ARCH COAL INC
Form 10-Q
May 08, 2013
Table of Contents

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 March 31, 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 May 1, 2013 there were 212,246,799 shares of the registrant s common stock outstanding.

Table of Contents

TABLE OF CONTENTS

Table of Contents

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 March 31, 2013 (Unaudited)	2012
Revenues	$ 825,502	$ 1,039,651
Costs, expenses and other		
Cost of sales (exclusive of items shown separately below)	710,573	850,871
Depreciation, depletion and amortization	118,868	139,966
Amortization of acquired sales contracts, net	(2,810)	(14,017)
Change in fair value of coal derivatives and coal trading activities, net	1,308	(3,613)
Selling, general and administrative expenses	33,209	30,861
Other operating income, net	(3,217)	(18,498)
	857,931	985,570
Income (loss) from operations	(32,429)	54,081
Interest expense, net:		
Interest expense	(95,087)	(74,772)
Interest and investment income	2,836	1,021
	(92,251)	(73,751)
Loss before income taxes	(124,680)	(19,670)
Benefit from income taxes	(54,631)	(21,079)
Net income (loss)	(70,049)	1,409
Less: Net income attributable to noncontrolling interest		(203)
Net income (loss) attributable to Arch Coal, Inc.	$ (70,049)	$ 1,206
Earnings per common share		
Basic earnings (loss) per common share	$ (0.33)	$ 0.01
Diluted earnings (loss) per common share	$ (0.33)	$ 0.01
Weighted average shares outstanding		
Basic	212,062	211,687
Diluted	212,062	211,908
Dividends declared per common share	$ 0.03	$ 0.11

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

3

Table of Contents

Arch Coal, Inc. and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income (Loss)

(in thousands)

	Three Months Ended March 31, 2013	2012
	(Unaudited)	
Net income (loss)	$ (70,049)	$ 1,409
Derivative instruments		
Total comprehensive income (loss) before tax	(1,179)	10,287
Tax impact	425	(3,702)
	(754)	6,585
Pension, postretirement and other post-employment benefits		
Total comprehensive income before tax	1,954	724
Tax impact	(703)	(261)
	1,251	463
Available-for-sale securities		
Total comprehensive income before tax	1,553	394
Tax impact	(559)	(142)
	994	252
Total other comprehensive income	1,491	7,300
Total comprehensive income (loss)	$ (68,558)	$ 8,709

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

Table of Contents

Arch Coal, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(in thousands, except per share data)

	March 31, 2013 (Unaudited)	December 31, 2012
Assets		
Current assets		
Cash and cash equivalents	$ 730,119	$ 784,622
Restricted cash	2,290	3,453
Short term investments	248,414	234,305
Trade accounts receivable	263,294	247,539
Other receivables	81,750	84,541
Inventories	368,240	365,424
Prepaid royalties	13,105	11,416
Deferred income taxes	67,337	67,360
Coal derivative assets	20,856	22,975
Other	88,977	92,469
Total current assets	1,884,382	1,914,104
Property, plant and equipment, net	7,272,541	7,337,098
Other assets:		
Prepaid royalties	91,691	87,773
Goodwill	265,423	265,423
Equity investments	246,807	242,215
Other	159,300	160,164
Total other assets	763,221	755,575
Total assets	$ 9,920,144	$ 10,006,777
Liabilities and Stockholders Equity		
Current liabilities		
Accounts payable	$ 229,269	$ 224,418
Coal derivative liabilities	643	1,737
Accrued expenses and other current liabilities	352,040	318,018
Current maturities of debt	28,306	32,896
Total current liabilities	610,258	577,069
Long-term debt	5,082,205	5,085,879
Asset retirement obligations	410,975	409,705
Accrued pension benefits	69,342	67,630
Accrued postretirement benefits other than pension	46,413	45,086
Accrued workers compensation	81,039	81,629
Deferred income taxes	610,195	664,182
Other noncurrent liabilities	227,363	221,030
Total liabilities	7,137,790	7,152,210
Stockholders equity		
Common stock, $0.01 par value, authorized 260,000 shares, issued 213,759 shares at both March 31, 2013 and December 31, 2012	2,141	2,141
Paid-in capital	3,029,536	3,026,823
Treasury stock, at cost	(53,848)	(53,848)
Accumulated deficit	(180,459)	(104,042)
Accumulated other comprehensive loss	(15,016)	(16,507)
Total stockholders equity	2,782,354	2,854,567
Total liabilities and stockholders equity	$ 9,920,144	$ 10,006,777

