ARCH COAL INC
Form 10-Q
August 09, 2016
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q
(Mark One)
ý Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2016
o 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 of incorporation or organization)	(I.R.S. Employer 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 ý No o
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 ý No o
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 o	Accelerated filer ý
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ý
At August 1, 2016 there were 21,293,090 shares of the registrant's common stock outstanding.

Table of Contents

TABLE OF CONTENTS

	Page
Part 1 FINANCIAL INFORMATION	3
Item 1. Financial Statements	3
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	34
Item 3. Quantitative and Qualitative Disclosure About Market Risk	43
Item 4. Controls and Procedures	44
Part II OTHER INFORMATION	44
Item 1. Legal Proceedings	44
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	47
Item 4. Mine Safety Disclosures	47
Item 6. Exhibits	48

Table of Contents

Part I
FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(Unaudited)			
Revenues	$420,298	$644,462	$848,404	$1,321,467
Costs, expenses and other operating				
Cost of sales (exclusive of items shown separately below)	419,042	566,252	838,358	1,128,574
Depreciation, depletion and amortization	58,459	97,372	122,158	202,246
Amortization of acquired sales contracts, net	1	(1,644)	(832)	(5,034)
Change in fair value of coal derivatives and coal trading activities, net	1,158	1,211	2,368	2,431
Asset impairment and mine closure costs	43,701	19,146	129,221	19,146
Selling, general and administrative expenses	19,019	24,268	38,845	46,873
Other operating (income) expense, net	(10,561)	7,403	(12,781)	16,489
	530,819	714,008	1,117,337	1,410,725
Loss from operations	(110,521)	(69,546)	(268,933)	(89,258)
Interest expense, net				
Interest expense (contractual interest of $100,767 and $199,332 for the three and six months ended June 30, 2016)	(45,273)	(99,574)	(89,724)	(198,826)
Interest and investment income	933	962	2,071	3,335
	(44,340)	(98,612)	(87,653)	(195,491)
Loss before nonoperating expenses	(154,861)	(168,158)	(356,586)	(284,749)
Nonoperating expenses				
Expenses related to proposed debt restructuring	—	(4,016)	(2,213)	(4,016)
Reorganization items, net	(21,271)	—	(25,146)	—
	(21,271)	(4,016)	(27,359)	(4,016)
Loss before income taxes	(176,132)	(172,174)	(383,945)	(288,765)
Benefit from income taxes	(245)	(4,071)	(1,356)	(7,467)
Net loss	$(175,887)	$(168,103)	$(382,589)	$(281,298)
Net loss per common share				
Basic and diluted - Net loss per share	$(8.26)	$(7.90)	$(17.97)	$(13.22)
Basic and diluted weighted average shares outstanding	21,293	21,291	21,293	21,279

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

Table of Contents

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(Unaudited)			
Net loss	$(175,887)	$(168,103)	$(382,589)	$(281,298)
Derivative instruments				
Comprehensive income (loss) before tax	(162)	(3,199)	(386)	1,846
Income tax benefit (provision)	—	1,153	81	(664)
	(162)	(2,046)	(305)	1,182
Pension, postretirement and other post-employment benefits				
Comprehensive income (loss) before tax	(2,749)	3,474	(4,087)	3,768
Income tax benefit (provision)	—	(1,252)	481	(1,357)
	(2,749)	2,222	(3,606)	2,411
Available-for-sale securities				
Comprehensive income (loss) before tax	504	68	3,407	359
Income tax benefit (provision)	—	(28)	(1,043)	(132)
	504	40	2,364	227
Total other comprehensive income (loss)	(2,407)	216	(1,547)	3,820
Total comprehensive loss	$(178,294)	$(167,887)	$(384,136)	$(277,478)

