

ARCH COAL INC
Form 8-K/A
October 14, 2004

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K/A

CURRENT REPORT

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

Date of Report (Date of earliest event reported): October 14, 2004 (July 31, 2004)

Arch Coal, Inc.

(Exact name of registrant as specified in its charter)

Delaware

1-13105

43-0921172

(State or other jurisdiction
of incorporation)

(Commission File Number)

(I.R.S. Employer
Identification No.)

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

(Address of principal executive offices) (Zip code)

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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2.):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 2.01 Completion of Acquisition or Disposition of Assets

Item 9.01 Financial Statements, Pro Forma Financial Information and Exhibits

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On July 31, 2004, Arch Coal, Inc. (the Company) consummated its purchase of the 35% membership interest in Canyon Fuel Company, LLC (Canyon Fuel) owned by Itochu Coal International Inc, for a contract price of \$112 million, financed as described below. The amount of the consideration was determined through arm's length negotiation. The remaining 65% membership interest in Canyon Fuel is held by the Company's subsidiary, Arch Western Bituminous Group LLC. The source of funds used to effect the cash portion of the purchase price was the Company's working capital.

| (in millions) | Financed With | | |
|---|---------------|--------|---------|
| | Cash | Note | Total |
| Contract price | \$90.0 | \$22.0 | \$112.0 |
| Discount to bring non-interest bearing note* to present value | | (3.8) | (3.8) |
| Cash acquired | (9.8) | | (9.8) |
| Net purchase price | \$80.2 | \$18.2 | \$ 98.4 |

* \$22 million note payable to seller over five years, discounted to present value at 7%

The Company hereby amends its Current Report on Form 8-K originally filed with the United States Securities and Exchange Commission (the SEC) on August 13, 2004 relating to the acquisition of the 35% membership interest in Canyon Fuel to include the financial statements of the business acquired, the pro forma financial information and related exhibits as set forth below. The pro forma financial information set forth below gives effect to (i) the Company's acquisition of the 35% membership interest in Canyon Fuel and (ii) the Company's acquisition of Vulcan Coal Holdings, L.L.C. (Vulcan) and sale of Vulcan's Buckskin mine, as described in the Company's Current Report on Form 8-K filed with the SEC on August 24, 2004.

Item 9.01 Financial Statements, Pro Forma Financial Information and Exhibits.

(a) Financial statements of business acquired.

The Company hereby incorporates by reference the audited consolidated financial statements of Canyon Fuel for the year ended December 31, 2003, including the auditor's report and notes included therein, that are included in Exhibit 99.1 of the Company's Annual Report on Form 10-K for the Company's fiscal year ended December 31, 2003.

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| (c) Exhibits. | |
| 1.1 Purchase and Sale Agreement dated as of July 14, 2004 by and among ITOCHU Coal International Inc., ITOCHU Corporation, and Arch Coal, Inc. (incorporated herein by reference to Exhibit 1.1 to the Current Report on Form 8-K filed by Arch Coal, Inc. on August 13, 2004). | |

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Canyon Fuel Company, LLC

Condensed Balance Sheet

Unaudited

(In thousands)

| | <u>June 30, 2004</u> |
|--|--------------------------|
| Assets | |
| Current assets: | |
| Cash and cash equivalents | \$ 28,023 |
| Trade receivables | 15,022 |
| Other receivables | 5,161 |
| Inventories | 30,190 |
| Other | 4,962 |
| | <hr/> |
| Total current assets | 83,358 |
| Property, plant and equipment, net | 297,343 |
| Other assets: | |
| Prepaid royalties | 13,664 |
| Other | 777 |
| | <hr/> |
| Total other assets | 14,441 |
| | <hr/> |
| Total assets | \$ 395,142 |
| | <hr/> |
| Liabilities and members equity | |
| Current liabilities: | |
| Accounts payable | \$ 22,312 |
| Accrued expenses | 6,686 |
| | <hr/> |
| Total current liabilities | 28,998 |
| Accrued postretirement benefits other than pension | 8,318 |
| Asset retirement obligations | 11,070 |
| Accrued workers compensation | 6,168 |
| Other non-current liabilities | 5,285 |
| | <hr/> |
| Total liabilities | 59,839 |

| | |
|---------------------------------------|------------------|
| Members' equity | <u>335,303</u> |
| Total liabilities and members' equity | <u>\$395,142</u> |

See notes to condensed financial statements.

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Canyon Fuel Company, LLC

Condensed Statements of Operations

Unaudited

(In thousands)

| | Six Months Ended June 30, | |
|--|----------------------------------|-------------|
| | 2004 | 2003 |
| Revenues | \$122,708 | \$121,483 |
| Costs and expenses: | | |
| Cost of coal sales | 110,663 | 96,497 |
| Amortization of coal supply agreements | | 2,243 |
| Fees to members | 4,136 | 4,444 |
| | 114,799 | 103,184 |
| Income from operations | 7,909 | 18,299 |
| Interest income, net: | | |
| Interest expense | | (1) |
| Interest income | 43 | 50 |
| | 43 | 49 |
| Income before cumulative effect of accounting change | 7,952 | 18,348 |
| Cumulative effect of accounting change | | (2,446) |
| Net income | \$ 7,952 | \$ 15,902 |

See notes to condensed financial statements.

