of the New First Lien Debt Facility shall have been waived or satisfied in accordance with the terms thereof, and the closing of the New First Lien Debt Facility shall have occurred; (b) the Debtors’ existing securitization facility shall be reinstated on terms substantially as set forth in the Plan Supplement; (c) all documents and agreements necessary to implement the Plan, including the Plan Supplement and the Confirmation Order, shall have been executed; and (d) the Debtors shall have received all authorizations, consents, regulatory approvals, rulings, letters, no-action letters, opinions or documents that are necessary to implement the Plan and that are required by law, regulation or order. The date on which all conditions to the effectiveness of the Plan have been satisfied or waived is the “Effective Date” of the Plan. The Company satisfied all conditions contemplated by the Plan on October 5, 2016,

which is the Effective Date of the Plan and the date which the Debtors emerged from bankruptcy. For further information, see Note 19, "Subsequent Events."

The following is a summary of certain provisions of the Plan, as confirmed by the Bankruptcy Court pursuant to the Confirmation Order, and is not intended to be a complete description of the Plan.

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### Treatment of Claims

The Plan contemplates that:

Holders of allowed administrative expense claims, priority claims (other than administrative expense claims and priority tax claims) and secured claims (other than claims arising under priority claims, the prepetition first lien credit facility and prepetition second lien notes) will be paid in full.

Holders of allowed claims arising under the Debtors' prepetition first lien credit facility ("First Lien Credit Facility") will receive their pro rata distribution of (i) total cash payments equal to the greater of (A) \$144,796,527.78 less the amount of the adequate protection payments and (B) \$30,000,000; (ii) \$326.5 million in principal amount of New First Lien Debt Facility; and (iii) 94% of the common stock of Reorganized Arch Coal (the "New Common Stock"), subject to dilution on account of (a) any Class A Common Stock (as defined below) issued upon exercise of the warrants (the "New Warrants") issued pursuant to the Plan to purchase up to 12% of the fully diluted Class A Common Stock as of the Effective Date and exercisable at any time for a period of 7 years from the Effective Date at a strike price calculated based on a total equity capitalization of \$1.425 billion and (b) the issuance of New Common Stock in an amount of up to 10% of the New Common Stock, on a fully diluted basis, pursuant to a management incentive plan (the "Management Incentive Plan").

Holders of allowed claims on account of prepetition second lien or unsecured notes (the "Prepetition Notes") will receive their pro rata distribution of (i) \$22.636 million in cash, (ii) at such holder's election, either (A) such holder's pro rata share of the New Warrants or (B) such holder's pro rata share of \$25 million in cash and (iii) 6% of the New Common Stock (subject to dilution on account of any exercise of the New Warrants and pursuant to the Management Incentive Plan).

Holders of allowed general unsecured claims against Debtors (other than claims on account of the First Lien Credit Facility or Prepetition Notes) will receive their pro rata distribution of \$7.364 million cash, less fees and expenses incurred by any professionals retained by a claims oversight committee up to \$200,000.

The Reorganized Debtors will waive and release any claims or causes of action that they have, had, or may have that are based on sections 502(d), 544, 545, 547, 548, 549, 550, 551, 553(b) and 724(a) of the Bankruptcy Code and analogous non-bankruptcy law for all purposes against (i) prepetition trade creditors and (ii) officers, directors, employees or representatives of the Debtors or the Reorganized Debtors and all agents and representatives of all of the foregoing. However, the Reorganized Debtors will retain the right to assert any said claims as defenses or counterclaims in any cause of action brought by any creditor.

### New First Lien Debt Facility

Pursuant to the Plan and a condition to its effectiveness, holders of allowed claims on account of the First Lien Credit Facility will receive their pro rata share of the New First Lien Debt Facility to be entered into on the Effective Date in an aggregate original principal amount of \$326.5 million. The New First Lien Debt Facility will mature on the date that is five years after the Effective Date. Wilmington Trust, National Association will serve as administrative agent and collateral agent thereunder. Borrowings under the New First Lien Debt Facility will bear interest at a per annum rate equal to, at the option of Arch Coal, either (i) a London interbank offered rate ("LIBOR") plus an applicable margin of 9%, subject to a 1% LIBOR floor, or (ii) a base rate plus an applicable margin of 8%. Interest payments will be payable quarterly in cash, unless the Debtors' liquidity (as defined therein) after giving effect to the applicable interest payment would not exceed \$300 million, in which case interest may be payable in kind at the Company's option. The New First Lien Debt Facility will be guaranteed by all existing and future wholly owned domestic subsidiaries of Arch Coal subject to customary exceptions, and will be secured by first priority security interests on substantially all

assets of each Reorganized Debtor, including 100% of the voting equity interests of directly owned domestic subsidiaries and 65% of the voting equity interests of directly owned foreign subsidiaries, subject to customary exceptions.

Pursuant to the Plan, the Company entered into the New First Lien Debt Facility on October 5, 2016. For further information, see Note 19, "Subsequent Events."



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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. On May 9, 2016, the Securitization Facility was amended to exclude account receivables in respect of certain disposed mining operations of one of the Debtors and to effect the release of certain liens relating to such account receivables.

On the Effective Date, the Company expects to extend and amend the existing \$200 million trade accounts receivable securitization facility provided to Arch Receivable (the “Extended Securitization Facility”), which will continue to support the issuance of letters of credit and will also reinstate Arch Receivable’s ability to request cash advances as existed prior to the Petition Date. The Extended Securitization Facility will terminate at the earliest of (i) three years from the Effective Date, (ii) if Liquidity (defined in the Extended Securitization Facility) is less than \$175,000,000 for a period of 60 consecutive days, the date that is the 364th day after the first day of such 60 consecutive day period and (iii) the occurrence of certain predefined events substantially consistent with the existing transaction documents. Under the Extended Securitization Facility, Arch Receivable and certain of the Reorganized Debtors party to the Extended Securitization Facility will grant to the administrator of the Extended Securitization Facility a first priority security interest in eligible trade accounts receivable generated by such Debtors from the sale of coal and all proceeds thereof.

The Company extended and amended the Securitization Facility on October 5, 2016. For further information, see Note 19, “Subsequent Events.”

Going Concern

The Company’s previously issued consolidated financial statements included cautionary language about its ability to continue as a going concern due to the Chapter 11 Cases. The Company emerged from Chapter 11 protection on October 5, 2016 and believes it has sufficient liquidity to fund its operations. For further information, see Note 19, “Subsequent Events.”

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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  
\$104,723  
prior  
to  
revision  
Revision  
of  
debt  
(64,857 )  
issuance  
costs

Other  
current  
assets  
\$30,866  
as  
revised

Current  
maturities  
of  
debt  
\$1,107,210  
prior  
to  
revision  
Revision  
of  
debt  
(64,857 )  
issuance  
costs

\$1,042,353  
from  
maturities

of  
debt,  
as  
revised

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)	(138 )	—	701	563
Amounts reclassified from AOCI	(316 )	(1,363 )	1,225	(454 )
Balance at September 30, 2016	\$(129)	\$ (2,084 )	\$ 507	\$ (1,706 )

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The following amounts were reclassified out of AOCI:

	Amounts Reclassified from AOCI				Line Item in the Condensed Consolidated Statement of Operations
	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2016		
Details About AOCI Components	2016	2015	2016	2015	
	(In thousands)				
Derivative instruments	\$76	\$3,598	\$397	\$6,806	Revenues
	—	(1,295 )	(81 )	(2,452 )	Benefit from income taxes
	\$76	\$2,303	\$316	\$4,354	Net of tax
Pension, postretirement and other post-employment benefits					
Amortization of prior service credits <sup>(1)</sup>	\$2,510	\$2,083	\$7,854	\$6,250	
Amortization of actuarial gains (losses), net <sup>(1)</sup>	(4,753 )	(3,266 )	(6,010 )	(11,200 )	
	(2,243 )	(1,183 )	1,844	(4,950 )	
	—	426	(481 )	1,782	Benefit from income taxes
	\$(2,243)	\$(757 )	\$1,363	\$(3,168)	Net of tax
Available-for-sale securities	\$632	\$(1,081)	\$(2,263)	\$(5,308)	Interest and investment income
	—	358	1,038	1,914	Benefit from income taxes
	\$632	\$(723 )	\$(1,225)	\$(3,394)	Net of tax

<sup>1</sup> 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 three months ended September 30, 2016, the Company recorded a charge of \$20.9 million in "Reorganization items, net" comprised of professional fee expense of \$22.6 million, partially offset by non-cash gains on rejected contracts of \$1.7 million. Net cash paid for "Reorganization items, net" totaled \$16.0 million during the three months ended September 30, 2016.

During the nine months ended September 30, 2016, the Company recorded a charge of \$46.1 million in "Reorganization items, net" comprised of professional fee expense of \$62.7 million, partially offset by non-cash gains on rejected contracts of \$16.6 million. Net cash paid for "Reorganization items, net" totaled \$31.1 million during the nine months ended September 30, 2016.