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

Table of Contents

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

	June 30, 2016 (Unaudited)	December 31, 2015
Assets		
Current assets		
Cash and cash equivalents	$269,814	$450,781
Short term investments	203,417	200,192
Restricted cash	102,236	97,542
Trade accounts receivable (net of allowance for doubtful accounts of $7.8 million for both periods, respectively.	129,087	117,405
Other receivables	15,377	18,362
Inventories	172,698	196,720
Prepaid royalties	7,737	10,022
Coal derivative assets	4,091	8,035
Other current assets	39,741	39,866
Total current assets	944,198	1,138,925
Property, plant and equipment, net	3,493,553	3,619,029
Other assets		
Prepaid royalties	20,997	23,671
Equity investments	163,772	201,877
Other noncurrent assets	62,705	58,379
Total other assets	247,474	283,927
Total assets	$4,685,225	$5,041,881
Liabilities and Stockholders' Deficit		
Liabilities not subject to compromise		
Accounts payable	$78,043	$128,131
Accrued expenses and other current liabilities	153,028	329,450
Current maturities of debt	—	5,042,353
Total current liabilities	231,071	5,499,934
Long-term debt	—	30,953
Asset retirement obligations	390,634	396,659
Accrued pension benefits	19,853	27,373
Accrued postretirement benefits other than pension	87,286	99,810
Accrued workers’ compensation	118,997	112,270
Other noncurrent liabilities	33,918	119,171
Total liabilities not subject to compromise	881,759	6,286,170
Liabilities subject to compromise	5,430,456	—
Total liabilities	6,312,215	6,286,170
Stockholders' deficit		
Common stock, $0.01 par value, authorized 26,000 shares, issued 21,448 shares and 21,446 shares at June 30, 2016 and December 31, 2015, respectively	2,145	2,145

Paid-in capital	3,055,646	3,054,211
Treasury stock, at cost, 152 shares at June 30, 2016 and December 31, 2015	(53,863)	(53,863)
Accumulated deficit	(4,627,556)	(4,244,967)
Accumulated other comprehensive loss	(3,362)	(1,815)
Total stockholders' deficit	(1,626,990)	(1,244,289)
Total liabilities and stockholders' deficit	$4,685,225	$5,041,881

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

Table of Contents

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

	Six Months Ended June 30,	
	2016	2015
	(Unaudited)	
Operating activities		
Net loss	$(382,589)	$(281,298)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation, depletion and amortization	122,158	202,246
Amortization of acquired sales contracts, net	(832)	(5,034)
Amortization relating to financing activities	7,657	12,539
Prepaid royalties expensed	1,770	3,939
Employee stock-based compensation expense	1,435	3,354
Asset impairment and non-cash mine closure costs	119,194	17,242
Non-cash bankruptcy reorganization items	(14,892)	—
Expenses related to proposed debt restructuring	2,213	4,016
Gains on disposals and divestitures, net	(6,269)	(1,325)
Deferred income taxes	(418)	(7,510)
Changes in:		
Receivables	(7,776)	12,433
Inventories	21,152	(33,743)
Accounts payable, accrued expenses and other current liabilities	84,160	(56,419)
Income taxes, net	(937)	(37)
Other	(6,278)	4,022
Cash used in operating activities	(60,252)	(125,575)
Investing activities		
Capital expenditures	(74,137)	(99,361)
Additions to prepaid royalties	(217)	(409)
Proceeds from (consideration paid for) disposals and divestitures	(3,303)	991
Purchases of marketable securities	(98,750)	(161,336)
Proceeds from sale or maturity of marketable securities and other investments	94,589	157,729
Investments in and advances to affiliates	(2,890)	(5,138)
Deposits of restricted cash	(4,695)	(37,885)
Cash used in investing activities	(89,403)	(145,409)
Financing activities		
Payments on term loan	—	(9,750)
Net payments on other debt	(10,293)	(9,826)
Expenses related to proposed debt restructuring	(2,213)	(4,016)
Debt financing costs	(18,806)	—
Cash used in financing activities	(31,312)	(23,592)
Decrease in cash and cash equivalents	(180,967)	(294,576)
Cash and cash equivalents, beginning of period	450,781	734,231
Cash and cash equivalents, end of period	$269,814	$439,655

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

Table of Contents

Arch Coal, Inc. and Subsidiaries
(Debtor-in-Possession)
Notes to Condensed Consolidated Financial Statements
(unaudited)