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Canyon Fuel Company, LLC

Condensed Statements of Cash Flows

Unaudited

(In thousands)

| | Six Months Ended June 30, | |
|---|----------------------------------|---------------|
| | 2004 | 2003 |
| Operating activities | | |
| Net income | \$ 7,952 | \$ 15,902 |
| Adjustments to reconcile net income to cash provided by operating activities: | | |
| Depreciation, depletion and amortization | 16,322 | 22,291 |
| Prepaid royalties expensed | 696 | 3,526 |
| Accretion on asset retirement obligations | 487 | 451 |
| Net gain on disposition of assets | (217) | (2) |
| Cumulative effect of accounting change | | 2,446 |
| Changes in operating assets and liabilities | (1,259) | (11,746) |
| Other | 849 | 1,415 |
| | <hr/> | <hr/> |
| Cash provided by operating activities | 24,830 | 34,283 |
| Investing activities | | |
| Capital expenditures | (3,893) | (8,754) |
| Proceeds from dispositions of capital assets | 217 | 19 |
| Additions to prepaid royalties | | (88) |
| | <hr/> | <hr/> |
| Cash used in investing activities | (3,676) | (8,823) |
| Financing activities | | |
| Members contributions | 16,000 | 13,000 |
| Cash distributions to members | (9,280) | (37,875) |
| | <hr/> | <hr/> |
| Cash provided by (used in) financing activities | 6,720 | (24,875) |
| | <hr/> | <hr/> |
| Increase in cash and cash equivalents | 27,874 | 585 |
| Cash and cash equivalents, beginning of period | 149 | 84 |
| | <hr/> | <hr/> |
| Cash and cash equivalents, end of period | \$28,023 | \$ 669 |
| | <hr/> | <hr/> |

See notes to condensed financial statements.

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Canyon Fuel Company, LLC

Notes to Condensed Financial Statements (Unaudited)

June 30, 2004

1. The Company

The accompanying unaudited Condensed Financial Statements have been prepared in accordance with generally accepted accounting principles for interim financial reporting and Securities and Exchange Commission regulations, but are subject to any year-end adjustments that may be necessary. 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 period ended June 30, 2004 are not necessarily indicative of results to be expected for the year ending December 31, 2004. These financial statements should be read in conjunction with the audited financial statements and related notes thereto as of and for the year ended December 31, 2003 included in Arch Coal, Inc.'s Annual Report on Form 10-K as filed with the Securities and Exchange Commission.

Canyon Fuel Company, LLC (the Company) is a joint venture between Arch Western Resources, LLC (Arch Western) (65% ownership as of June 30, 2004) and ITOCHU Coal International Inc. (ITOCHU) (35% ownership as of June 30, 2004). The owners of the Company are referred to herein as the Members. Subsequent to June 30, 2004, Arch Coal, Inc. (Arch Coal) acquired ITOCHU's 35% membership interest.

The Company operates one reportable segment: the production of steam coal from deep mines in Utah for sale primarily to utility companies in the United States. Net profits and losses and distributions of the Company's earnings are allocated to the Members based on their respective ownership percentage.

During the first half of 2004, the Company idled its Skyline Mine and incurred severance costs of \$3.2 million for the six months ended June 30, 2004. The Company anticipates increasing production from its other two mines to make up a portion of the scheduled production decrease associated with the idling.

2. Asset Retirement Obligations

On January 1, 2003, the Company adopted Statement of Financial Accounting Standards No. 143, *Accounting for Asset Retirement Obligations* (FAS 143). FAS 143 requires legal obligations associated with the retirement of long-lived assets to be recognized at fair value at the time the obligations are incurred. Upon initial recognition of a liability, that cost should be capitalized as part of the related long-lived asset and allocated to expense over the useful life of the asset. Previously, the Company accrued for the expected costs of these obligations over the estimated useful mining life of the property.

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Canyon Fuel Company, LLC

Notes to Condensed Financial Statements (Unaudited) (Continued)

June 30, 2004

2. Asset Retirement Obligations (continued)

The cumulative effect of the change on prior years resulted in a charge to income of \$2.4 million, which is included in the Company's results of operations for the six months ended June 30, 2003.