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## 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 consist of the following:

	September 30, 2016 (in thousands)
Previously Reported Balance Sheet Line	
Debt	\$ 5,026,806
Accrued expenses and current liabilities	138,253
Accounts payable	90,926
Noncurrent liabilities	39,800
Total Liabilities Subject to Compromise	\$ 5,295,785

The debt balance included above is net of debt issuance costs of \$64.9 million; for additional information on debt, see Note 12, "Debt and Financing Arrangements."

## 6. Asset Impairment and Mine Closure Costs

During the third quarter of 2016, the Company recorded an immaterial amount of severance expense to "Asset impairment and mine closure costs" in the Condensed Consolidated Statements of Operations bringing the year-to-date total to \$129.3 million. 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 idled its mining operations; a \$38.0 million impairment of the Company's equity investment in a brownfield bulk commodity terminal on the Columbia River in Longview, Washington as the Company relinquished its ownership rights in exchange for future throughput rights; \$7.2 million of severance expense related to headcount reductions during the year; a \$3.6 million curtailment charge related to the Company's pension, postretirement health and black lung actuarial liabilities due to headcount reductions in the first half of the year; \$3.4 million 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.

During the third quarter of 2015, the Company recorded \$2,120.3 million of "Asset impairment and mine closure costs" in the Condensed Consolidated Statements of Operations due to the continued deterioration in thermal and metallurgical coal markets and projections for a muted pricing recovery. The Company determined that the further weakening of the pricing environment in the third quarter and the projected operating losses represented indicators of impairment with respect to certain of its long-lived assets or asset groups. Using current pricing expectations which reflected marketplace participant assumptions, life of mine cash flows were used to determine if the undiscounted cash flows exceeded the current asset values for certain operating complexes in the Company's Appalachia segment. Discounted cash flows were then utilized to reduce the carrying value of those assets to fair value. The discount rate

used reflected the current financial difficulties present in the commodities sector in general and coal mining specifically; the perceived risk of financing coal mining in light of industry defaults; and the lack of an active market for buying or selling coal mining assets. Additionally, the Company determined that the current market conditions represented an indicator of impairment for certain undeveloped coal properties that were acquired in times of significantly higher coal prices. Current prices and the significant capital outlay that would be required to develop these reserves indicated that the carrying value was not recoverable.

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## 7. Losses from disposed operations resulting from Patriot Coal bankruptcy

On December 31, 2005, the Company entered into a purchase and sale agreement with Magnum to sell certain operations. On July 23, 2008, Patriot acquired Magnum. On May 12, 2015, Patriot and certain of its wholly owned subsidiaries (“Debtors”), including Magnum, filed voluntary petitions for reorganization under Chapter 11 of the U.S. Code in the U.S. Bankruptcy Court for the Eastern District of Virginia. Subsequently, on October 28, 2015, Patriot’s Plan of Reorganization was approved, including an authorization to reject their collective bargaining agreements and modify certain union-related retiree benefits. As a result of the Plan of Reorganization, the Company became statutorily responsible for retiree medical benefits pursuant to Section 9711 of the Coal Industry Retiree Health Benefit Act of 1992 for certain retirees of Magnum who retired prior to October 1, 1994. In addition, the Company has provided surety bonds to Patriot related to permits that were sold to an affiliate of Virginia Conservation Legacy Fund, Inc. (“VCLF”). Should VCLF not perform the required reclamation, the Company would incur losses under the bonds and related indemnity agreements. During the third quarter of 2015, the Company recognized \$149.3 million in losses related to the previously disposed operations as a result of the Patriot Coal bankruptcy.

## 8. Inventories

Inventories consist of the following:

	September 30, 2016	December 31, 2015
	(In thousands)	
Coal	\$51,426	\$85,043
Repair parts and supplies	107,984	111,677
	\$159,410	\$196,720

The repair parts and supplies are stated net of an allowance for slow-moving and obsolete inventories of \$5.1 million at September 30, 2016 and \$6.0 million at December 31, 2015.

## 9. 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.

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

	September 30, 2016				Balance Sheet Classification	
	Cost Basis	Gross Unrealized Gains	Losses	Fair Value	Short-Term Investments	Other Assets
	(In thousands)					
Available-for-sale:						
U.S. government and agency securities	\$—	\$—	\$—	\$—	\$—	\$—
Corporate notes and bonds	111,545	8	(102)	111,451	111,451	—
Equity securities	913	786	—	1,699	—	1,699

Total Investments	\$112,458	\$794	\$(102)	\$113,150	\$111,451	\$1,699
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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 \$73.0 million and \$184.6 million at September 30, 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 \$28.6 million and \$15.8 million at September 30, 2016 and December 31, 2015, respectively. The unrealized losses in the Company's portfolio at September 30, 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 September 30, 2016 have maturity dates ranging from the third quarter of 2016 through the fourth 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.

## 10. 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 41 to 46 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. The Company has purchased 8.4 million gallons of call options for the remainder of 2016 representing 65% of expected purchases at an average strike price of \$1.40 per gallon. Additionally, the Company has protected approximately 49% of its expected 2017 purchases with call options with an average strike price of \$1.66 per gallon. At September 30, 2016, the Company had outstanding heating oil call options for approximately 22 million gallons for the purpose of managing the price risk associated with future diesel purchases. These positions are not designated as hedges for accounting purposes, and therefore, changes in the fair value are recorded immediately to earnings.

### 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, index-priced 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.

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At September 30, 2016, the Company held derivatives for risk management purposes that are expected to settle in the following years:

(Tons in thousands)	2016	2017	Total
Coal sales	55	540	595
Coal purchases	60	480	540

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 thermal coal demand. These options are not designated as hedges. Additionally, the

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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 metallurgical coal demand. These options are not designated 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 \$1.5 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)	September 30, 2016		December 31, 2015	
	Asset Derivative	Liability Derivative	Asset Derivative	Liability Derivative
Derivatives Designated as Hedging Instruments				
Coal	\$—	\$ (14 )	\$4	\$ (20 )
Derivatives Not Designated as Hedging Instruments				
Heating oil -- diesel purchases	3,964	—	1,017	—
Coal -- held for trading purposes	66,156	(64,730 )	110,653	(104,814)
Coal -- risk management	879	(576 )	3,912	(1,947 )
Natural gas	110	—	494	(247 )
Foreign currency	9	—	—	—
Total	71,118	(65,306 )	116,076	(107,008)
Total derivatives	71,118	(65,320 )	116,080	(107,028)
Effect of counterparty netting	(64,965)	64,965	(107,028)	107,028
Net derivatives as classified in the balance sheets	\$6,153	\$ (355 )	\$5,798	\$9,052

		September 30, 2016	December 31, 2015
Net derivatives as reflected on the balance sheets (in thousands)			
Heating oil and foreign currency	Other current assets	\$ 3,973	\$ 1,017
Coal and natural gas	Coal derivative assets	2,180	8,035
	Accrued expenses and other current liabilities	(355 )	—
		\$ 5,798	\$ 9,052

The Company had a current asset for the right to reclaim cash collateral of \$1.4 million at September 30, 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 “other current assets” in the accompanying Condensed Consolidated Balance Sheets.

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

## Derivatives used in Cash Flow Hedging Relationships (in thousands)

Three Months Ended September 30,

	Gain (Loss) Recognized in Other Comprehensive Income(Effective Portion)		Gains (Losses) Reclassified from Other Comprehensive Income into Income (Effective Portion)	
	2016	2015	2016	2015
Coal sales <sup>(1)</sup>	\$ (612 )	\$ 3,636	\$ 108	\$ 6,683
Coal purchases <sup>(2)</sup>	541	(2,561 )	(32 )	(3,084 )
Totals	\$ (71 )	\$ 1,075	\$ 76	\$ 3,599

No ineffectiveness or amounts excluded from effectiveness testing relating to the Company's cash flow hedging relationships were recognized in the results of operations in the three month periods ended September 30, 2016 and 2015.

## Derivatives Not Designated as Hedging Instruments (in thousands)

Three Months Ended September 30,

	Gain (Loss) Recognized	
	2016	2015
Coal — unrealized <sup>(3)</sup>	\$ (566 )	\$ (809 )
Coal — realized <sup>(4)</sup>	\$ (133 )	\$ 511
Natural gas — unrealized <sup>(3)</sup>	\$ (79 )	\$ (16 )
Heating oil — diesel purchases <sup>(4)</sup>	\$ (770 )	\$ (5,525 )
Foreign currency <sup>(4)</sup>	\$ (314 )	\$ (602 )

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

## Derivatives used in Cash Flow Hedging Relationships (in thousands)

Nine Months Ended September 30,

	Gain (Loss) Recognized in Other Comprehensive Income(Effective Portion)		Gains (Losses) Reclassified from Other Comprehensive Income into Income (Effective Portion)	
	2016	2015	2016	2015
Coal sales <sup>(1)</sup>	\$ (672 )	\$ 12,738	\$ 1,634	\$ 12,555
Coal purchases <sup>(2)</sup>	536	(6,612 )	(1,237 )	(5,748 )
Totals	\$ (136 )	\$ 6,126	\$ 397	\$ 6,807

No ineffectiveness or amounts excluded from effectiveness testing relating to the Company's cash flow hedging relationships were recognized in the results of operations in the nine month periods ended September 30, 2016 and 2015.