1. Basis of Presentation

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

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial reporting and U.S. Securities and Exchange Commission regulations. In the opinion of management, all adjustments, consisting of normal, recurring accruals considered necessary for a fair presentation, have been included. Results of operations for the three and six months ended June 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”), the Company and substantially all of its wholly owned domestic subsidiaries (the “Filing Subsidiaries” and, together with Arch, the “Debtors”) filed voluntary petitions for reorganization (collectively, the “Bankruptcy Petitions”) under Chapter 11 of Title 11 of the U.S. Code (the “Bankruptcy Code”) in the United States Bankruptcy Court for the Eastern District of Missouri (the “Court”). The Debtor’s Chapter 11 Cases (collectively, the “Chapter 11 Cases”) are being jointly administered under the caption In re Arch Coal, Inc., et al. Case No. 16-40120 (lead case). Each Debtor will continue to operate its business as a “debtor in possession” under the jurisdiction of the Court and in accordance with the applicable provisions of the Bankruptcy Code and the orders of the Court.
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. The Company expects that its existing common stock will be extinguished upon the Company's emergence from Chapter 11 and existing equity holders will not receive consideration in respect of their equity interests.

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

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

Table of Contents

the Debtors' bankruptcy estates, unless and until the Court modifies or lifts the automatic stay as to any such claim. Notwithstanding the general application of the automatic stay described above, governmental authorities may determine to continue actions brought under their police and regulatory powers.
As required by the Bankruptcy Code, the U.S. Trustee for the Eastern District of Missouri appointed an official committee of unsecured creditors (the "Creditors' Committee") on January 25, 2016. The Creditors' Committee represents all unsecured creditors of the Debtors and has a right to be heard on all matters that come before the Court.

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

Restructuring Support Agreement

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. See Note 18, "Subsequent Events."

Approval of the Disclosure Statement; Solicitation of Votes on the Plan; Confirmation Hearing

On July 6, 2016, the Company filed its Third Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code (the "Third Amended Plan") and its Disclosure Statement for the Third Amended Plan. On July 8, 2016, the Court entered an order authorizing the Company to solicit acceptances to the Third Amended Plan, setting a voting deadline of August 31, 2016 and scheduling a Confirmation Hearing with respect to the Third Amended Plan on September 13, 2016.

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 and June 23, 2016, the "DIP Credit Agreement") was entered into by and among the Company, as borrower, certain of the Debtors, as guarantors (the "Guarantors" and, together with the Company, the "Loan Parties"), the lenders from time to time party thereto (the "DIP Lenders") and Wilmington Trust, National Association, as administrative agent and collateral agent for the DIP Lenders (in such capacities, the "DIP Agent").

The DIP Credit Agreement, which has been approved by the Court on a final basis, provides for a super-priority senior secured debtor-in-possession credit facility (the "DIP Facility") consisting of term loans (collectively, the "DIP Term Loan") in the aggregate principal amount of up to $275 million.

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

At a hearing held on February 23, 2016 in the Chapter 11 Cases, the Court 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.

Table of Contents

The Company entered into an amendment to the DIP Credit Agreement, dated as of July 20, 2016. See Note 18, "Subsequent Events."

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.

Going Concern

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

The accompanying Condensed Consolidated Financial Statements have been prepared assuming that the Company will continue as a going concern. The accompanying consolidated financial statements do not include any adjustments related to the recoverability and classification of assets or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

Table of Contents

2. Accounting Policies

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

The following reflects the retrospective application:

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

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)	(65)	—	507	442
Amounts reclassified from AOCI	(240)	(3,606)	1,857	(1,989)
Balance at June 30, 2016	$20	$ (4,327)	$ 945	$ (3,362)

10

Table of Contents

The following amounts were reclassified out of AOCI:

Details About AOCI Components	Amounts Reclassified from AOCI				Line Item in the Condensed Consolidated Statement of Operations
	Three Months Ended June 30,		Six Months Ended June 30,		
	2016	2015	2016	2015	
	(In thousands)				
Derivative instruments	$96	$2,727	$321	$3,208	Revenues
	—	(983)	(81)	(1,157)	Benefit from income taxes
	$96	$1,744	$240	$2,051	Net of tax
Pension, postretirement and other post-employment benefits					
Amortization of prior service credits (1)	$2,672	$2,083	$5,344	$4,167	
Amortization of actuarial gains (losses), net (1)	77	(5,556)	(1,257)	(7,934)	
	2,749	(3,473)	4,087	(3,767)	
	—	1,251	(481)	1,356	Benefit from income taxes
	$2,749	$(2,222)	$3,606	$(2,411)	Net of tax
Available-for-sale securities	$—	$(1,430)	$(2,895)	$(4,227)	Interest and investment income
	—	549	1,038	1,556	Benefit from income taxes
	$—	$(881)	$(1,857)	$(2,671)	Net of tax

[1] Production-related benefits and workers' compensation costs are included in inventoriable production costs.

