

ARCH COAL INC
Form 11-K
June 29, 2004

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 11-K

(X) ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2003

OR

() TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

Commission File Number 1-13105

Title of the Plan -

ARCH COAL, INC. EMPLOYEE THRIFT PLAN

Name and Address of the issuer of the Securities
Held Pursuant to the Plan -

Arch Coal, Inc.
One City Place Drive, Suite 300
St. Louis, Missouri 63141

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Exhibits:

23 Consent of Rubin, Brown, Gornstein & Co. LLP, Independent Registered Public Accounting Firm

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*ARCH COAL, INC.
EMPLOYEE THRIFT PLAN
FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002*

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Report of Independent Registered Public Accounting Firm

To the Pension Committee
Arch Coal, Inc. Employee Thrift Plan

We have audited the accompanying statement of net assets available for benefits of the Arch Coal, Inc. Employee Thrift Plan as of December 31, 2003 and 2002 and the related statement of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits at December 31, 2003 and 2002, and the changes in net assets available for benefits for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Rubin, Brown, Gornstein & Co. LLP

St. Louis, Missouri
May 26, 2004

Table of Contents**ARCH COAL, INC. EMPLOYEE THRIFT PLAN****STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS**

| | December 31, | |
|--|----------------------|----------------------|
| | 2003 | 2002 |
| Assets | | |
| Investments, At Fair Value (Note 3) | | |
| Money market | \$ 1,985,664 | \$ 1,564,190 |
| Mutual funds and common/collective fund | 142,291,793 | 106,587,507 |
| Guaranteed investment account | 59,292,820 | 55,380,598 |
| Company stock | 15,679,214 | 15,495,457 |
| Participant loans (Note 4) | 10,618,988 | 9,618,429 |
| Brokerage securities | 12,041,905 | 7,787,352 |
| | <hr/> | <hr/> |
| Total Investments | 241,910,384 | 196,433,533 |
| | <hr/> | <hr/> |
| Receivables | | |
| Employee contributions | 513,678 | |
| Employer contributions | 371,371 | |
| | <hr/> | <hr/> |
| Total Receivables | 885,049 | |
| | <hr/> | <hr/> |
| Net Assets Available For Benefits | \$242,795,433 | \$196,433,533 |
| | <hr/> | <hr/> |

See the accompanying notes to financial statements.

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Table of Contents**ARCH COAL, INC. EMPLOYEE THRIFT PLAN**

**STATEMENT OF CHANGES IN NET ASSETS
AVAILABLE FOR BENEFITS
For The Year Ended December 31, 2003**

| | For The Years Ended December 31, | |
|--|---|-----------------------------|
| | 2003 | 2002 |
| Additions To Net Assets Attributed To: | | |
| Investment Income (Loss) (Note 3) | | |
| Dividends and interest | \$ 5,040,693 | \$ 5,314,719 |
| Net appreciation (depreciation) in fair value of investments | <u>33,730,404</u> | <u>(26,599,478)</u> |
| Net Investment Income (Loss) | <u>38,771,097</u> | <u>(21,284,759)</u> |
| Contributions | | |
| Salary deferral contributions | 12,578,170 | 13,252,073 |
| Employer contribution | 9,835,130 | 10,224,095 |
| Employee after-tax contribution | 1,107,542 | 1,301,353 |
| Rollover contribution | <u>248,317</u> | <u>417,482</u> |
| Total Contributions | <u>23,769,159</u> | <u>25,195,003</u> |
| Total Additions | 62,540,256 | 3,910,244 |
| Deductions From Net Assets Attributed To: | | |
| Benefits paid directly to participants | <u>16,178,356</u> | <u>14,495,575</u> |
| Net Increase (Decrease) | 46,361,900 | (10,585,331) |
| Net Assets Available For Benefits - Beginning Of Year | <u>196,433,533</u> | <u>207,018,864</u> |
| Net Assets Available For Benefits - End Of Year | <u>\$242,795,433</u> | <u>\$196,433,533</u> |

See the accompanying notes to financial statements.

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ARCH COAL, INC. EMPLOYEE THRIFT PLAN

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 And 2002

1. Description Of The Plan

The Arch Coal, Inc. Employee Thrift Plan was established by Arch Coal, Inc. (Company) for the benefit of the eligible employees of the Company, its subsidiaries and controlled affiliates.