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

Table of Contents

Arch Coal, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(in thousands)

	Three Months Ended March 31, 2013	2012
	(Unaudited)	
Operating activities		
Net income (loss)	$ (70,049)	$ 1,409
Adjustments to reconcile net income (loss) to cash provided by operating activities:		
Depreciation, depletion and amortization	118,868	139,966
Amortization of acquired sales contracts, net	(2,810)	(14,017)
Amortization relating to financing activities	6,167	4,288
Prepaid royalties expensed	3,537	8,586
Employee stock-based compensation expense	2,713	4,079
Changes in:		
Receivables	(12,340)	88,082
Inventories	(2,816)	(111,196)
Coal derivative assets and liabilities	(192)	(5,347)
Accounts payable, accrued expenses and other current liabilities	38,249	(66,222)
Income taxes, net	458	23,002
Deferred income taxes	(54,801)	(21,742)
Other	16,307	4,102
Cash provided by operating activities	43,291	54,990
Investing activities		
Capital expenditures	(54,522)	(93,271)
Minimum royalty payments	(9,142)	(8,262)
Proceeds from dispositions of property, plant and equipment	714	22,105
Purchases of short term investments	(26,787)	
Proceeds from sales of short term investments	11,534	
Investments in and advances to affiliates	(4,298)	(5,777)
Change in restricted cash	1,163	1,455
Cash used in investing activities	(81,338)	(83,750)
Financing activities		
Net increase in borrowings under lines of credit		34,000
Payments on term note	(4,125)	
Net payments on other debt	(5,964)	(7,323)
Debt financing costs		(100)
Dividends paid	(6,367)	(23,327)
Proceeds from exercise of options under incentive plans		5,131
Cash provided by (used in) financing activities	(16,456)	8,381
Decrease in cash and cash equivalents	(54,503)	(20,379)
Cash and cash equivalents, beginning of period	784,622	138,149
Cash and cash equivalents, end of period	$ 730,119	$ 117,770

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

Table of Contents

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 16 mining complexes in West Virginia, Kentucky, Maryland, Virginia, Illinois, Wyoming, Colorado and Utah. In addition, the Company has a metallurgical coal mine in development in West Virginia. All subsidiaries are wholly-owned. Intercompany transactions and accounts have been eliminated in consolidation.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial reporting and U.S. Securities and Exchange Commission regulations. In the opinion of management, all adjustments, consisting of normal, recurring accruals considered necessary for a fair presentation, have been included. Results of operations for the three month period ended March 31, 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.

Arch Western Resources, LLC became a wholly-owned subsidiary when the remaining 0.5% interest was purchased on July 2, 2012. Net income attributable to noncontrolling interest is shown on the condensed consolidated statement of operations prior to this date.

2. Accounting Policies

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

3. 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 during 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 (losses)	(204)		956	752
Amounts reclassified from accumulated other comprehensive income	(550)	1,251	38	739
Balance at March 31, 2013	$ 1,490	$ (17,035)	$ 529	$ (15,016)

The following items were reclassified out of accumulated other comprehensive loss during the three months ended March 31, 2013:

Table of Contents

Details about accumulated other comprehensive income components		Amount Reclassified From Accumulated Other Comprehensive Loss (In thousands)	Affected Line Item in the Condensed Consolidated Statement of Operations
Derivatives instruments	$	859	Revenues
		(309)	Benefit from income taxes
	$	550	Net of tax
Pension, postretirement and other post-employment benefits			
Amortization of prior service credits	$	2,908	(1)
Amortization of actuarial gains (losses) net		(4,862)	(1)
		(1,954)	Total before tax
		703	Benefit from income taxes
	$	(1,251)	Net of tax
Available-for-sale securities	$	(59)	Interest and investment income
		21	Benefit from income taxes
	$	(38)	Net of tax

(1) Production-related benefit and workers compensation costs are included in the costs of coal inventory. See Note 12, Workers Compensation Expense and Note 13 Employee Benefit Plans for more information about pension, postretirement and postemployment benefit costs.