The following table describes the changes to the Company's asset retirement obligation for the six months ended June 30, 2004 and 2003:

| | Six Months Ended June 30, | |
|--|--------------------------------------|-------------|
| | 2004 | 2003 |
| | (In thousands) | |
| Balance at January 1 (including current portion) | \$10,583 | \$ 4,851 |
| Impact of adoption | | 4,968 |
| Accretion expense | 487 | 452 |
| Liabilities settled | _____ | _____ |
| Balance at June 30 | 11,070 | 10,271 |
| Current portion included in accrued expenses | _____ | _____ |
| Long-term liability | \$11,070 | \$10,271 |

3. Other Comprehensive Income

Comprehensive income represents changes in Members' equity from non-owner sources. For the period ended June 30, 2004, minimum pension liability adjustments were the only item of other comprehensive income.

| | Six Months Ended June 30, | |
|--------------------------|--------------------------------------|-------------|
| | 2004 | 2003 |
| | (In thousands) | |
| Net income (as reported) | \$7,952 | \$15,902 |

| | | |
|--------------------------------------|----------------|-------------------|
| Minimum pension liability adjustment | <u>178</u> | <u> </u> |
| Total comprehensive income | <u>\$8,130</u> | <u>\$15,902</u> |

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Canyon Fuel Company, LLC

Notes to Condensed Financial Statements (Unaudited) (Continued)

June 30, 2004

4. Employee Benefit Plans**Defined Benefit Pension and Other Postretirement Benefit Plans**

Essentially all of the Company's employees are covered by a defined benefit pension plan sponsored by the Company. The benefits are based on years of service and the employee's compensation, primarily during the last five years of service. The funding policy for the pension plan is to make annual contributions as required by applicable regulations.

The Company also provides certain postretirement medical and life insurance benefits to substantially all employees who retire with the Company. The Company has the right to modify the plans at any time. The Company's current policy is to fund the cost of postretirement medical and life insurance benefits as they are paid.

Components of Net Periodic Benefit Cost

The following table details the components of pension and other postretirement benefit costs:

| Six Months Ended June 30, | Pension benefits | | Other postretirement benefits | |
|----------------------------------|-------------------------|-----------------------|--|-------------|
| | 2004 | 2003 | 2004 | 2003 |
| | | | | |
| | | (In thousands) | | |
| Service cost | \$ 986 | \$ 982 | \$ 169 | \$ 254 |
| Interest cost | 454 | 410 | 237 | 223 |
| Expected return on plan assets* | (560) | (474) | | |
| Other amortization and deferral | 322 | 309 | (47) | (183) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| | \$1,202 | \$1,227 | \$359 | \$ 294 |
| | <hr/> | <hr/> | <hr/> | <hr/> |

* The Company does not fund its other postretirement liabilities.

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Canyon Fuel Company, LLC

Notes to Condensed Financial Statements (Unaudited) (Continued)

June 30, 2004

4. Employee Benefit Plans (continued)**Cash Flows**

The Company previously disclosed in its financial statements for the year ended December 31, 2003 that it expected to contribute approximately \$3.3 million to its pension plan in 2004. During the period ended June 30, 2004, the Company contributed approximately \$1.3 million to the plan. The Company presently anticipates contributing additional amounts of approximately \$2.0 million to the pension plan in the second half of 2004.

Impact of Medicare Prescription Drug, Improvement and Modernization Act of 2003

On December 8, 2003, the President signed into law the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act). The Act introduces a prescription drug benefit under Medicare (Medicare Part D) as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. In May 2004, the Financial Accounting Standards Board issued FASB Staff Position FAS 106-2, *Accounting and Disclosure Requirements related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003* (FSP 106-2). The Company has included the effects of the Act in its financial statements for the quarter ending June 30, 2004 in accordance with FSP 106-2. Implementation of FSP 106-2 did not result in a material change in the Company's postretirement benefit obligation or its anticipated postretirement medical expenses.

5. Inventories

Inventories consist of the following:

| | As of June 30, 2004 |
|----------------------------|--------------------------------|
| | (In thousands) |
| Coal | \$19,459 |
| Supplies, net of allowance | 10,731 |
| | \$30,190 |

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Canyon Fuel Company, LLC

Notes to Condensed Financial Statements (Unaudited) (Continued)

June 30, 2004

6. Related Party Transactions

As described in Note 1, 65% of the Company is owned by Arch Western. Arch Western acts as the Company's managing Member. The Company pays administration and production fees to Arch Western for managing the Company's operations. These fees were \$4.1 million and \$4.4 million for the six months ended June 30, 2004 and 2003, respectively. The Company has a payable balance to its Members of \$6.4 million at June 30, 2004.

7. Contingencies

The Company is the subject of or party to a number of pending or threatened legal actions. On the basis of management's best assessment of the likely outcome of these actions, expenses or judgments arising from any of these suits are not expected to have a material adverse effect on the Company's operations, financial position or cash flows.

The Company is not aware of any events of noncompliance with environmental laws and regulations. The exact nature of environmental issues and costs, if any, which the Company may encounter in the future cannot be predicted, primarily because of the changing character of environmental requirements that may be enacted by governmental agencies.

8. Reclassifications

Certain amounts in the prior years' financial statements have been reclassified to conform to the classifications in the current year's financial statements with no effect on previously reported net income or members' equity.

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Arch Coal, Inc.