The following description of the Plan provides only general information. Participants should refer to the Summary Plan Description for a more complete description of the Plan s provisions.

Certain provisions of the Plan as described below do not apply to or have been modified for certain subsidiaries and affiliates of the Company.

General

The Plan, which has been adopted by Arch Coal, Inc. is a defined contribution profit sharing plan which includes a 401(k) provision. The Plan covers all full-time salaried employees, all full-time nonunion hourly employees, and certain union employees where specified by applicable collective bargaining agreements of the Company, its subsidiaries, and any controlled affiliates that elect to participate in the Plan. It is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

Contributions

Participants may elect to defer between 1 percent and 50 percent of compensation. Highly compensated employees may contribute up to 16%, with the exception of those employed at Mingo Logan who may contribute 17%. The percentage of employer match or nondiscretionary contribution depends upon the location.

Participant Accounts

Each participant s account is credited with the participant s contributions, the employer s matching contribution, if applicable, or employer non-discretionary contribution, if applicable, and an allocation of Plan earnings. The allocation of earnings is determined by the earnings of the participant s investment selection based on each participant s account balance, as defined in the Plan agreement. The benefit to which a participant is entitled is the benefit that can be provided from the participant s account.

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ARCH COAL, INC. EMPLOYEE THRIFT PLAN

Notes To Financial Statements (*Continued*)

Vesting

Participants are fully vested in their contributions plus actual earnings. All eligible employees of the Company at December 31, 1997 became fully vested in the Plan. Eligible employees hired subsequent to December 31, 1997 vest in Company contributions and earnings upon the completion of three full and consecutive years of service.

All participants become fully vested upon death while employed, total disability, or normal retirement age, regardless of the number of months of participation.

Participant Loans

Active participants, with some exceptions, may borrow from their fund accounts a minimum of \$500 or up to a maximum equal to the lesser of \$50,000 or 50 percent of their vested account balances. Loan terms range from one to five years or longer for the purchase of a primary residence. The loans are secured by the balance in the participant's account and bear interest at the prime rate listed in the Wall Street Journal on the first day of the month the loan is processed. Principal and interest is paid ratably through payroll deductions.

Payment Of Benefits

Upon death, termination of service, or attainment of age 70-1/2, a participant may elect to receive either a lump-sum amount equal to the value of the participant's vested interest in his or her account, a single annuity, a joint and survivorship annuity with various survivor options or a series of installment payments.

Forfeited Accounts

Forfeited amounts of employer contributions are used to offset future Company matching contributions of the Plan. At December 31, 2003 and 2002, forfeited amounts available to reduce future Company contributions were \$32,660 and \$273,997, respectively.

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ARCH COAL, INC. EMPLOYEE THRIFT PLAN

Notes To Financial Statements (*Continued*)

2. Summary Of Significant Accounting Policies

Estimates And Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis Of Accounting

The financial statements of the Plan are prepared under the accrual method of accounting.

Investment Valuation And Income Recognition

Investments in mutual funds are valued at reported net asset value at December 31 as determined by the fund manager.

Investment income is recorded as earned on the accrual basis.

Payment Of Benefits

Benefits are recorded when paid.

Table of Contents**ARCH COAL, INC. EMPLOYEE THRIFT PLAN**Notes To Financial Statements (*Continued*)**3. Investments**

The Company has established a Pension Committee to oversee the activities of the Plan and has appointed the Vice President Human Resources as the Plan Administrator. Fleet Bank is the trustee for the Plan and Putnam Fiduciary Trust Company is the Plan recordkeeper.