4. Reorganization items, net

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

During the three months ended June 30, 2016, the Company recorded a charge of $21.3 million in "Reorganization items, net" comprised of professional fee expense of $22.3 million, partially offset by non-cash gains on rejected contracts of $1.0 million. Net cash paid for "Reorganization items, net" totaled $13.6 million during the three months ended June 30, 2016.

During the six months ended June 30, 2016, the Company recorded a charge of $25.1 million in "Reorganization items, net" comprised of professional fee expense of $40.0 million, partially offset by non-cash gains on rejected contracts of $14.9 million. Net cash paid for "Reorganization items, net" totaled $15.1 million during the six months ended June 30, 2016.

Table of Contents

5. Liabilities Subject to Compromise

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

Liabilities subject to compromise consists of the following:

	June 30, 2016 (in thousands)
Previously Reported Balance Sheet Line	
Debt	$5,063,095
Accrued expenses and current liabilities	205,568
Accounts payable	100,047
Noncurrent liabilities	56,114
Accrued pension benefits	5,632
Total Liabilities Subject to Compromise	$5,430,456

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

6. Asset Impairment and Mine Closure Costs

During the second quarter of 2016, the Company recorded $43.7 million of "Asset impairment and mine closure costs" in the Condensed Consolidated Statements of Operations. The amount includes the following: 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; 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; and $2.1 million of severance expense related to headcount reductions during the quarter.

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

During the second quarter of 2015, the Company recorded $19.1 million of "Asset impairment and mine closure costs" in the Condensed Consolidated Statements of Operations. An impairment charge of $12.2 million relates to the portion of an advance royalty balance on a reserve base mined at the Company's Mountain Laurel, Spruce and Briar Branch operations that will not be recouped based on latest estimates of sales volumes and pricing through the recoupment period which runs through March 2017. Additionally, the Company recorded a $5.6 million impairment charge related to the closure of a higher cost mining complex, Cumberland River, serving the metallurgical coal markets.

Table of Contents

7. Inventories

Inventories consist of the following:

	June 30, 2016	December 31, 2015
	(In thousands)	
Coal	$61,874	$85,043
Repair parts and supplies	110,824	111,677
	$172,698	$196,720

The repair parts and supplies are stated net of an allowance for slow-moving and obsolete inventories of $6.5 million at June 30, 2016 and $6.0 million at December 31, 2015.

8. Investments in Available-for-Sale Securities

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

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

	June 30, 2016					
					Balance Sheet Classification	
		Gross Unrealized		Fair	Short-Term	Other
	Cost Basis	Gains	Losses	Value	Investments	Assets
	(In thousands)					
Available-for-sale:						
U.S. government and agency securities	$47,392	$120	$—	$47,512	$47,512	$—
Corporate notes and bonds	155,952	38	(85)	155,905	155,905	—
Equity securities	1,165	1,064	—	2,229	—	2,229
Total Investments	$204,509	$1,222	$(85)	$205,646	$203,417	$2,229

	December 31, 2015					
					Balance Sheet Classification	
		Gross Unrealized		Fair	Short-Term	Other
	Cost Basis	Gains	Losses	Value	Investments	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 $73.5 million and $184.6 million at June 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 $35.7 million and $15.8 million at June 30, 2016 and December 31, 2015, respectively. The unrealized losses in the Company's portfolio at June 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.

Table of Contents

The debt securities outstanding at June 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.