Pro Forma Background and Introduction (Unaudited)

BASIS OF PRESENTATION

On July 31, 2004, Arch Coal acquired a 35% interest in Canyon Fuel Company, LLC (Canyon Fuel) for a contract price of \$112 million. Prior to this acquisition, Canyon Fuel was a joint venture owned 65% by Arch Western Resources, LLC (a subsidiary of Arch Coal) and 35% by ITOCHU Coal International Inc. The contract price was paid in the form of cash of \$90 million paid upon closing and a five-year, \$22 million non-interest bearing note. The present value of the obligation under the note totals \$18.2 million.

On August 20, 2004, Arch Coal acquired (1) Vulcan Coal Holdings, L.L.C., which owns all of the common equity of Triton Coal Company, LLC (Triton), and (2) all of the preferred units of Triton, for an aggregate purchase price of \$376.0 million, including acquisition costs. The final purchase price is subject to a working capital adjustment. Prior to the acquisition, Triton operated two mines (North Rochelle and Buckskin) in the Powder River Basin in Wyoming. Upon acquisition, Arch Coal sold the Buckskin mine to Peter Kiewit and Sons Inc. for \$72.9 million. The net purchase price was financed with cash on hand, the proceeds from a \$100 million term loan, and borrowings under Arch Coal's revolving credit facility.

The acquisitions will be accounted for under the purchase method of accounting in accordance with FASB Statement No. 141. Under the purchase method of accounting, the purchase price is allocated to the assets acquired and liabilities assumed based on their estimated fair values. The accompanying unaudited pro forma condensed consolidated financial information reflects the combination of Arch Coal's historical assets and liabilities (including its 65% investment in Canyon Fuel), the fair value of the 35% interest in the assets and liabilities of Canyon Fuel, and the fair value of the acquired assets and liabilities of Vulcan. The fair values of the acquired assets and liabilities are based on Arch Coal management's preliminary estimates. These estimates are subject to change pending a final analysis of the value of the assets acquired and liabilities assumed. Arch Coal management is in the process of obtaining independent appraisals of the value of the assets acquired and liabilities assumed. The amounts assigned to certain assets and liabilities, including inventories, property, plant and equipment (including mineral reserves), and sales contracts are subject to change pending the results of the appraisals.

Prior to the acquisition of the 35% interest of Canyon Fuel, Arch Coal accounted for its 65% interest under the equity method due to certain super-majority voting rights in Canyon Fuel's joint venture agreement. Arch Coal's equity investment in Canyon Fuel included purchase adjustments primarily related to reductions in amounts assigned to sales contracts, mineral reserves and other property, plant and equipment. These adjustments are reflected in the column Effect of Arch Coal's Historical Basis in the accompanying pro forma financial information.

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Arch Coal, Inc.

Pro Forma Background and Introduction (Unaudited) (Continued)

The unaudited pro forma condensed combined financial statements are presented based on the assumption and adjustments described in the accompanying notes. The unaudited pro forma condensed combined statements of operations do not purport to represent what Arch Coal's results of operations actually would have been if the events described above had occurred as of the dates indicated or what such results would be for any future periods. Pro forma adjustments to the unaudited pro forma condensed combined financial statements do not reflect potential cost saving opportunities, including the elimination of duplicative selling, general and administrative expenses.

PRO FORMA ADJUSTMENTS

Canyon Fuel Company

- (A) The Columns labeled "Standalone" in the pro forma balance sheet and income statements represent Canyon Fuel historical financial information on a historical basis. These columns do not reflect any purchase adjustments related to Arch Coal's 1998 purchase of a 65% interest in Canyon Fuel.
- (B) The Columns labeled "Effect of Arch Coal's Historical Basis" represent purchase adjustments recorded by Arch Coal upon its 1998 acquisition of the 65% interest in Canyon Fuel. Prior to the acquisition of the 35% interest of Canyon Fuel, the effects of these purchase adjustments were recorded as part of Arch Coal's equity investment in Canyon Fuel and Arch Coal's income from its equity investment in Canyon Fuel. These columns reflect the reclassification of these amounts from the equity investment and income from equity investment accounts to the appropriate accounts upon consolidation of Canyon Fuel into Arch Coal's financial statements.

Balance Sheet

- (1) The purchase price, purchase price allocation, and financing of the transaction are summarized as follows (in thousands):

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Arch Coal, Inc.

Pro Forma Background and Introduction (Unaudited) (Continued)

| | |
|---|------------|
| Purchase price paid as: | |
| Cash | \$ 90,000 |
| Note payable to ITOCHU, at fair value | 18,204 |
| | <hr/> |
| Total purchase consideration | 108,204 |
| | <hr/> |
| Allocated to: | |
| Historical book value of the 35% interest in Canyon Fuel's assets and liabilities | \$ 117,356 |
| Adjustments to reflect assets and liabilities at fair value: | |
| Inventories | 504 |
| Coal supply agreements | (22,206) |
| Accrued postretirement benefits | 649 |
| Accrued black lung benefits | 515 |
| Accrued pension | (1,414) |
| Non-current liabilities (minimum pension liability) | 1,008 |
| | <hr/> |
| Total allocation | 96,412 |
| | <hr/> |
| Excess purchase price over allocation to identifiable assets and liabilities assigned to mineral reserves | \$ 11,792 |
| | <hr/> |

- (2) To reflect the elimination of Arch Coal's 65% equity investment in Canyon Fuel. Canyon Fuel will now be consolidated in Arch Coal's financial statements.
- (3) To eliminate the effects of intercompany transactions between Canyon Fuel and Arch Coal.
- (4) To reflect the elimination of the members' equity accounts of Canyon Fuel.