Investments at fair value as of December 31, 2003 and 2002 consist of the following:

| | December 31, | |
|---|---------------------|---------------------|
| | 2003 | 2002 |
| Putnam Money Market Fund | \$ 1,985,664 | \$ 1,564,190 |
| Mutual Funds And Common Collective Fund | | |
| American Century Income and Growth Fund | 31,939,049* | 23,606,930* |
| Barclay s Lifepath 2010 | 1,231,653 | 599,395 |
| Barclay s Lifepath 2020 | 659,003 | 554,161 |
| Barclay s Lifepath 2030 | 460,762 | 223,176 |
| Barclay s Lifepath 2040 | 513,702 | 238,111 |
| Dodge & Cox Balanced Fund | 17,197,822* | 12,219,588* |
| Franklin Templeton Balance Sheet Fund | 14,344,200* | 10,406,097* |
| Investment Company of America | 807,633 | 67,188 |
| PIMCO Total Return Fund | 14,780,880* | 13,867,234* |
| Putnam Asset Allocation: Balanced Fund | 623,708 | 63,475 |
| Putnam Growth Opportunities Fund | 18,255,101* | 14,182,019* |
| Putnam International Equity Fund | 10,363,034* | 7,833,417 |
| Putnam OTC Emerging Growth Fund | 2,642,801 | 1,304,682 |
| Putnam S&P 500 Index | 20,739,632* | 16,023,021* |
| Putnam Vista Fund | 7,732,813 | 5,399,013 |
| Total Mutual Funds And Common/Collective Fund | 142,291,793 | 106,587,507 |
| Arch Coal, Inc. Common Stock | 15,679,214* | 15,495,457* |
| Putnam Direct Personal Choice Retirement Account | 12,041,905 | 7,787,352 |

| | | |
|----------------------------------|-----------------------------|----------------------|
| Invesco Stable Value Fund | <u>59,292,820*</u> | <u>55,380,598*</u> |
| Participant Loans | <u>10,618,988*</u> | <u>9,618,429</u> |
| | <u>\$241,910,384</u> | <u>\$196,433,533</u> |

*Investment represents 5 percent or more of net assets at the beginning of the respective Plan year.

Table of Contents**ARCH COAL, INC. EMPLOYEE THRIFT PLAN**Notes To Financial Statements (*Continued*)**Changes In Net Assets Available For Benefits:**

| | For The Year Ended December 31, | |
|--|--|----------------|
| | 2003 | 2002 |
| Investment Income (Loss): | | |
| Dividends and interest | \$ 5,040,693 | \$ 5,314,719 |
| Net appreciation (depreciation) in fair value of investments | 33,730,404 | (26,599,478) |
| Net Investment Income (Loss) | \$38,771,097 | \$(21,284,759) |

Interest income on the Invesco Stable Value Fund is calculated and credited daily based on the aggregate contract yield of the underlying investments. The investment contracts included in this fund had an average yield of 4.32% and 4.51% for the years ended December 31, 2003 and 2002, respectively. The average crediting interest rate was 4.58% and 5.52% at December 31, 2003 and 2002, respectively. The fair value of the investment contract was \$59,292,820 and \$55,380,598 at December 31, 2003 and 2002, respectively.

4. Participants Loans

Notes receivable are secured by participants' vested balances. The notes are due in bi-weekly payments including principal and interest at varying rates reflective of the prime rate as of the time of issue. The final installments are due at various dates.

5. Plan Termination

Although it has not expressed intent to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan, subject to the provisions of ERISA. In the event of Plan termination, participants will become 100% vested in their accounts.

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ARCH COAL, INC. EMPLOYEE THRIFT PLAN

Notes To Financial Statements (*Continued*)

6. Tax Status

The Plan obtained its latest determination letter on September 26, 2002 in which the Internal Revenue Service stated that the Plan, as then designed, was in compliance with the applicable requirements of the Internal Revenue Code. The Plan has been amended since receiving the determination letter. The Plan Administrator and the Plan's tax counsel believe the Plan is correctly designed and operated with the applicable requirements of the Internal Revenue Code. Therefore, the Plan Administrator believes the Plan was qualified and the related trust tax exempt.

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Report of Independent Registered Public Accounting Firm On Supplementary Information

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of assets held at end of year is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ Rubin, Brown, Gornstein & Co. LLP