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## Derivatives Not Designated as Hedging Instruments (in thousands)

Nine Months Ended September 30,

	Gain (Loss) Recognized	
	2016	2015
Coal — unrealized	<sup>(3)</sup> \$ (1,662 )	\$ (2,095 )
Coal — realized	<sup>(4)</sup> \$ (476 )	\$ 2,428
Natural gas — unrealized	<sup>(3)</sup> \$ (463 )	\$ (78 )
Heating oil — diesel purchases <sup>(4)</sup>	\$ 826	\$ (7,262 )
Foreign currency	<sup>(4)</sup> \$ (451 )	\$ (602 )

## 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 September 30, 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 gains of \$4.4 million during the three months ended September 30, 2016 and 2015, respectively; and net unrealized and realized losses of \$0.9 million and net unrealized and realized gains of \$3.3 million during the nine months ended September 30, 2016 and 2015. 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.

## 11. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following:

	September 30, 2016	December 31, 2015
	(In thousands)	
Payroll and employee benefits	\$58,855	\$58,423
Taxes other than income taxes	100,737	104,755
Interest	162,895	119,785
Acquired sales contracts	—	3,852
Workers’ compensation	13,639	16,875
Asset retirement obligations	17,290	13,795
Other	8,617	11,965
	\$362,033	\$329,450
Less: liabilities subject to compromise	(138,253 )	—
	\$223,780	\$329,450

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## 12. Debt and Financing Arrangements

	September 30, 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	34,069	47,134
Debt issuance costs	(64,857 )	(64,857 )
	5,060,241	5,073,306
Less: liabilities subject to compromise	5,026,806	—
Less: current maturities of debt	3,398	5,042,353
Long-term debt	\$30,037	\$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 (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.

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.

The Debtors emerged from bankruptcy on October 5, 2016 and, as a result, the Company's outstanding obligations under the Debt Instruments were discharged. For further information, see Note 19, "Subsequent Events."

## Securitization Agreement

On January 13, 2016, the Company agreed with the Securitization Financing Providers that, subject to 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

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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. On May 9, 2016, the Securitization Facility was amended to exclude account receivables in respect of certain disposed mining operations of one of the Debtors and to effect the release of certain liens relating to such account receivables.

The Company extended and amended the Securitization Facility on October 5, 2016. For further information, see Note 19, “Subsequent Events.”

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, April 26, 2016, June 10, 2016, June 23, 2016, July 20, 2016 and September 28, 2016, the “DIP Credit Agreement”) was entered into by and among Arch Coal, as borrower, certain of the Debtors, as guarantors (the “Guarantors” and, together with the Company, the “DIP 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.

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 DIP 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 Coal, and all newly created or acquired wholly-owned domestic subsidiaries of Arch Coal, subject to customary limited exceptions.

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The lenders under the DIP Credit Agreement have a first priority lien on all encumbered and unencumbered assets of the DIP 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 DIP 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 Arch Coal and its domestic subsidiaries (other than any securitization subsidiary or bonding subsidiary), plus withdrawable funds from brokerage accounts of Arch Coal 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 (as defined below) 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 issued an order approving the DIP Facility on a final basis (the “Final Order”), 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.

Arch Coal entered into an amendment to the DIP Credit Agreement, dated as of July 20, 2016 which extended the availability period to borrow under the DIP Facility from July 21, 2016 to the earlier to occur of (i) September 30, 2016 and (ii) the termination of the DIP Facility with a corresponding extension to the period during which the 5% per annum unused commitment fee is applicable.

Arch Coal entered into an amendment to the DIP Credit Agreement, dated as of September 28, 2016, which (i) extended the availability period to borrow under the DIP Facility and (ii) extended the deadline for the Plan to become effective, in each case, to coincide with the Company’s emergence from bankruptcy on October 5, 2016, with a corresponding extension to the period during which the 5% per annum unused commitment fee is applicable.

The Company paid \$17.0 million in financing fees related to the DIP Facility which have been deferred and are being amortized over the term of the DIP Facility.

The Debtors emerged from bankruptcy on October 5, 2016 and all commitments under the DIP Credit Agreement were terminated. For further information, see Note 19, “Subsequent Events.”

Contractual Interest Expense

The Company has recorded interest expense of \$46.2 million and \$135.9 million for the three and nine months ended September 30, 2016, respectively, compared to \$99.8 million and \$298.6 million for the three and nine months ended September 30, 2015, respectively. The reduction in interest expense in the current year is due to the Company’s bankruptcy filing. The contractual interest expense parenthetically disclosed on the face of the income statement represents interest expense that the Company was obligated to pay prior to the bankruptcy filing.

13. Income Taxes

During 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 nine months ended September 30, 2016, the Company realized a net tax benefit of \$4.6 million, which included an expense to increase the valuation allowance of \$181.9 million for federal net operating losses and tax credits and \$9.3 million for the state net operating losses.

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During the nine months ended September 30, 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 \$616.0 million for the federal net operating losses and \$29.4 million for the state net operating losses.

## 14. 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 September 30, 2016.

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:

	September 30, 2016			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Assets:				
Investments in marketable securities	\$ 113,150	\$ 1,699	\$ 111,451	\$—
Derivatives	6,153	1,960	220	3,973
Total assets	\$ 119,303	\$ 3,659	\$ 111,671	\$ 3,973
Liabilities:				
Derivatives	\$ 355	\$ 224	\$—	\$ 131

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.



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

	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2016
	(In thousands)	
Balance, beginning of period	\$4,771	\$ 2,432
Realized and unrealized gains recognized in earnings, net	(1,888 )	(1,686 )
Realized and unrealized gains recognized in other comprehensive income, net	—	—
Purchases	1,586	5,021
Issuances	—	(488 )
Settlements	(627 )	(1,437 )
Ending balance	\$3,842	\$ 3,842

Net unrealized losses of \$0.5 million and \$0.0 million were recognized in the Condensed Consolidated Statement of Operations during the three and nine months ended September 30, 2016 related to Level 3 financial instruments held on September 30, 2016.

## Fair Value of Long-Term Debt

At September 30, 2016 and December 31, 2015, the fair value of the Company's debt, including amounts classified as current, was \$1.5 billion 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.

## 15. 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 was immaterial for both the three and nine months ended September 30, 2016, and 2015, respectively. The weighted average share impact 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 was immaterial for both the three and nine months ended September 30, 2016 and 2015, respectively.

## 16. Employee Benefit Plans

The following table details the components of pension benefit costs:

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
	2016	2015	2016	2015
	(In thousands)			
Service cost	\$—	\$2	\$—	\$7
Interest cost	2,803	3,688	9,338	10,953
Expected return on plan assets	(4,641)	(5,044)	(13,623)	(15,275)
Curtailments	—	526	454	526



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Amortization of other actuarial losses	2,292	1,395	3,973	6,638
Net costs	\$454	\$567	\$142	\$2,849

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

	Three Months		Nine Months	
	Ended September		Ended September	
	30,	30,	30,	2015
	2016	2015	2016	2015
	(In thousands)			
Service cost	\$128	\$216	\$393	\$649
Interest cost	951	321	3,223	964
Curtailments	—	—	(970 )	—
Amortization of prior service credits	(2,509 )	(2,084 )	(7,854 )	(6,251 )
Amortization of other actuarial losses (gains)	283	(527 )	(849 )	(1,582 )
Net credit	\$(1,147)	\$(2,074)	\$(6,057)	\$(6,220)

### 17. 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 September 30, 2016 and December 31, 2015, the Company had accrued \$2.9 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.

The Debtors emerged from bankruptcy on October 5, 2016 and, as a result, the automatic stay described above no longer applies, and all actions are permanently enjoined and precluded from proceeding to the extent they seek monetary compensation or claim breach of an obligation that gives rise to a right to payment, except to the extent that the claimant seeks payment solely from the proceeds of insurance coverage, and with respect to certain actions by governmental entities, in each case, as set forth in the Plan. For further information, see Note 19, "Subsequent Events" to this Form 10-Q.

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## 18. 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 EBITDAR, 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.

Operating segment results for the three and nine months ended September 30, 2016 and 2015 are presented below. The Company uses Adjusted EBITDAR to assess the operating segments' performance and to allocate resources. 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.