Statements of Operations

- (5) To reflect additional depletion for the portion of the purchase price recorded as mineral reserves. Depletion is recorded on a units-of-production basis over the life of the mineral reserves acquired.
- (6) To reflect additional expense resulting from the sale of inventories that were written up to fair value at the acquisition date.

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Arch Coal, Inc.

Pro Forma Background and Introduction(Unaudited) (Continued)

- (7) To eliminate general and administrative fees paid by Canyon Fuel to Arch Western Resources.
- (8) To eliminate the effects of intercompany transactions between Canyon Fuel and Arch Coal (primarily sales of equipment from Canyon Fuel to Arch Coal subsidiaries).
- (9) To reflect recognition of the value attributed to below-market coal supply agreements over the remaining terms of the contracts.
- (10) To eliminate income from Arch Coal's 65% equity investment in Canyon Fuel. Canyon Fuel's results will now be consolidated into Arch Coal's financial statements.
- (11) To reflect interest expense attributable to the portion of the purchase price financed by the \$22 million note.
- (12) Tax effects are recorded assuming a 24% rate consisting of an alternative minimum tax rate of 20% and an average state tax rate of 4%.

CONFORMING AND RECLASSIFICATION ADJUSTMENTS

There were no material adjustments required to conform the accounting policies of Arch Coal and Canyon Fuel. Certain amounts have been reclassified to conform to Arch Coal's financial statement presentation.

Vulcan Coal Holdings

Balance Sheet

- (13) The purchase price, purchase price allocation, and financing of the transaction are summarized as follows (in thousands):

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Arch Coal, Inc.

Pro Forma Background and Introduction(Unaudited) (Continued)

| | |
|---|-----------|
| Purchase price paid as: | |
| Cash | \$254,000 |
| Proceeds from the sale of the Buckskin Mine | (72,900) |
| | <hr/> |
| Net cash | 181,100 |
| Borrowings under Arch Western Resources Term Loan | 100,000 |
| Borrowings from Arch Coal's Revolving Credit Facility | 22,000 |
| | <hr/> |
| Total purchase consideration | 303,100 |
| | <hr/> |
| Allocated to: | |
| Historical book value of Vulcan's assets and liabilities (excluding liabilities satisfied at closing and Buckskin Mine assets and liabilities sold) | \$ 95,676 |
| Adjustments to conform Vulcan's accounting policies to those of Arch Coal: | |
| Inventories (deferred stripping) | (13,941) |
| Adjustments to reflect assets and liabilities at fair value: | |
| Inventories | 4,481 |
| Property, plant and equipment (related to asset retirement obligations) | 17,520 |
| Coal supply agreements | 3,975 |
| Other non-current assets (deferred financing costs) | (3,276) |
| Accrued expenses (severance accruals) | (5,502) |
| Accrued postretirement benefits | 2,272 |
| Accrued black lung benefits | (643) |
| Accrued pension | (1,700) |
| Asset retirement obligations | 2,270 |
| | <hr/> |
| Total allocation | 101,132 |
| | <hr/> |
| Excess purchase price over allocation to identifiable assets and liabilities assigned to mineral reserves | \$201,968 |
| | <hr/> |

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Arch Coal, Inc.

Pro Forma Background and Introduction(Unaudited) (Continued)

- (14) To reflect assets and liabilities of the Buckskin mine that were sold in conjunction with the acquisition.
- (15) To reflect liabilities that were satisfied at closing as part of the purchase price.
- (16) To reflect liabilities incurred in connection with terminating Vulcan employees as a result of the acquisition.
- (17) To reflect the elimination of deferred financing costs that had been capitalized by Vulcan. These costs relate to debt that was satisfied as part of the purchase price.
- (18) To reflect the elimination of the members' equity and minority interest accounts of Vulcan.

Statements of Operations

- (19) To reflect revenues and costs related to the Buckskin mine, which was sold in conjunction with the acquisition.
- (20) To reflect additional depletion on the portion of the purchase price recorded as mineral reserves. Depletion is recorded on a units-of-production basis over the life of the mineral reserves acquired.
- (21) To reflect additional expense resulting from the sale of inventories that were written up to fair value at the acquisition date.
- (22) To reflect amortization of the value attributed to above-market coal supply agreements over the remaining terms of the contracts.
- (23) To eliminate interest expense and the amortization of deferred financing costs related to debt that was satisfied as part of the purchase price.
- (24) To reflect additional interest expense on Arch Coal's borrowings under its revolving credit agreement and Arch Western's term loan at a weighted average rate of interest of approximately 5%.
- (25) Tax effects are recorded assuming a 24% rate consisting of an alternative minimum tax rate of 20% and an average state tax rate of 4%.
- (26) To eliminate minority interest of Vulcan, as Arch Coal owns 100% of Vulcan's equity interests.