9. Derivatives

Diesel fuel price risk management

The Company is exposed to price risk with respect to diesel fuel purchased for use in its operations. The Company anticipates purchasing approximately 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. At June 30, 2016, the Company had protected the price of approximately 62% of its expected purchases for the remainder of the year with out-of-the-money call options with an average strike price of $2.25 per gallon. Due to the drop in heating oil prices, the Company has layered in 9.8 million gallons of at-the-money call options for the remainder of 2016 representing 49% of expected purchases at an average strike price of $1.32 per gallon. Additionally, the Company has protected approximately 18% of its expected 2017 purchases with out-of-the-money call options with an average strike price of $1.60 per gallon. At June 30, 2016, the Company had outstanding heating oil call options for approximately 20 million gallons for the purpose of managing the price risk associated with future diesel purchases. These positions are not accounted for as hedges.

Coal price risk management positions

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

At June 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	265	480	745
Coal purchases	165	—	165

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

Coal trading positions

The Company may sell or purchase forward contracts, swaps and options in the over-the-counter coal market for trading purposes. The Company is exposed to the risk of changes in coal prices on the value of its coal trading portfolio. The estimated future realization of the value of the trading portfolio is $2.7 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:

Table of Contents

Fair Value of Derivatives (In thousands)	June 30, 2016 Asset Derivative	June 30, 2016 Liability Derivative		December 31, 2015 Asset Derivative	December 31, 2015 Liability Derivative	
Derivatives Designated as Hedging Instruments						
Coal	$4	$ (50)		$4	$ (20)	
Derivatives Not Designated as Hedging Instruments						
Heating oil -- diesel purchases	4,266	—		1,017	—	
Coal -- held for trading purposes	46,401	(43,798)		110,653	(104,814)	
Coal -- risk management	1,306	(438)		3,912	(1,947)	
Natural gas	190	—		494	(247)	
Foreign currency	323	—		—	—	
Total	52,486	(44,236)		116,076	(107,008)	
Total derivatives	52,490	(44,286)		116,080	(107,028)	
Effect of counterparty netting	(43,810)	43,810		(107,028)	107,028	
Net derivatives as classified in the balance sheets	$8,680	$ (476)	$8,204	$9,052	$ —	$9,052

Net derivatives as reflected on the balance sheets (in thousands)		June 30, 2016	December 31, 2015
Heating oil and foreign currency	Other current assets	$4,589	$ 1,017
Coal and natural gas	Coal derivative assets	4,091	8,035
	Accrued expenses and other current liabilities	(476)	—
		$8,204	$ 9,052

The Company had a current asset for the right to reclaim cash collateral of $0.3 million at June 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.

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

Derivatives used in Cash Flow Hedging Relationships (in thousands)
Three Months Ended June 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 [1]	$ (73)	$ (1,163)	$ 157	$ 4,990
Coal purchases [2]	6	687	(61)	(2,263)
Totals	$ (67)	$ (476)	$ 96	$ 2,727

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 June 30, 2016 and 2015.

Table of Contents

Derivatives Not Designated as Hedging Instruments (in thousands)
Three Months Ended June 30,

		Gain (Loss) Recognized	
		2016	2015
Coal — unrealized	(3)	$ 19	$ (875)
Coal — realized	(4)	$ (180)	$ 826
Natural gas — unrealized	(3)	$ 235	$ (221)
Heating oil — diesel purchases	(4)	$ 2,039	$ 628
Foreign currency	(4)	$ 34	$ —

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)
Six Months Ended June 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	(1)	$ (60)	$ 9,102	$ 1,526	$ 5,872
Coal purchases	(2)	(5)	(4,051)	(1,205)	(2,664)
Totals		$ (65)	$ 5,051	$ 321	$ 3,208

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 six month periods ended June 30, 2016 and 2015.

Derivatives Not Designated as Hedging Instruments (in thousands)
Six Months Ended June 30,

		Gain (Loss) Recognized	
		2016	2015
Coal — unrealized	(3)	$ (1,096)	$ (1,286)
Coal — realized	(4)	$ (343)	$ 1,917
Natural gas — unrealized	(3)	$ (384)	$ (62)
Heating oil — diesel purchases	(4)	$ 1,596	$ (1,737)
Foreign currency	(4)	$ (137)	$ —

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 June 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 losses of $1.0 million and net unrealized and realized losses of $0.1 million during the three months ended June 30, 2016 and 2015, respectively; and net unrealized and realized losses of $1.0 million and net unrealized and realized losses of $1.1 million during the six months ended June 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.