	PRB	APP	Other Operating Segments	Corporate, Other and Eliminations	Consolidated
	(in thousands)				
Three Months Ended September 30, 2016					
Revenues	\$295,891	\$190,704	\$63,710	\$ —	\$550,305
Adjusted EBITDAR	73,299	11,616	20,963	(24,510)	81,368
Depreciation, depletion and amortization	37,246	20,749	10,635	793	69,423
Amortization of acquired sales contracts, net	104	—	—	—	104
Capital expenditures	113	7,043	1,000	140	8,296
Three Months Ended September 30, 2015					
Revenues	\$390,360	\$205,573	\$92,611	\$ —	\$688,544
Adjusted EBITDAR	86,204	41,754	12,927	(6,080 )	134,805
Depreciation, depletion and amortization	47,321	44,098	11,193	1,353	103,965
Amortization of acquired sales contracts, net	(1,124 )	(870 )	—	—	(1,994 )
Capital expenditures	869	3,990	2,889	2,141	9,889
Nine Months Ended September 30, 2016					
Revenues	\$726,747	\$535,262	\$136,700	\$ —	\$1,398,709
Adjusted EBITDAR	96,242	13,261	18,230	(64,751)	62,982
Depreciation, depletion and amortization	100,151	62,500	26,678	2,252	191,581
Amortization of acquired sales contracts, net	134	(862 )	—	—	(728 )
Capital expenditures	612	17,413	3,910	60,499	82,434
Nine Months Ended September 30, 2015					
Revenues	\$1,124,046	\$653,310	\$232,655	\$ —	\$2,010,011
Adjusted EBITDAR	214,920	92,988	22,074	(68,077)	261,905
Depreciation, depletion and amortization	134,393	135,028	32,082	4,708	306,211
Amortization of acquired sales contracts, net	(3,170 )	(3,858 )	—	—	(7,028 )
Capital expenditures	22,263	15,323	7,199	64,465	109,250



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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(In thousands)			
Adjusted EBITDAR	\$81,368	\$134,805	\$62,982	\$261,905
Depreciation, depletion and amortization	(69,423 )	(103,965 )	(191,581 )	(306,211 )
Amortization of acquired sales contracts, net	(104 )	1,994	728	7,028
Asset impairment and mine closure costs	(46 )	(2,120,292 )	(129,267 )	(2,139,438 )
Losses from disposed operations resulting from Patriot Coal bankruptcy	—	(149,314 )	—	(149,314 )
Interest expense, net	(45,582 )	(99,087 )	(133,235 )	(294,578 )
Expenses related to proposed debt restructuring	—	(7,482 )	(2,213 )	(11,498 )
Reorganization items, net	(20,904 )	—	(46,050 )	—
Loss before income taxes	\$(54,691)	\$(2,343,341)	\$(438,636)	\$(2,632,106)

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19. Subsequent Events

Bankruptcy Items

On September 13, 2016, the Bankruptcy Court entered an order, Docket No. 1324, confirming the Debtors' Fourth Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code dated as of September 11, 2016 (the "Plan"), which order was amended on September 15, 2016, Docket No. 1334.

On October 5, 2016, Arch Coal satisfied the closing conditions contemplated by the Plan, which became effective on that date (the "Effective Date").

New First Lien Debt Facility

On the Effective Date, pursuant to the Plan and as a condition to its effectiveness, Arch Coal entered into a new senior secured term loan credit agreement in an aggregate principal amount of \$326.5 million with Wilmington Trust, National Association, as administrative agent and collateral agent (in such capacities, the "Agent") for the lenders party thereto from time to time (collectively, the "Lenders"). The Lenders are all institutions that previously committed to make loans to Arch Coal under the DIP Credit Agreement (as defined below), and pursuant to the Plan collectively received a distribution of 94% of Arch Coal's new common stock upon emergence. The New First Lien Debt Facility will mature on the date that is five years after the Effective Date.

Borrowings under the New First Lien Debt Facility bear interest at a per annum rate equal to, at the option of Arch Coal, either (i) a London interbank offered rate plus an applicable margin of 9%, subject to a 1% LIBOR floor (the "LIBOR Rate"), or (ii) a base rate plus an applicable margin of 8%. Interest payments will be payable in cash, unless Arch Coal's liquidity (as defined therein) after giving effect to the applicable interest payment would not exceed \$300 million, in which case interest may be payable in kind (any such interest that is paid in kind, the "PIK Interest"). The term loans provided under the New First Lien Debt Facility (the "Term Loans") are subject to quarterly principal amortization payments in an amount equal \$816,250. To the extent any interest is paid as PIK Interest on any interest payment date, the amount of the Term Loans in respect of which such PIK Interest is payable will be deemed to have accrued additional interest over the preceding interest period at 1.00%, which additional interest will be capitalized and added to the principal amount of outstanding Term Loans. The New First Lien Debt Facility is guaranteed by all existing and future wholly owned domestic subsidiaries of Arch Coal (collectively, the "Subsidiary Guarantors" and, together with Arch Coal, the "Exit Loan Parties"), subject to customary exceptions, and is secured by first priority security interests on substantially all assets of the Exit Loan Parties, including 100% of the voting equity interests of directly owned domestic subsidiaries and 65% of the voting equity interests of directly owned foreign subsidiaries, subject to customary exceptions. Arch Coal has the right to prepay Term Loans at any time and from time to time in whole or in part without premium or penalty, upon written notice, except that any prepayment of Term Loans that bear interest at the LIBOR Rate other than at the end of the applicable interest periods therefor shall be made with reimbursement for any funding losses and redeployment costs of the Lenders resulting therefrom. The New First Lien Debt Facility is subject to certain usual and customary mandatory prepayment events, including 100% of net cash proceeds of (i) debt issuances (other than debt permitted to be incurred under the terms of the New First Lien Debt Facility) and (ii) non-ordinary course asset sales or dispositions, subject to customary thresholds, exceptions and reinvestment rights. The New First Lien Debt Facility contains customary affirmative covenants and representations. The New First Lien Debt Facility also contains customary negative covenants, which, among other things, and subject to certain exceptions, include restrictions on (i) indebtedness, (ii) liens and guaranties, (iii) liquidations, mergers, consolidations, acquisitions, (iv) disposition of assets or subsidiaries, (v) affiliate transactions, (vi) creation or ownership of certain subsidiaries, partnerships and joint ventures, (vii) continuation of or change in business, (viii) restricted payments, (ix) prepayment of subordinated indebtedness, (x) restrictions in agreements on dividends,

intercompany loans and granting liens on the collateral, (xi) loans and investments, (xii) changes in organizational documents, (xiii) transactions with respect to bonding subsidiaries and (xiv) hedging transactions. The New First Lien Debt Facility does not contain any financial maintenance covenant. The New First Lien Debt Facility contains customary events of default, subject to customary thresholds and exceptions, including, among other things, (i) non-payment of principal and non-payment of interest and fees, (ii) a material inaccuracy of a representation or warranty at the time made, (iii) a failure to comply with any covenant, subject to customary grace periods in the case of certain affirmative covenants, (iv) cross-events of default to indebtedness of at least \$35 million, (v) cross-events of default to surety, reclamation or similar bonds securing obligations with an aggregate face amount of at least \$50 million, (vi) uninsured judgments in excess of \$35 million, (vii) any loan document shall cease to be a legal, valid and binding agreement, (viii) uninsured losses or proceedings against assets with a value in excess of \$35 million, (ix) ERISA events, (x) a change of control or (xi) bankruptcy or insolvency proceedings relating to Arch Coal or any material subsidiary of Arch Coal.

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## Securitization Facility

On the Effective Date, Arch Coal extended and amended its existing \$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 Arch Coal (“Arch Receivable”) (the “Extended Securitization Facility”), which continues to support the issuance of letters of credit and reinstates Arch Receivable’s ability to request cash advances, as existed prior to the filing of the voluntary petitions for relief under the Bankruptcy Code. Pursuant to the Extended Securitization Facility, the Debtors agreed to a revised schedule of fees payable to the administrator and the providers of the Extended Securitization Facility. The Extended Securitization Facility will terminate at the earliest of (i) three years from the Effective Date, (ii) if the Liquidity (defined in the Extended Securitization Facility and consistent with the definition in the New First Lien Debt Facility) is less than \$175,000,000 for a period of 60 consecutive days, the date that is the 364th day after the first day of such 60 consecutive day period and (iii) the occurrence of certain predefined events substantially consistent with the existing transaction documents. Under the Extended Securitization Facility, Arch Receivable and certain of the Reorganized Debtors (as defined above) party to the Extended Securitization Facility have granted to the administrator of the Extended Securitization Facility a first priority security interest in eligible trade accounts receivable generated by such Debtors from the sale of coal and all proceeds thereof.

## Warrant Agreement

On the Effective Date, Arch Coal entered into a warrant agreement (the “Warrant Agreement”) with American Stock Transfer & Trust Company, LLC as warrant agent and, pursuant to the terms of the Plan, issued warrants (“Warrants”) to purchase up to an aggregate of 1,914,856 shares of Class A Common Stock, par value \$0.01 per share, of Arch Coal (the “Class A Common Stock”) to holders of claims arising under the Cancelled Notes (as defined below). Each Warrant expires on October 5, 2023, and is initially exercisable for one share of Class A Common Stock at an initial exercise price of \$57.00 per share. The Warrants are exercisable by a holder paying the exercise price in cash or on a cashless basis, at the election of the holder. The Warrants contain anti-dilution adjustments for stock splits, reverse stock splits, stock dividends, dividends and distributions of cash, other securities or other property, spin-offs and tender and exchange offers by Arch Coal or its subsidiaries to purchase Class A Common Stock at above-market prices.