St. Louis, Missouri
May 26, 2004

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**ARCH COAL, INC. EMPLOYEE THRIFT PLAN
E.I.N. 43-0921172 PLAN 006**

**SCHEDULE OF ASSETS HELD AT END OF YEAR
December 31, 2003**

| Identity Of Issuer | Description Of Investment | Current Value |
|--|---|----------------------|
| Money Market | | |
| Putnam Investments | Putnam Money Market Fund | \$ 1,985,664 |
| Mutual Funds And Common/Collective Fund | | |
| American Century | American Century Income and Growth Fund | 31,939,049 |
| American Fund Corporation | Investment Company of America | 807,633 |
| Barclay Global Investors | Barclay s Lifepath 2010 | 1,231,653 |
| Barclay Global Investors | Barclay s Lifepath 2020 | 659,003 |
| Barclay Global Investors | Barclay s Lifepath 2030 | 460,762 |
| Barclay Global Investors | Barclay s Lifepath 2040 | 513,702 |
| Dodge & Cox Funds | Dodge & Cox Balanced Fund | 17,197,822 |
| Franklin Investments | Franklin Templeton Balance Sheet Fund | 14,344,200 |
| PIMCO Investments | PIMCO Total Return Fund | 14,780,880 |
| Putnam Investments | Putnam Asset Allocation: Balanced Fund | 623,708 |
| Putnam Investments | Putnam Growth Opportunities Fund | 18,255,101 |
| Putnam Investments | Putnam OTC Emerging Growth Fund | 2,642,801 |
| Putnam Investments | Putnam International Equity Fund | 10,363,034 |
| Putnam Investments | Putnam S&P 500 Index | 20,739,632 |
| Putnam Investments | Putnam Vista Fund | 7,732,813 |
| Total Mutual Funds And Common/Collective Fund | | 142,291,793 |
| Common Stock | | |
| Arch Coal, Inc. * | Common stock | 15,679,214 |
| Participant Directed Brokerage Accounts | | |
| Putnam | Putnam Direct Personal Choice Retirement Account (Participants Directed Brokerage Accounts) | 12,041,905 |
| Balance Carried Forward | | 171,998,576 |

* Represents party-in-interest

The above information is a required disclosure for IRS Form 5500, Schedule H, Part IV, line 4i.

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**ARCH COAL, INC. EMPLOYEE THRIFT PLAN
E.I.N. 43-0921172 PLAN 006
SCHEDULE OF ASSETS HELD AT END OF YEAR**

December 31, 2003

| Identity Of Issuer | Description Of Investment | Current Value |
|--|----------------------------------|----------------------|
| Balance Brought Forward | | <u>\$171,998,576</u> |
| Guaranteed Investment Account - | | |
| Invesco Stable Value Fund | | |
| Bank of America NT & SA | 01-257 | 9,832,625 |
| Bank of America NT & SA Wrapper | 01-257 | (442,130) |
| ING Life & Annuity | 60034 | 7,034,964 |
| ING Life & Annuity Wrapper | 60034 | (268,247) |
| JP Morgan Chase Bank | 433119-MGC | 10,675,032 |
| JP Morgan Chase Bank Wrapper | 433119-MGC | (339,423) |
| John Hancock Mutual Life Insurance Co. | 9601-GAC | 2,364,402 |
| John Hancock Mutual Life Insurance Co. Wrapper | 9601-GAC | (143,570) |
| Mellon Bank STIF Account | 6070002 | 2,374,110 |
| Monumental Life Insurance Co. | MDA-00589TR | 8,780,545 |
| Monumental Life Insurance Co. Wrapper | MDA-00589TR | (43,864) |
| State Street Bank & Trust Co. | 103077 | 10,384,537 |
| State Street Bank & Trust Co. Wrapper | 103077 | (341,256) |
| Union Bank of Switzerland | 5043 | 1,648,429 |
| Union Bank of Switzerland | 5155 | 7,776,666 |
| Total Guaranteed Investment Account | | <u>59,292,820</u> |
| Participant Loans bearing interest at 4.0% 9.5% due at various dates through June 2013. | | <u>10,618,988</u> |
| | | <u>\$241,910,384</u> |

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SIGNATURE PAGE

Pursuant to the requirements of the Securities Exchange Act of 1934, the duly authorized Plan Administrator has executed this annual report.

ARCH COAL, INC. EMPLOYEE THRIFT
PLAN

Date: June 25, 2004

By: /s/ Sheila Feldman
Sheila Feldman
Plan Administrator

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INDEX TO EXHIBIT

| | |
|------------|---|
| Exhibit 23 | Consent of Rubin, Brown, Gornstein & Co. LLP, Independent Registered Public Accounting Firm |
|------------|---|