Table of Contents

10. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following:

	June 30,	December 31,
	2016	2015
	(In thousands)	
Payroll and employee benefits	$58,801	$58,423
Taxes other than income taxes	97,445	104,755
Interest	162,506	119,785
Acquired sales contracts	—	3,852
Workers' compensation	13,576	16,875
Asset retirement obligations	17,297	13,795
Other	8,971	11,965
	$358,596	$329,450
Less: liabilities subject to compromise	(205,568)	—
	$153,028	$329,450

11. Debt and Financing Arrangements

	June 30,	December 31,
	2016	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	36,923	47,134
Debt issuance costs	(64,857)	(64,857)
	5,063,095	5,073,306
Less: liabilities subject to compromise	5,063,095	—
Less: current maturities of debt	—	5,042,353
Long-term debt	$—	$30,953

Acceleration of Debt Obligations; Automatic Stay

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

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

the automatic stay as to any such claim. Notwithstanding the general application of the automatic stay described above, governmental authorities may determine to continue actions brought under their police and regulatory powers.

Table of Contents

Securitization Agreement

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

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

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

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

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

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

In addition, in connection with the Amendments, the Debtors have granted superpriority claims against the Debtors and in favor of Arch Receivable, the administrator and the Securitization Financing Providers in respect of certain of the Debtors' obligations under the agreements governing the Securitization Facility, including the Repayment Amounts and certain other limited indemnification and other obligations of the Debtors under the agreements. 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.

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 and June 23, 2016, the “DIP Credit Agreement”) was entered into by and among the Company, as borrower, certain of the Debtors, as guarantors (the “Guarantors” and, together with the Company, the “Loan Parties”), the lenders from time to time party thereto (the “DIP Lenders”) and Wilmington Trust, National Association, as administrative agent and collateral agent for the DIP Lenders (in such capacities, the “DIP Agent”).

The DIP Credit Agreement, which has been approved by the Court on a final basis, provides for a super-priority senior secured debtor-in-possession credit facility (the “DIP Facility”) consisting of term loans (collectively, the “DIP Term Loan”) in the aggregate principal amount of up to $275 million.

Table of Contents

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

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

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

The Loan Parties are subject to certain financial maintenance covenants under the DIP Credit Agreement, including, without limitation, (i) maximum capital expenditures and (ii) minimum liquidity (defined as unrestricted cash and cash equivalents of the Company and its domestic subsidiaries (other than any securitization subsidiary or bonding subsidiary), plus withdrawable funds from brokerage accounts of the Company and its domestic subsidiaries (other than any securitization subsidiary or bonding subsidiary) plus any unused commitments that are available to be drawn by the Company pursuant to the terms of the DIP Credit Agreement) of (A) $300 million prior to the entry of the Final Order (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.

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

The Company entered into an amendment to the DIP Credit Agreement, dated as of July 20, 2016. See Note 18, "Subsequent Events."

The Company paid $15.6 million in financing fees related to the DIP Facility which have been deferred and are being amortized over the term of the DIP Facility.

Contractual Interest Expense

The Company has recorded interest expense of $45.3 million and $89.7 million for the three and six months ended June 30, 2016 compared to $99.6 million and $198.8 million for the three and six months ended June 30, 2015. 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.

Table of Contents

12. 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 six months ended June 30, 2016, the Company realized a net tax benefit of $1.4 million, which included a valuation allowance of $151.0 million for federal net operating losses and tax credits and $7.0 million for the state net operating losses.

During the six months ended June 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 $104.6 million for the federal net operating losses and $5.8 million for the state net operating losses.

13. Fair Value Measurements

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

· Level 1 is defined as observable inputs such as quoted prices in active markets for identical assets. Level 1 assets include available-for-sale equity securities, U.S. Treasury securities, and coal futures that are submitted for clearing on the New York Mercantile Exchange.

· Level 2 is defined as observable inputs other than Level 1 prices. These include quoted prices for similar assets or liabilities in an active market, quoted prices for identical assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. The Company's level 2 assets and liabilities include U.S. government agency securities and commodity contracts (coal and heating oil) with fair values derived from quoted prices in over-the-counter markets or from prices received from direct broker quotes.

