UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2013

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 (State or other jurisdiction of incorporation or organization)	**43-0921172** (I.R.S. Employer Identification Number)
One CityPlace Drive, Suite 300, St. Louis, Missouri (Address of principal executive offices)	**63141** (Zip code)

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x 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 x 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 x	Accelerated filer o
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 x

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

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Part I

FINANCIAL INFORMATION

Item 1. Financial Statements.

Arch Coal, Inc. and Subsidiaries

Condensed Consolidated Statements of Operations

(in thousands, except per share data)

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

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

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

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Arch Coal, Inc. and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income (Loss)

(in thousands)

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

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

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Arch Coal, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(in thousands, except per share data)

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

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

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Arch Coal, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(in thousands)

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

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

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

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Arch Coal, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(unaudited)

1. Basis of Presentation

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

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

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

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

2. Accounting Policies

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

3. Discontinued Operations

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

The following table summarizes the results of discontinued operations:

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

4. Accumulated Other Comprehensive Loss

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

The following items are included in accumulated other comprehensive loss:

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

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

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

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

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

5. Impairment charges

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

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

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

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

6. Inventories

Inventories consist of the following:

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

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

7. Investments in Available-for-Sale Securities

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

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

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

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

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

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

8. Equity Method Investments and Membership Interests in Joint Ventures

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

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

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

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

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

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

9. Derivatives

Diesel fuel price risk management

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

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

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

Coal risk management positions

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

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

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

Coal trading positions

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

Tabular derivatives disclosures

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

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

Derivatives Not Designated as Hedging Instruments						
Heating oil diesel purchases	3,825			7,379		
Heating oil fuel surcharges	400			1,961		
Coal held for trading purposes	59,789	(52,383)		17,403	(16,933)	
Coal risk management	15,907	(3,903)		24,843	(7,342)	
Total	79,921	(56,286)		51,586	(24,275)	
Total derivatives	82,930	(56,290)		54,863	(24,285)	
Effect of counterparty netting	(55,869)	55,869		(22,548)	22,548	
Net derivatives as classified in the balance sheets	$ 27,061	$ (421)	$ 26,640	$ 32,315	$ (1,737)	$ 30,578

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

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

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

Derivatives used in Cash Flow Hedging Relationships (in thousands)

For the three months ended September 30,

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

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

Derivatives Not Designated as Hedging Instruments (in thousands)

For the three months ended September 30,

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

Location in statement of operations:

(1) Revenues

(2) Cost of sales

(3) Change in fair value of coal derivatives and coal trading activities, net

(4) Other operating income, net

Derivatives used in Cash Flow Hedging Relationships (in thousands)

For the nine months ended September 30

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

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

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Derivatives Not Designated as Hedging Instruments (in thousands)

For the nine months ended September 30

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

Location in statement of operations:

(1) Revenues

(2) Cost of sales

(3) Change in fair value of coal derivatives and coal trading activities, net

(4) Other operating income, net

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

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

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10. Debt

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

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

11. Fair Value Measurements

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

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

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

- Level 3 is defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. These include the Company s commodity option contracts (coal and heating oil) valued using modeling techniques, such as Black-Scholes, that require the use of inputs, particularly volatility, that are rarely observable. Changes in the unobservable inputs would not have a significant impact on the reported Level 3 fair values at September 30, 2013.

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:

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

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

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

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

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

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

Fair Value of Long-Term Debt

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

12. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following:

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

13. Stock-Based Compensation and Other Incentive Plans

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

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

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

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

14. Workers Compensation Expense

The following table details the components of workers compensation expense:

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

15. Employee Benefit Plans

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

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

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

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

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

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

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16. Earnings (Loss) Per Common Share

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

17. Settlement with Patriot Coal

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

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

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

18. Commitments and Contingencies

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

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

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

On November 3, 2008, ICG, Wolf Run and Hunter Ridge filed an amended answer and counterclaim against the plaintiffs seeking to void the coal supply agreement due to, among other things, fraudulent inducement and conspiracy. On September 23, 2009, Allegheny filed a second amended complaint alleging several alternative theories of liability in its effort to extend contractual liability to ICG, which was not a party to the original contract and did not exist at the time Wolf Run and Allegheny entered into the contract. No new substantive claims were asserted. ICG answered the second amended complaint on October 13, 2009, denying all of the new claims. The Company s counterclaim was dismissed on motion for summary judgment entered on May 11, 2010. Allegheny s claims against ICG were also dismissed by summary judgment, but the claims against Wolf Run and Hunter Ridge were not. The court conducted a non-jury trial of this matter beginning on January 10, 2011 and concluding on February 1, 2011.

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

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

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

19. Segment Information

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

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

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

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

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

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

20. Supplemental Condensed Consolidating Financial Information

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

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Condensed Consolidating Statements of Operations

Three Months Ended September 30, 2013

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

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Condensed Consolidating Statements of Operations

Nine Months Ended September 30, 2013

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

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Condensed Consolidating Statements of Operations

Three Months Ended September 30, 2012

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

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Condensed Consolidating Statements of Operations

Nine Months Ended September 30, 2012

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

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Condensed Consolidating Balance Sheets

September 30, 2013

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

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Condensed Consolidating Balance Sheets

December 31, 2012

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

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Condensed Consolidating Statements of Cash Flows

Nine Months Ended September 30, 2013

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

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Condensed Consolidating Statements of Cash Flows

Nine Months Ended September 30, 2012

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

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

Overview

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

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

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

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

Operational performance

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

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

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

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

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

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

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

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

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

Reconciliation to amounts reported in statement of operations

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

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Results of Operations

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

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

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

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

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

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

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

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

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

Change in fair value of coal derivatives and coal trading activities, net	9,753	5,840	(3,913)
Asset impairment and mine closure costs	200,397	(2,144)	(202,541)