If, in connection with a merger, recapitalization, business combination, transfer to a third party of substantially all of Arch Coal’s consolidated assets or other transaction that results in a change to the Class A Common Stock (each, a “Transaction”), (i) the Transaction is consummated prior to the fifth anniversary of the Effective Date and the Transaction consideration to holders of Class A Common Stock is 90% or more listed common stock or common stock of a company that provides publicly available financial reporting, and holds management calls regarding the same, no less than quarterly (“Reporting Stock”) or (ii) regardless of the consideration, the Transaction is consummated on or after the fifth anniversary of the Effective Date, the Warrants will be assumed by the surviving company and will become exercisable for the consideration that the holders of Class A Common Stock receive in such Transaction; provided that if the consideration such holders receive consists solely of cash, then upon the consummation of such Transaction, Arch Coal will pay for each Warrant an amount of cash equal to the greater of (i) (x) the amount of cash payable with respect to the number of shares of Class A Common Stock underlying the Warrant minus (y) the exercise price per share then in effect multiplied by the number of shares of Class A Common Stock underlying the Warrant and (ii) \$0.

If a Transaction is consummated prior to the fifth anniversary of the Effective Date in which the Transaction consideration is less than 90% Reporting Stock, a portion of the Warrants corresponding to the portion of the Transaction consideration that is Reporting Stock will be assumed by the surviving company and will become exercisable for the Reporting Stock consideration that the holders of Class A Common Stock receive in such



Transaction, and the portion of the Warrants corresponding to the portion of the Transaction consideration that is not Reporting Stock will, at the option of each holder, (i) be assumed by the surviving company and will become exercisable for the consideration that the holders of Class A Common Stock receive in such Transaction or (ii) be redeemed by Arch Coal for cash in an amount equal to the Black Scholes Payment (as defined in the Warrant Agreement).

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Termination of Material Definitive Agreements

On the Effective Date, by operation of the Plan, all outstanding obligations under the following notes issued by Arch Coal and guaranteed by certain subsidiary guarantors, (collectively, the “Cancelled Notes”) were cancelled and the indentures governing such obligations were cancelled except as necessary to (a) enforce the rights, claims and interests of the applicable trustee vis-a-vis any parties other than the Debtors, (b) allow each trustee to receive distributions under the Plan and to distribute them to the holders of the Cancelled Notes in accordance with the terms of the applicable indenture, (c) preserve any rights of the applicable trustee to compensation, reimbursement and indemnification under each of the applicable indentures solely as against any money or property distributable to holders of Cancelled Notes, (iv) permit each of the trustees to enforce any obligation owed to them under the Plan and (v) permit each of the trustees to appear in the Chapter 11 cases or in any proceeding in the Bankruptcy Court or any other court:

7.000% Senior Notes due 2019, issued pursuant to an indenture dated as of June 14, 2011, by and among Arch Coal, as issuer, UMB Bank National Association, as trustee, and the guarantors named therein, as amended, supplemented or revised thereafter;

7.250% Senior Notes due 2020, issued pursuant to an indenture dated as of August 9, 2010, by and among Arch Coal, as issuer, U.S. Bank National Association, as trustee, and the guarantors named therein, as amended, supplemented or revised thereafter;

7.250% Senior Notes due 2021, issued pursuant to an indenture dated as of June 14, 2011, by and among Arch Coal, as issuer, UMB Bank National Association, as trustee, and the guarantors named therein, as amended, supplemented or revised thereafter;

9.875% Senior Notes due 2019, issued pursuant to an indenture dated as of November 21, 2012, by and among Arch Coal, as issuer, UMB Bank National Association, as trustee, and the guarantors named therein, as amended, supplemented or revised thereafter; and

8.000% Second Lien notes due 2019, issued pursuant to an indenture dated as of December 17, 2013, by and among Arch Coal, as issuer, Wilmington Savings Fund Society, as trustee and collateral agent as successor to UMB Bank National Association, and the guarantors named therein, as amended, supplemented or revised thereafter.

On the Effective Date, by operation of the Plan, all outstanding obligations under the following credit agreement (the “Prepetition Credit Agreement”) entered into by Arch Coal and guaranteed by certain of Arch Coal’s subsidiaries and the related collateral, guaranty and other definitive agreements relating to the Prepetition Credit Agreement were cancelled and the Prepetition Credit Agreement was cancelled except as necessary to (i) enforce the rights, claims and interests of the Prepetition Agent (as defined below) and any predecessor thereof vis-a-vis the Lenders and any parties other than the Debtors, (ii) to allow the Prepetition Agent to receive distributions under the Plan and to distribute them to the lenders under the Prepetition Credit Agreement and (iii) preserve any rights of the Prepetition Agent and any predecessor thereof as against any money or property distributable to holders of claims arising out of the Prepetition Credit Agreement or any related transaction documents, including any priority in respect of payment and the right to exercise any charging lien:

Amended and Restated Credit Agreement, dated as of June 14, 2011 (as amended by the First Amendment, dated as of May 16, 2012, the Second Amendment, dated as of November 20, 2012, the Third Amendment, dated as of November 21, 2012 and the Fourth Amendment, dated as of December 17, 2013), among Arch Coal, Inc., as borrower, the lenders from time to time party thereto, Wilmington Trust, National Association, in its capacities as term loan facility administrative agent (as successor to Bank of America, N.A. in such capacity) and collateral agent

(as successor to PNC Bank, National Association in such capacity) (in such capacities, the “Prepetition Agent”)

On the Effective Date, all outstanding obligations under the following credit agreement (the “DIP Credit Agreement”) other than contingent and/or unliquidated obligations were paid in cash in full, all commitments under the DIP Credit Agreement and the related transaction documents referred to therein as the “Loan Documents” were terminated, all liens on property of the Debtors arising out of or related to the DIP Facility terminated and the Loan Documents were cancelled except with respect to (a) contingent and and/or unliquidated obligations under the Loan Documents which survive the Effective Date and continue to be governed by the Loan Documents and (b) the relationships among the DIP Agent (as defined below) and the lenders under the DIP Credit Agreement, as applicable, including but not limited to, those provisions relating to the rights of the DIP Agent and the lenders to expense reimbursement, indemnification and other similar amounts, certain reinstatement obligations set forth in the DIP Credit Agreement and any provisions that may survive termination or maturity of the credit facility governed by the DIP Credit Agreement in accordance with the terms thereof:

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Superpriority Secured Debtor-In-Possession Credit Agreement, dated as of January 21, 2016 (as amended by the Waiver and Consent and Amendment No. 1, dated as of March 4, 2016, Amendment No. 2, dated as of March 28, 2016, Amendment No. 3, dated as of April 26, 2016, Amendment No. 4, dated as of June 10, 2016, Amendment No. 5, dated as of June 23, 2016, Amendment No. 6, dated as of July 20, 2016, and Amendment No. 7, dated as of September 28, 2016) among Arch Coal, Inc., as borrower, certain subsidiaries of Arch Coal, Inc., as guarantors, the lenders from time to time party there and Wilmington Trust, National Association, in its capacity as administrative agent and as collateral agent (in such capacities, the “DIP Agent”).

## Sales of Equity Securities

Under the Plan, 24,589,834 shares of Class A Common Stock and 410,166 shares of Class B Common Stock, par value \$.01 per share, (“Class B Common Stock” and together with Class A Common Stock, “Common Stock”) were distributed to the secured lenders and to certain holders of general unsecured claims under the Plan on the Effective Date. In addition, on the Effective Date, Arch Coal issued Warrants to purchase up to an aggregate of 1,914,856 shares of Class A Common Stock. Arch Coal relied, based on the confirmation order it received from the Bankruptcy Court, on Section 1145(a)(1) of the U.S. Bankruptcy Code to exempt from the registration requirements of the Securities Act of 1933, as amended (i) the offer and sale of Common Stock to the secured lenders and to the general unsecured creditors, (ii) the offer and sale of the Warrants to the holders of claims arising under the Cancelled Notes and (iii) the offer and sale of the Class A Common Stock issuable upon exercise of the Warrants. Section 1145(a)(1) of the Bankruptcy Code exempts the offer and sale of securities under a plan of reorganization from registration under Section 5 of the Securities Act and state laws if three principal requirements are satisfied:

the securities must be offered and sold under a plan of reorganization and must be securities of the debtor, of an affiliate participating in a joint plan of reorganization with the debtor or of a successor to the debtor under the plan of reorganization;

the recipients of the securities must hold claims against or interests in the debtor; and

the securities must be issued in exchange, or principally in exchange, for the recipient’s claim against or interest in the debtor.

## Accounting Impact of Emergence

Upon emergence, the Company will apply fresh start accounting to our consolidated financial statements because (i) the reorganization value of the assets of the emerging entity immediately before the date of confirmation was less than the total of all postpetition liabilities and allowed claims and (ii) the holders of the existing voting shares immediately before confirmation received less than 50 percent of the voting shares of the emerging entity. Our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 will reflect the consummation of the Plan and the adoption of fresh start accounting.

In the application of fresh start accounting, the Company will allocate our reorganization value to the fair value of assets and liabilities in conformity with the guidance for the acquisition method of accounting for business combinations. The amount remaining after allocation of the reorganization value to the fair value of identified tangible and intangible assets and liabilities, if any, will be reflected as goodwill and subject to periodic evaluation for impairment. In addition to fresh start accounting, the Company’s future consolidated financial statements will reflect all effects of the transactions contemplated by the Plan. Accordingly, the Company’s future financial statements will not be comparable in many respects to its consolidated financial statements for periods prior to the adoption of fresh

start accounting and prior to accounting for the effects of the Plan.