· Level 3 is defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. These include the Company's commodity option contracts (coal, natural gas and heating oil) valued using modeling techniques, such as Black-Scholes, that require the use of inputs, particularly volatility, that are rarely observable. Changes in the unobservable inputs would not have a significant impact on the reported Level 3 fair values at June 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:

	June 30, 2016			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Assets:				
Investments in marketable securities	$205,646	$49,742	$155,904	$—
Derivatives	8,680	2,893	977	4,810
Total assets	$214,326	$52,635	$156,881	$4,810
Liabilities:				
Derivatives	$476	$437	$—	$39

The Company's contracts with its counterparties allow for the settlement of contracts in an asset position with contracts in a liability position in the event of default or termination. For classification purposes, the Company records the net fair value of all the positions with these counterparties as a net asset or liability. Each level in the table above displays the underlying contracts according to their classification in the accompanying Condensed Consolidated Balance Sheet, based on this counterparty netting.

Table of Contents

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

	Three Months Ended June 30, 2016	Six Months Ended June 30, 2016
	(In thousands)	
Balance, beginning of period	$2,702	$2,432
Realized and unrealized gains recognized in earnings, net	1,061	202
Realized and unrealized gains recognized in other comprehensive income, net	—	—
Purchases	2,073	3,435
Issuances	(255)	(488)
Settlements	(810)	(810)
Ending balance	$4,771	$4,771

Net unrealized gains of $1.4 million and $1.0 million were recognized in the Condensed Consolidated Statement of Operations during the three and six months ended June 30, 2016 related to Level 3 financial instruments held on June 30, 2016.

Fair Value of Long-Term Debt

At June 30, 2016 and December 31, 2015, the fair value of the Company’s debt, including amounts classified as current, was $928.5 million and $937.1 million, respectively. Fair values are based upon observed prices in an active market, when available, or from valuation models using market information, which fall into Level 2 in the fair value hierarchy.

14. Loss Per Common Share

The effect of options, restricted stock and restricted stock units that were excluded from the calculation of diluted weighted average shares outstanding because the exercise price or grant price of the securities exceeded the average market price of the Company's common stock was immaterial for both the three and six months ended June 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 six months ended June 30, 2016 and 2015, respectively.

15. Employee Benefit Plans

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(In thousands)			
Service cost	$—	$1	$—	$5
Interest cost	3,197	3,695	6,535	7,265
Expected return on plan assets	(4,444)	(4,466)	(8,982)	(10,231)
Curtailments	454	—	454	—
Amortization of other actuarial losses	924	3,185	1,681	5,243
Net costs (credits)	$131	$2,415	$(312)	$2,282

21

Table of Contents

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(In thousands)			
Service cost	$105	$200	$265	$433
Interest cost	1,138	308	2,272	643
Curtailments	(970)	—	(970)	—
Amortization of prior service credits	(2,672)	(2,083)	(5,345)	(4,167)
Amortization of other actuarial losses (gains)	(566)	(599)	(1,132)	(1,055)
Net credit	$(2,965)	$(2,174)	$(4,910)	$(4,146)

16. Commitments and Contingencies

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

In addition, the Company is a party to numerous other claims and lawsuits with respect to various matters. As of June 30, 2016 and December 31, 2015, the Company had accrued $2.8 million and $2.8 million, respectively, for all legal matters, of which all amounts are classified as current. The ultimate resolution of any such legal matter could result in outcomes which may be materially different from amounts the Company has accrued for such matters.

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

17. Segment Information

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

Operating segment results for the three and six months ended June 30, 2016 and 2015 are presented below. The Company uses Adjusted EBITDA to assess the operating segments' performance and to allocate resources. The Company's management believes that Adjusted EBITDA presents a useful measure of the Company's ability to service

existing debt and incur additional debt based on ongoing operations. Corporate, Other and Eliminations includes the change in fair value of coal derivatives and coal trading activities, net; corporate overhead; land management; other support functions; and the elimination of intercompany transactions.

Table of Contents

	PRB	APP	Other Operating Segments	Corporate, Other and Eliminations	Consolidated
	(in thousands)				
Three Months Ended June 30, 2016					
Revenues	$207,735	$170,940	$41,623	$ —	$420,298
Adjusted EBITDA	15,932	(5,963)	595	(18,924)	(8,360)