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Arch Coal, Inc.

Pro Forma Background and Introduction (Unaudited) (Continued)

CONFORMING AND RECLASSIFICATION ADJUSTMENTS

Except as noted in (13) above, there were no material adjustments required to conform the accounting policies of Arch Coal and Vulcan. Certain amounts have been reclassified to conform to Arch Coal's financial statement presentation.

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Arch Coal, Inc.

Unaudited Pro Forma Condensed Consolidated Balance Sheet

June 30, 2004**(In thousands)**

| | Historical | | | Pro Forma Adjustments | | | |
|---|-----------------|---------------|--|---------------------------|----------------------|--|---------------------------|
| | Arch Coal, Inc. | Stand Alone | Effect of Arch Coal s Historical Basis | Vulcan Coal Holdings, LLC | Canyon Fuel Purchase | Vulcan Coal Holdings Purchase | Arch Coal, Inc. Pro Forma |
| Assets | | | | | | | |
| Current assets | | | | | | | |
| Cash and cash equivalents | \$ 296,300 | \$ 28,023 | | \$ 5,133 | \$ (90,000)(1) | \$(181,100)(13) | \$ 58,356 |
| Trade receivables | 155,483 | 15,022 | | 17,389 | | | 187,894 |
| Other receivables | 33,284 | 5,161 | | | (5,675)(3) | | 32,770 |
| Inventories | 83,306 | 30,190 | (2,492) | 32,613 | 504(1) | (12,672)(14) 4,481(13) (13,941)(13) | 121,989 |
| Prepaid royalties | 2,880 | | | | | | 2,880 |
| Deferred income taxes | 10,700 | | | | | | 10,700 |
| Other | 24,364 | 4,962 | | 2,443 | | | 31,769 |
| Total current assets | 606,317 | 83,358 | (2,492) | 57,578 | (95,171) | (203,232) | 446,358 |
| Property, plant and equipment, net | | | | | | | |
| | 1,312,760 | 297,343 | (48,649) | 241,800 | 11,792(1) | (113,991)(14) 17,520(13) 201,968(13) | 1,920,543 |
| Other assets | | | | | | | |
| Prepaid royalties | 87,397 | 13,664 | (8,764) | | | | 92,297 |
| Coal supply agreements | 5,160 | | | | | 3,975(13) | 9,135 |
| | 249,240 | | | | | | 249,240 |

| | | | | | | | |
|-----------------------|--------------------|------------------|-------------------|------------------|--------------------|--------------------|--------------------|
| Deferred income taxes | | | | | | | |
| Equity investments | 158,042 | | | | (158,042)(2) | | |
| Other | 79,433 | 777 | | 14,190 | | (3,276)(17) | 91,124 |
| | <u>579,272</u> | <u>14,441</u> | <u>(8,764)</u> | <u>14,190</u> | <u>(158,042)</u> | <u>699</u> | <u>441,796</u> |
| Total assets | <u>\$2,498,349</u> | <u>\$395,142</u> | <u>\$(59,905)</u> | <u>\$313,568</u> | <u>\$(241,421)</u> | <u>\$ (97,036)</u> | <u>\$2,808,697</u> |

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Arch Coal, Inc.

Unaudited Pro Forma Condensed Consolidated Balance Sheet

June 30, 2004**(In thousands)**

| | Historical | | | Pro Forma Adjustments | | | |
|--|-----------------|---------------|--|---------------------------|----------------------|-------------------------------|---------------------------|
| | Arch Coal, Inc. | Stand Alone | Effect of Arch Coal's Historical Basis | Vulcan Coal Holdings, LLC | Canyon Fuel Purchase | Vulcan Coal Holdings Purchase | Arch Coal, Inc. Pro Forma |
| Liabilities and stockholders equity | | | | | | | |
| Current liabilities | | | | | | | |
| Accounts payable | \$ 108,226 | \$ 22,312 | \$ | \$ 18,105 | \$ (5,675)(3) | | \$ 142,968 |
| Accrued expenses | 164,138 | 6,686 | | 91,730 | | | 202,812 |
| | | | | | | (65,244)(15) | |
| | | | | | | 5,502(16) | |
| Other current liabilities | | | | 3,562 | | (1,711)(14) | 1,851 |
| Current portion of debt | | | | 51,181 | | (49,570)(15) | 1,611 |
| Total current liabilities | 272,364 | 28,998 | | 164,578 | (5,675) | (111,023) | 349,242 |
| Long-term debt | 700,071 | | | 156,196 | 18,204(1) | 122,000(13) | 840,275 |
| | | | | | | (156,196)(15) | |
| Accrued postretirement benefits other than pension | 363,722 | 8,318 | | | (649)(1) | (2,272)(13) | 369,119 |
| Asset retirement obligations | 144,896 | 11,070 | | 38,415 | | (8,276)(14) | 183,835 |
| | | | | | | (2,270)(13) | |
| Accrued workers compensation | 77,767 | 6,168 | | | (515)(1) | 643(13) | 84,063 |
| Accrued pension | | | | | 1,414(1) | 1,700(13) | 3,114 |
| Other non-current liabilities | 133,500 | 5,285 | | 20,870 | (1,008)(1) | (7,833)(15) | 173,020 |
| | | | | | 22,206(1) | | |