The Bankruptcy Court approved a range of \$650 million to \$950 million for its reorganization value. While the Company is currently in the process of determining the adjustments that will result from the application of fresh start accounting, the Company expects its final reorganization value to be at the higher end of the range approved by the Bankruptcy Court.

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## 20. Supplemental Consolidating Financial Information

Pursuant to the indentures governing Arch Coal, Inc.'s senior notes, certain wholly-owned subsidiaries of Arch Coal have fully and unconditionally guaranteed the senior notes on a joint and several basis.

Arch Coal 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.

The notes were discharged upon emergence from bankruptcy and are no longer outstanding.

Arch Coal, Inc. and Subsidiaries  
(Debtor-in-Possession)  
Condensed Consolidating Statements of Operations  
Three Months Ended September 30, 2016

	Parent/Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
	(In thousands)				
Revenues	\$—	\$ 550,305	\$ —	\$ —	\$ 550,305
Costs, expenses and other					
Cost of sales (exclusive of items shown separately below)	4,927	446,104	—	(604)	) 450,427
Depreciation, depletion and amortization	695	68,728	—	—	69,423
Amortization of acquired sales contracts, net	—	104	—	—	104
Change in fair value of coal derivatives and coal trading activities, net	—	488	—	—	488
Asset impairment and mine closure costs	—	46	—	—	46
Selling, general and administrative expenses	14,241	5,285	1,363	(391)	) 20,498
Other operating (income) expense, net	(1,599)	) (1,001)	) (871)	) 995	(2,476)
	18,264	519,754	492	—	538,510
Income from investment in subsidiaries	45,675	—	—	(45,675)	) —
Income (loss) from operations	27,411	30,551	(492)	) (45,675)	) 11,795
Interest expense, net					
Interest expense (contractual interest of \$101,520 for the three months ended September 30, 2016)	(68,022)	) (6,705)	) (2,238)	) 30,801	(46,164)
Interest and investment income	6,850	23,130	1,403	(30,801)	) 582
	(61,172)	) 16,425	(835)	) —	(45,582)
Expenses related to proposed debt restructuring	—	—	—	—	—
Reorganization items, net	(20,904)	) —	—	—	(20,904)
	(20,904)	) —	—	—	(20,904)
	(54,665)	) 46,976	(1,327)	) (45,675)	) (54,691)

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Income (loss) from continuing operations before income taxes				
Benefit from income taxes	(3,244 )	—	(26 )	—
Net income (loss)	\$(51,421)	\$46,976	\$(1,301)	\$(45,675)
Total comprehensive income (loss)	\$(49,765)	\$48,800	\$(1,301)	\$(47,499)

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Arch Coal, Inc. and Subsidiaries  
(Debtor-in-Possession)  
Condensed Consolidating Statements of Operations  
Three Months Ended September 30, 2015

	Parent/Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
	(In thousands)				
Revenues	\$—	\$688,544	\$ —	\$—	\$688,544
Costs, expenses and other					
Cost of sales (exclusive of items shown separately below)	3,211	537,471	—	(490	) 540,192
Depreciation, depletion and amortization	896	103,069	—	—	103,965
Amortization of acquired sales contracts, net	—	(1,994	) —	—	(1,994 )
Change in fair value of coal derivatives and coal trading activities, net	—	(3,559	) —	—	(3,559 )
Asset impairment and mine closure costs	21,292	2,099,000	—	—	2,120,292
Losses from disposed operations resulting from Patriot Coal bankruptcy	149,314	—	—	—	149,314
Selling, general and administrative expenses	18,059	6,725	1,489	(542	) 25,731
Other operating (income) expense, net	3,503	(12,343	) (817	) 1,032	(8,625 )
	196,275	2,728,369	672	—	2,925,316
Loss from investment in subsidiaries	(2,025,900	) —	—	2,025,900	—
Loss from operations	(2,222,175	) (2,039,825	) (672	) 2,025,900	(2,236,772 )
Interest expense, net					
Interest expense	(120,404	) (6,629	) (1,199	) 28,473	(99,759 )
Interest and investment income	6,710	20,781	1,654	(28,473	) 672
	(113,694	) 14,152	455	—	(99,087 )
Expenses related to debt restructuring	(7,482	) —	—	—	(7,482 )
Loss from continuing operations before income taxes	(2,343,351	) (2,025,673	) (217	) 2,025,900	(2,343,341 )
Provision for (benefit from) income taxes	(343,875	) —	10	—	(343,865 )
Net loss	\$(1,999,476)	\$(2,025,673)	\$ (227	) \$2,025,900	\$(1,999,476)
Total comprehensive loss	\$(2,000,570)	\$(2,026,697)	\$ (227	) \$2,026,924	\$(2,000,570)





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Arch Coal, Inc. and Subsidiaries  
 (Debtor-in-Possession)  
 Condensed Consolidating Statements of Operations  
 Nine Months Ended September 30, 2016

	Parent/Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
	(In thousands)				
Revenues	\$—	\$1,398,709	\$—	\$—	\$1,398,709
Costs, expenses and other					
Cost of sales (exclusive of items shown separately below)	10,463	1,280,020	—	(1,698)	) 1,288,785
Depreciation, depletion and amortization	2,188	189,393	—	—	191,581
Amortization of acquired sales contracts, net	—	(728)	) —	—	(728)
Change in fair value of coal derivatives and coal trading activities, net	—	2,856	—	—	2,856
Asset impairment and mine closure costs	6,330	122,937	—	—	129,267
Selling, general and administrative expenses	40,738	15,936	3,770	(1,101)	) 59,343
Other operating (income) expense, net	(6,151)	) (9,268)	) (2,637)	) 2,799	(15,257)
	53,568	1,601,146	1,133	—	1,655,847
Loss from investment in subsidiaries	(157,279)	) —	—	157,279	—
Loss from operations	(210,847)	) (202,437)	) (1,133)	) 157,279	(257,138)
Interest expense, net					
Interest expense (contractual interest of \$300,852 for the nine months ended September 30, 2016)	(200,387)	) (19,678)	) (6,779)	) 90,956	(135,888)
Interest and investment income	20,884	68,988	3,737	(90,956)	) 2,653
	(179,503)	) 49,310	(3,042)	) —	(133,235)
Expenses related to proposed debt restructuring	(2,213)	) —	—	—	(2,213)
Reorganization items, net	(46,050)	) —	—	—	(46,050)
	(48,263)	) —	—	—	(48,263)
Loss from continuing operations before income taxes	(438,613)	) (153,127)	) (4,175)	) 157,279	(438,636)
Benefit from income taxes	(4,603)	) —	(23)	) —	(4,626)
Net loss	\$ (434,010)	) \$ (153,127)	) \$ (4,152)	) \$ 157,279	\$ (434,010)
Total comprehensive loss	\$ (433,901)	) \$ (155,158)	) \$ (4,152)	) \$ 159,310	\$ (433,901)

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Arch Coal, Inc. and Subsidiaries  
(Debtor-in-Possession)  
Condensed Consolidating Statements of Operations  
Nine Months Ended September 30, 2015

	Parent/Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
	(In thousands)				
Revenues	\$—	\$2,010,011	\$ —	\$—	\$2,010,011
Costs, expenses and other					
Cost of sales (exclusive of items shown separately below)	16,589	1,654,348	—	(2,171 )	1,668,766
Depreciation, depletion and amortization	2,969	303,240	2	—	306,211
Amortization of acquired sales contracts, net	—	(7,028 )	—	—	(7,028 )
Change in fair value of coal derivatives and coal trading activities, net	—	(1,128 )	—	—	(1,128 )
Asset impairment and mine closure costs	22,517	2,116,921	—	—	2,139,438
Losses from disposed operations resulting from Patriot Coal bankruptcy	149,314	—	—	—	149,314
Selling, general and administrative expenses	50,664	19,239	4,262	(1,561 )	72,604
Other operating (income) expense, net	7,065	417	(3,350 )	3,732	7,864
	249,118	4,086,009	914	—	4,336,041
Loss from investment in subsidiaries	(2,035,313 )	—	—	2,035,313	—
Loss from operations	(2,284,431 )	(2,075,998 )	(914 )	2,035,313	(2,326,030 )
Interest expense, net					
Interest expense	(357,690 )	(19,969 )	(3,601 )	82,675	(298,585 )
Interest and investment income	21,457	60,811	4,414	(82,675 )	4,007
	(336,233 )	40,842	813	—	(294,578 )
Expenses related to debt restructuring	(11,498 )	—	—	—	(11,498 )
Loss from continuing operations before income taxes	(2,632,162 )	(2,035,156 )	(101 )	2,035,313	(2,632,106 )
Provision for (benefit from) income taxes	(351,388 )	—	56	—	(351,332 )
Net loss	\$(2,280,774)	\$(2,035,156)	\$ (157 )	\$2,035,313	\$(2,280,774)
Total comprehensive loss	\$(2,278,048)	\$(2,033,102)	\$ (157 )	\$2,033,259	\$(2,278,048)