| | | | | | | | |
|---|--------------------|-------------------|-------------------|-------------------|--------------------|--------------------|--------------------|
| Total liabilities | <u>1,692,320</u> | <u>59,839</u> | <u> </u> | <u>380,059</u> | <u>33,977</u> | <u>(163,527)</u> | <u>2,002,668</u> |
| Minority interest: | | | | | | | |
| Triton mandatorily redeemable preferred units | | | | 32,068 | | (32,068)(18) | |
| Stockholders equity | | | | | | | |
| Preferred stock | 29 | | | | | | 29 |
| Common stock | 554 | | | | | | 554 |
| Paid-in capital | 1,033,865 | | | | | | 1,033,865 |
| Retained deficit | (185,907) | | | | | | (185,907) |
| Members equity (deficit) | | 335,303 | (59,905) | (98,559) | (275,398)(4) | 98,559(18) | |
| Unearned compensation | (3,132) | | | | | | (3,132) |
| Treasury stock, at cost | (5,047) | | | | | | (5,047) |
| Accumulated other comprehensive loss | <u>(34,333)</u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u>(34,333)</u> |
| Total stockholders equity | <u>806,029</u> | <u>335,303</u> | <u>(59,905)</u> | <u>(98,559)</u> | <u>(275,398)</u> | <u>98,559</u> | <u>806,029</u> |
| Total liabilities and stockholders equity | <u>\$2,498,349</u> | <u>\$395,142</u> | <u>\$(59,905)</u> | <u>\$313,568</u> | <u>\$(241,421)</u> | <u>\$ (97,036)</u> | <u>\$2,808,697</u> |

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Arch Coal, Inc.

Unaudited Pro Forma Condensed Consolidated Statements of Operations

For the Six Months Ended June 30, 2004**(In thousands, except per share data)**

| | Historical | | | Pro Forma Adjustments | | | |
|--|-----------------|----------------|--|---------------------------|------------------------------------|--|---------------------------|
| | Arch Coal, Inc. | Stand Alone | Effect of Arch Coal s Historical Basis | Vulcan Coal Holdings, LLC | Canyon Fuel Purchase | Vulcan Coal Holdings Purchase | Arch Coal, Inc. Pro Forma |
| Revenues | | | | | | | |
| Coal sales | \$826,268 | \$122,156 | \$ | \$131,268 | | \$(46,731)(19) | \$1,032,961 |
| Costs and expenses | | | | | | | |
| Cost of coal sales | 781,892 | 110,663 | (2,209) | 117,306 | 489(5) 504(6) | (41,903)(19) 9,244(20) 4,481(21) | 980,467 |
| Selling, general and administrative expenses | 27,984 | 4,136 | | 5,137 | (4,136)(7) | | 33,121 |
| Amortization of coal supply agreements | 1,238 | | | | | 3,428(22) | 4,666 |
| Other expense | 12,819 | | | 1,938 | | | 14,757 |
| | <u>823,933</u> | <u>114,799</u> | <u>(2,209)</u> | <u>124,381</u> | <u>(3,143)</u> | <u>(24,750)</u> | <u>1,033,011</u> |
| Other operating income | | | | | | | |
| Income from equity investments | 9,685 | | | | (7,267)(10) | | 2,418 |
| Gain on sale of units of Natural Resource Partners, LP | 81,851 | | | | | | 81,851 |
| Other operating income | 37,908 | 552 | | | (4,136)(7) 4,794(9) (170)(8) | | 38,948 |
| | <u>129,444</u> | <u>552</u> | | | <u>(6,779)</u> | | <u>123,217</u> |
| Income from operations | 131,779 | 7,909 | 2,209 | 6,887 | (3,636) | (21,981) | 123,167 |