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Arch Coal, Inc. and Subsidiaries  
(Debtor-in-Possession)  
Condensed Consolidating Balance Sheets  
September 30, 2016

	Parent/Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(In thousands)				
<b>Assets</b>					
Cash and cash equivalents	\$388,338	\$420	\$ 11,447	\$—	\$400,205
Short term investments	111,451	—	—	—	111,451
Restricted cash	—	—	81,563	—	81,563
Receivables	15,750	6,830	165,154	(4,985 )	182,749
Inventories	—	159,410	—	—	159,410
Other	21,333	20,007	2,605	—	43,945
Total current assets	536,872	186,667	260,769	(4,985 )	979,323
Property, plant and equipment, net	5,644	3,428,861	—	436	3,434,941
Investment in subsidiaries	5,958,449	—	—	(5,958,449 )	—
Intercompany receivables	—	3,713,223	—	(3,713,223 )	—
Note receivable from Arch Western	675,000	—	—	(675,000 )	—
Other	39,988	203,265	545	—	243,798
Total other assets	6,673,437	3,916,488	545	(10,346,672 )	243,798
Total assets	\$7,215,953	\$7,532,016	\$ 261,314	\$(10,351,221)	\$4,658,062
<b>Liabilities and Stockholders' Deficit</b>					
<b>Liabilities not subject to compromise</b>					
Accounts payable	\$37,516	\$52,410	\$ 40	\$—	\$89,966
Accrued expenses and other current liabilities	69,723	157,989	1,050	(4,982 )	223,780
Current maturities of debt	1,002	2,396	—	—	3,398
Total current liabilities	108,241	212,795	1,090	(4,982 )	317,144
Long-term debt	—	30,037	—	—	30,037
Intercompany payables	3,474,361	—	238,862	(3,713,223 )	—
Note payable to Arch Coal	—	675,000	—	(675,000 )	—
Asset retirement obligations	1,062	393,637	—	—	394,699
Accrued pension benefits	4,034	19,682	—	—	23,716
Accrued postretirement benefits other than pension	71,722	15,401	—	—	87,123
Accrued workers' compensation	17,620	102,208	—	—	119,828
Other noncurrent liabilities	26,718	38,824	282	—	65,824
Total liabilities not subject to compromise	3,703,758	1,487,584	240,234	(4,393,205 )	1,038,371
Liabilities subject to compromise	5,188,722	107,063	—	—	5,295,785
Total liabilities	8,892,480	1,594,647	240,234	(4,393,205 )	6,334,156
Stockholders' equity (deficit)	(1,676,527 )	5,937,369	21,080	(5,958,016 )	(1,676,094 )
Total liabilities and stockholders' deficit	\$7,215,953	\$7,532,016	\$ 261,314	\$(10,351,221)	\$4,658,062



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

	Parent/Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(In thousands)				
<b>Assets</b>					
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
<b>Liabilities and Stockholders' Deficit</b>					
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





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Arch Coal, Inc. and Subsidiaries  
(Debtor-in-Possession)  
Condensed Consolidating Statements of Cash Flows  
Nine Months Ended September 30, 2016

	Parent/Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(In thousands)				
Cash provided by (used in) operating activities	\$(186,456)	\$ 198,137	\$ (42,915 )	\$	—\$(31,234 )
Investing Activities					
Capital expenditures	(166 )	(82,268 )	—	—	(82,434 )
Additions to prepaid royalties	—	(305 )	—	—	(305 )
Proceeds from (consideration paid for) disposals and divestitures	—	(2,921 )	—	—	(2,921 )
Purchases of marketable securities	(98,750 )	—	—	—	(98,750 )
Proceeds from sale or maturity of marketable securities and other investments	187,006	—	—	—	187,006
Investments in and advances to affiliates	—	(3,440 )	—	—	(3,440 )
Change in restricted cash	—	—	15,979	—	15,979
Cash provided by (used) in investing activities	88,090	(88,934 )	15,979	—	15,135
Financing Activities					
Net payments on other debt	(4,430 )	(7,653 )	—	—	(12,083 )
Expenses related to proposed debt restructuring	(2,213 )	—	—	—	(2,213 )
Debt financing costs	(17,000 )	—	(3,181 )	—	(20,181 )
Transactions with affiliates, net	172,701	(201,558 )	28,857	—	—
Cash provided by (used in) financing activities	149,058	(209,211 )	25,676	—	(34,477 )
Increase (decrease) in cash and cash equivalents	50,692	(100,008 )	(1,260 )	—	(50,576 )
Cash and cash equivalents, beginning of period	337,646	100,428	12,707	—	450,781
Cash and cash equivalents, end of period	\$388,338	\$ 420	\$ 11,447	\$	—\$ 400,205

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Arch Coal, Inc. and Subsidiaries  
(Debtor-in-Possession)  
Condensed Consolidating Statements of Cash Flows  
Nine Months Ended September 30, 2015

	Parent/Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(In thousands)				
Cash provided by (used in) operating activities	\$(353,386)	\$ 279,503	\$ (5,799 )	\$	—\$(79,682 )
Investing Activities					
Capital expenditures	(956 )	(108,294 )	—	—	(109,250 )
Additions to prepaid royalties	—	(5,808 )	—	—	(5,808 )
Proceeds from disposals and divestitures	—	1,020	—	—	1,020
Purchases of marketable securities	(203,094 )	—	—	—	(203,094 )
Proceeds from sale or maturity of marketable securities and other investments	248,362	—	—	—	248,362
Investments in and advances to affiliates	(788 )	(7,156 )	—	—	(7,944 )
Change in restricted cash	—	—	(44,732 )	—	(44,732 )
Cash provided by (used in) investing activities	43,524	(120,238 )	(44,732 )	—	(121,446 )
Financing Activities					
Payments on term loan	(14,625 )	—	—	—	(14,625 )
Net payments on other debt	(5,814 )	(6,378 )	—	—	(12,192 )
Expenses related to proposed debt restructuring	(11,498 )	—	—	—	(11,498 )
Transactions with affiliates, net	132,257	(182,761 )	50,504	—	—
Cash provided by (used in) financing activities	100,320	(189,139 )	50,504	—	(38,315 )
Decrease in cash and cash equivalents	(209,542 )	(29,874 )	(27 )	—	(239,443 )
Cash and cash equivalents, beginning of period	572,185	150,358	11,688	—	734,231
Cash and cash equivalents, end of period	\$362,643	\$ 120,484	\$ 11,661	\$	—\$ 494,788

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

Overview

Our regional results during the third quarter of 2016, when compared to the third quarter of 2015, were impacted by significant declines in volume and pricing, reflecting the lingering effects of long term weakness in all of the markets in which we participate. We have responded by rationalizing volumes and shifting volumes to lower cost operations wherever possible. Additionally, we continue to manage input costs and capital expenditures.

Pricing for our metallurgical sales during the current quarter declined compared to the prior year quarter due to the overhang from the persistent global oversupply that had driven pricing to multi-year lows. Forward pricing continued to improve during the current quarter as supply rationalization took effect, economic growth, although slow, remained positive, and the U.S. dollar weakened slightly versus key foreign currencies. Late in the current quarter, forward metallurgical pricing improvement accelerated substantially as supply scarcity became evident. We believe this significant improvement was driven by supply rationalization in North America, a Chinese mandate to restrict its domestic supply, years of global underinvestment in the industry, and some specific international supply disruptions, particularly in Australia. We sold 1.8 million tons of metallurgical coal during the third quarter of 2016 compared to 1.6 million tons during the third quarter of 2015. Overseas thermal markets remained uneconomic for most U.S. production during the current quarter.

Domestic thermal coal volumes continued their significant year over year decline in all of our operating segments. The 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 reduce demand in domestic thermal markets. The mild winter weather resulted in decreased space heating demand for natural gas, driving pricing of the competing fuel during the first half 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 periods. 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. In the current quarter natural gas pricing increased as hotter than normal summer temperatures, increased gas exports, and stagnant gas production levels led to rising gas pricing, allowing coal burn to improve significantly from the first half of the current year. Utility coal stockpiles were reduced during the current quarter, but remain above historical averages.

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") were jointly administered under the caption In re Arch Coal, Inc., et al. Case No. 16-40120 (lead case). During the Chapter 11 Cases, each Debtor continued 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.

The Plan (as defined above) was confirmed by the Bankruptcy Court on September 13, 2016 and the Debtors emerged from bankruptcy on October 5, 2016. For further information, see Note 19, "Subsequent Events" to the Condensed Consolidated Financial Statements.



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## Results of Operations

## Three Months Ended September 30, 2016 Compared to Three Months Ended September 30, 2015

Revenues. Our revenues consist of coal sales. The following table summarizes information about our coal sales during the three months ended September 30, 2016 and compares it with the information for the three months ended September 30, 2015:

	Three Months Ended September 30,		
	2016	2015	(Decrease) / Increase
	(In thousands)		
Coal sales	\$550,305	\$688,544	\$(138,239)
Tons sold	27,525	34,802	(7,277 )

On a consolidated basis, coal sales decreased in the third quarter of 2016 from the third quarter of 2015, primarily due to the reduction in thermal tons sold of approximately \$122 million. The Powder River Basin accounts for approximately 72% of the value of the thermal volume decrease. Metallurgical and thermal pricing contributed approximately \$9 million and \$21 million to the reduction in coal sales respectively. Increased metallurgical volume offset these decreases by approximately \$13 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 September 30, 2016 and compares it with the information for the three months ended September 30, 2015:

	Three Months Ended September 30,		
	2016	2015	(Increase) Decrease in Net Loss
	(In thousands)		
Cost of sales (exclusive of items shown separately below)	\$450,427	\$540,192	\$89,765
Depreciation, depletion and amortization	69,423	103,965	34,542
Amortization of acquired sales contracts, net	104	(1,994 )	(2,098 )
Change in fair value of coal derivatives and coal trading activities, net	488	(3,559 )	(4,047 )
Asset impairment and mine closure costs	46	2,120,292	2,120,246
Losses from disposed operations resulting from Patriot Coal bankruptcy	—	149,314	149,314
Selling, general and administrative expenses	20,498	25,731	5,233
Other operating (income) expense, net	(2,476 )	(8,625 )	(6,149 )
Total costs, expenses and other	\$538,510	\$2,925,316	\$2,386,806

Cost of sales. Our cost of sales decreased in the third quarter of 2016 from the third 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 related royalties and operating taxes (approximately \$31 million), maintenance (approximately \$25 million), contractor mining costs (approximately \$5 million), labor and benefits (approximately \$23 million), and diesel fuel (approximately \$9 million). See discussion in “Regional Performance” for further information about regional results.

Depreciation, depletion and amortization. When compared with the third 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 third quarter of 2015 our testing indicated impairment of several active and undeveloped properties. Impairment costs in the third quarter of 2015 included assets at two operating complexes and a significant portion of our undeveloped coal reserves value. See Note 6, "Asset Impairment and Mine Closure Costs" to the condensed consolidated financial statements for further discussion.

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Losses from disposed operations relating to Patriot Coal bankruptcy. During the third quarter of 2015 we recorded liabilities for surety bond and employee obligations that we incurred as a result of the Patriot Coal bankruptcy. See Note 7, “Losses from disposed operations resulting from Patriot Coal bankruptcy” 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 third quarter of 2015, primarily due to reduced legal and other professional services costs, lower compensation and benefits, and lower professional dues expense.

Other operating (income) expense, net. Other operating income for the third quarter of 2016 was unfavorable compared to the third quarter of 2015 primarily due to a \$24 million gain from a contract settlement in the prior year quarter partially offset by a reduction in cost for liquidated damages on logistics contracts of approximately \$13 million, and favorable mark to market impact from heating oil positions of approximately \$3 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 September 30, 2016 and compares it with the information for the three months ended September 30, 2015:

	Three Months Ended September 30,		(Increase) Decrease in Net Loss
	2016	2015	
	(In thousands)		
Expenses related to proposed debt restructuring	\$—	\$(7,482)	\$7,482
Reorganization items, net	(20,904 )	—	(20,904 )
Total nonoperating expense	\$(20,904)	\$(7,482)	\$(13,422)

Nonoperating expenses in the third quarter of 2016 are related to our Chapter 11 reorganization efforts. See further discussion in Note 4, “Reorganization Items, Net”, to the condensed consolidated financial statements.

Benefit from income taxes. The following table summarizes our benefit from income taxes for the three months ended September 30, 2016 and compares it with the information for the three months ended September 30, 2015:

	Three Months Ended September 30,		(Increase) Decrease in Net Loss
	2016	2015	
	(In thousands)		
Benefit from income taxes	\$(3,270)	\$(343,865)	\$(340,595)

The income tax benefit rate of 6.0% in the third quarter of 2016 decreased from 14.7% in the third quarter of 2015 due to an increase in the percentage of calculated tax benefit subject to a valuation allowance. See further discussion in Note 13, “Income Taxes”, to the condensed consolidated financial statements.





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## Nine Months Ended September 30, 2016 Compared to Nine Months Ended September 30, 2015

Revenues. Our revenues consist of coal sales. The following table summarizes information about our coal sales during the nine months ended September 30, 2016 and compares it with the information for the nine months ended September 30, 2015:

	Nine Months Ended September 30,		(Decrease) / Increase
	2016	2015	
	(In thousands)		
Coal sales	\$1,398,709	\$2,010,011	\$(611,302)
Tons sold	67,128	98,483	(31,355 )

On a consolidated basis, coal sales decreased in the first nine months of 2016 from the first nine months of 2015, \$504 million of the reduction is primarily due to the reduction in thermal tons sold. The Powder River Basin accounts for approximately 75% of the value of the thermal volume decrease. Metallurgical and thermal pricing contributed approximately \$78 million and \$64 million to the reduction in coal sales respectively. Increased metallurgical volume offset these decreases by approximately \$35 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 nine months ended September 30, 2016 and compares it with the information for the nine months ended September 30, 2015:

	Nine Months Ended September 30,		(Increase) Decrease in Net Loss
	2016	2015	
	(In thousands)		
Cost of sales (exclusive of items shown separately below)	\$1,288,785	\$1,668,766	\$379,981
Depreciation, depletion and amortization	191,581	306,211	114,630
Amortization of acquired sales contracts, net	(728 )	(7,028 )	(6,300 )
Change in fair value of coal derivatives and coal trading activities, net	2,856	(1,128 )	(3,984 )
Asset impairment and mine closure costs	129,267	2,139,438	2,010,171
Losses from disposed operations resulting from Patriot Coal bankruptcy	—	149,314	149,314
Selling, general and administrative expenses	59,343	72,604	13,261
Other operating (income) expense, net	(15,257 )	7,864	23,121
Total costs, expenses and other	\$1,655,847	\$4,336,041	\$2,680,194

Cost of sales. Our cost of sales decreased in the first nine months of 2016 from the first nine months 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 related royalties and operating taxes (approximately \$130 million), maintenance (approximately \$78 million), contractor mining costs (approximately \$39 million), labor and benefits (approximately \$72 million), and diesel fuel (approximately \$36 million). See discussion in “Regional Performance” for further information about regional results.

Depreciation, depletion and amortization. When compared with the first nine months 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 that the value of these reserves was impaired. During the second quarter of 2016 we sold our interest in Millennium Bulk Terminal while retaining future throughput rights. As a result of the sale, our remaining equity investment in Millennium was impaired. During the third quarter of 2015 our testing indicated impairment of several active and undeveloped properties. Impairment costs in the third quarter of 2015 included assets at two operating complexes and a

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significant portion of our undeveloped coal reserves value. See Note 6, “Asset Impairment and Mine Closure Costs” to the condensed consolidated financial statements for further discussion.

Losses from disposed operations relating to Patriot Coal bankruptcy. During the third quarter of 2015 we recorded liabilities for surety bond and employee obligations that we incurred as a result of the Patriot Coal bankruptcy. See Note 7, “Losses from disposed operations resulting from Patriot Coal bankruptcy” 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 nine months of 2015, primarily due to lower compensation, legal and other professional services, and professional dues expense.

Other operating (income) expense, net. Other operating income for the first nine months of 2016 was favorable to other operating expense for the first nine months of 2015 primarily due to a reduction in cost for liquidated damages on logistics contracts of approximately \$39 million and gains on sales of an idle and an active operation of approximately \$6 million partially offset by a \$24 million gain from a contract settlement in the prior year quarter. 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 nine months ended September 30, and compares it with the information for the nine months ended September 30, 2015:

	Nine Months Ended September 30,		(Increase) Decrease in Net Loss
	2016	2015	
	(In thousands)		
Expenses related to proposed debt restructuring	\$(2,213 )	\$(11,498)	\$9,285
Reorganization items, net	(46,050 )	—	(46,050 )
Total nonoperating expense	\$(48,263)	\$(11,498)	\$(36,765)

Nonoperating expenses in the first nine months of 2016 are related to our proposed debt restructuring activities and Chapter 11 reorganization efforts. See further discussion in Note 4, “Reorganization Items, Net”, to the condensed consolidated financial statements.

Benefit from income taxes. The following table summarizes our benefit from income taxes for the nine months ended September 30, 2016 and compares it with the information for the nine months ended September 30, 2015:

	Nine Months Ended		(Increase) Decrease in Net Loss
	September 30, 2016	September 30, 2015	
	(In thousands)		
Benefit from income taxes	\$(4,626)	\$(351,332)	\$(346,706)

The income tax benefit rate of 1.1% in the first nine months of 2016 decreased from 13.3% in the first nine months of 2015 due to an increase in the percentage of calculated tax benefit subject to a valuation allowance. See further

discussion in Note 13, "Income Taxes", to the condensed consolidated financial statements.

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Regional Performance

The following table shows results by operating segment for the three and nine months ended September 30, 2016 and compares them with the information for the three and nine months ended September 30, 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.

	Three Months		Nine Months
	Ended		Ended
	September 30,		September 30,
	2016	2015	2016
			2015

Powder River Basin