| | | | | | | | |
|---|----------------|--------------|--------------|-----------------|----------------|---------------------------|----------------|
| Interest expense, net: | | | | | | | |
| Interest expense | (28,842) | | | (22,180) | (625)(11) | 22,008(23) (3,093)(24) | (32,732) |
| Interest income | 1,613 | 43 | | | | | 1,656 |
| Other non-operating income (expense) | | | | | | | |
| Expenses resulting from early debt extinguishments and termination of hedge accounting for interest rate swaps | (4,132) | | | | | | (4,132) |
| Other non-operating income | 373 | | | | | | 373 |
| | <u>(3,759)</u> | | | | | | <u>(3,759)</u> |
| Income (loss) before income taxes | 100,791 | 7,952 | 2,209 | (15,293) | (4,261) | (3,066) | 88,332 |
| Provision for (benefit from) income taxes | 19,700 | | | | (1,023)(12) | (736)(25) | 17,941 |
| Minority interest | | | | (2,588) | | 2,588(26) | |
| | <u>81,091</u> | <u>7,952</u> | <u>2,209</u> | <u>(17,881)</u> | <u>(3,238)</u> | <u>258</u> | <u>70,391</u> |
| Income (loss) from continuing operations | 81,091 | 7,952 | 2,209 | (17,881) | (3,238) | 258 | 70,391 |
| Earnings per common share | | | | | | | |
| Basic earnings (loss) per common share | \$ 1.50 | | | | | | \$ 1.30 |
| Diluted earnings (loss) per common share | \$ 1.31 | | | | | | \$ 1.13 |
| | <u>\$ 1.31</u> | | | | | | <u>\$ 1.13</u> |
| Weighted average shares outstanding - Basic | 54,206 | | | | | | 54,206 |
| Weighted average shares outstanding - Diluted | 62,021 | | | | | | 62,021 |
| | <u>62,021</u> | | | | | | <u>62,021</u> |

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Arch Coal, Inc.

Unaudited Pro Forma Condensed Consolidated Statements of Operations

For the Year Ended December 31, 2003
(In thousands, except per share data)

| | Historical | | | Pro Forma Adjustments | | | |
|--|------------------|----------------|--|---------------------------|--|---|---------------------------|
| | Arch Coal, Inc. | Stand Alone | Effect of Arch Coal s Historical Basis | Vulcan Coal Holdings, LLC | Canyon Fuel Purchase | Vulcan Coal Holdings Purchase | Arch Coal, Inc. Pro Forma |
| Revenues | | | | | | | |
| Coal sales | \$1,435,488 | \$240,856 | \$ | \$279,612 | | \$(79,751)(19) | \$1,876,205 |
| Costs and expenses | | | | | | | |
| Cost of coal sales | 1,418,362 | 212,818 | (8,698) | 251,678 | 882 (5) 504 (6) | (78,233)(19) 20,113 (20) 4,481 (21) | 1,821,907 |
| Selling, general and administrative expenses | 47,295 | 8,541 | | 10,808 | (8,541)(7) | | 58,103 |
| Long-term incentive compensation expense | 16,217 | | | | | | 16,217 |
| Amortization of coal supply agreements | 16,622 | 2,243 | 953 | | | 5,152 (22) | 24,970 |
| Other expense | 18,980 | | | 3,441 | | | 22,421 |
| | <u>1,517,476</u> | <u>223,602</u> | <u>(7,745)</u> | <u>265,927</u> | <u>(7,155)</u> | <u>(48,487)</u> | <u>1,943,618</u> |
| Other operating income | | | | | | | |
| Income from equity investments | 34,390 | | | | (19,707)(10) | | 14,683 |
| Gain on sale of units of Natural Resource Partners, LP | 42,743 | | | | | | 42,743 |
| Other operating income | 45,226 | 1,204 | | | (8,541)(7) 9,588 (9) (300)(8) | | 47,177 |
| | <u>45,226</u> | <u>1,204</u> | <u></u> | <u></u> | <u>(8,541)(7)</u> <u>9,588 (9)</u> <u>(300)(8)</u> | <u></u> | <u>47,177</u> |

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| | | | | | | | |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | 122,359 | 1,204 | | | (18,960) | | 104,603 |
| Income from operations | 40,371 | 18,458 | 7,745 | 13,685 | (11,805) | (31,264) | 37,190 |
| Interest expense, net: | | | | | | | |
| Interest expense | (50,133) | (1) | | (42,191) | (1,202)(11) | 41,863 (23) | (57,850) |
| | | | | | | (6,186)(24) | |
| Interest income | 2,636 | 246 | | 187 | | | 3,069 |
| Other non-operating income (expense) | | | | | | | |
| Expenses resulting from early debt extinguishments and termination of hedge accounting for interest rate swaps | (8,955) | | | | | | (8,955) |
| Other non-operating income | 13,211 | | | | | | 13,211 |
| | <u>4,256</u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u>4,256</u> |
| Income (loss) before income taxes | (2,870) | 18,703 | 7,745 | (28,319) | (13,007) | 4,413 | (13,335) |
| Provision for (benefit) from income taxes | (23,210) | | | | (3,122)(12) | 1,059 (25) | (25,273) |
| Minority interest | | | | (4,578) | | 4,578 (26) | |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Income (loss) from continuing operations | 20,340 | 18,703 | 7,745 | (32,897) | (9,885) | 7,932 | 11,938 |
| Earnings per common share | | | | | | | |
| Basic earnings (loss) per common share | \$ 0.39 | | | | | | \$ 0.23 |
| Diluted earnings (loss) per common share | \$ 0.38 | | | | | | \$ 0.23 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Weighted average shares outstanding Basic | 52,511 | | | | | | 52,511 |
| Weighted average shares outstanding Diluted | 52,885 | | | | | | 52,885 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Dated: October 14, 2004

ARCH COAL, INC.

By: /s/ JANET L. HORGAN

Janet L. Horgan
Assistant General Counsel and Assistant Secretary