4. Inventories

Inventories consist of the following:

		March 31 2013		December 31 2012
		(In thousands)		
Coal	$	182,998	$	180,917
Repair parts and supplies		170,040		172,139
Work-in-process		15,202		12,368
	$	368,240	$	365,424

The repair parts and supplies are stated net of an allowance for slow-moving and obsolete inventories of $14.0 million at March 31, 2013, and $13.6 million at December 31, 2012.

5. 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.

Table of Contents

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

	March 31, 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	$ 135,457	$ 1	$ (705)	$ 134,753	$ 134,753	$
Corporate notes and bonds	114,905		(1,244)	113,661	113,661	
Equity securities	5,271	5,547	(2,774)	8,044		8,044
Total Investments	$ 255,633	$ 5,548	$ (4,723)	$ 256,458	$ 248,414	$ 8,044

	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 $245.4 million and $223.3 million at March 31, 2013 and December 31, 2012, respectively. The aggregate fair value of investments with unrealized losses that have been owned for over a year was $0.3 million and $0.4 million at March 31, 2013 and December 31, 2012, respectively.

The debt securities outstanding at March 31, 2013 have maturity dates ranging from the second quarter of 2013 through the third quarter of 2014. The Company classifies its investments as current based on the nature of the investments and their availability for use in current operations.

6. 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 affiliates, net			593		1,790	1,001	3,384
Equity in comprehensive income (loss)	4,515	(733)	(1,609)		(684)	(281)	1,208
Balance at March 31, 2013	$ 153,578	$ 14,782	$ 14,446	$ 15,264	$ 33,320	$ 15,417	$ 246,807
Notes receivable from investees:							
Balance at December 31, 2012	$	$ 38,680	$	$ 5,148	$	$	$ 43,828
Balance at March 31, 2013	$	$ 41,019	$	$ 5,197		$	$ 46,216

The Company may be required to make future contingent payments of up to $72.8 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 a number of factors, including project development progress, receipt of permits and construction financing.

7. 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 March 31, 2013, the Company had protected the price of approximately 97% of its expected purchases for the remainder of 2013 and 42% of its 2014 purchases. At March 31, 2013, the Company had purchased heating oil call options for approximately 71 million gallons for the purpose of managing the price risk associated with future diesel purchases.

The Company 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. At March 31, 2013, the Company held purchased call options for approximately 6 million gallons for the purpose of managing the fluctuations in cash flows associated with fuel surcharges on future shipments.

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 March 31, 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	5,399	4,260	780	10,439
Coal purchases	1,131	1,260		2,391

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 $4.1 million of losses in 2013 and $3.6 million of gains in 2014.

Table of Contents

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:

	March 31, 2013			December 31, 2012		
Fair Value of Derivatives (In thousands)	**Asset Derivative**	**Liability Derivative**		**Asset Derivative**	**Liability Derivative**	
Derivatives Designated as Hedging Instruments						
Coal	$ 2,379	$ (252)		$ 3,277	$ (10)	
Derivatives Not Designated as Hedging Instruments						
Heating oil diesel purchases	6,227			7,379		
Heating oil fuel surcharges	207			1,961		
Coal held for trading purposes	41,675	(42,234)		17,403	(16,933)	
Coal risk management	22,354	(3,709)		24,843	(7,342)	
Total	70,463	(45,943)		51,586	(24,275)	
Total derivatives	72,842	(46,195)		54,863	(24,285)	
Effect of counterparty netting	(45,552)	45,552		(22,548)	22,548	
Net derivatives as classified in the balance sheets	$ 27,290	$ (643)	$ 26,647	$ 32,315	$ (1,737)	$ 30,578

		March 31, 2013	**December 31, 2012**
Net derivatives as reflected on the balance sheets			
Heating oil	Other current assets	$ 6,434	$ 9,340
Coal	Coal derivative assets	20,856	22,975
	Coal derivative liabilities	(643)	(1,737)
		$ 26,647	$ 30,578

The Company had a current asset for the right to reclaim cash collateral of $24.6 million and $16.2 million at March 31, 2013 and December 31, 2012, respectively. These amounts are not included with the derivatives presented in the table above and are included in other current assets in the accompanying condensed consolidated balance sheets.

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

Derivatives used in Cash Flow Hedging Relationships (in thousands)

For the three months ended March 31,

		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)	$ (176)	$ 2,493	$ 1,221	$ 201
Coal purchases	(2)	(182)	(202)	(362)	
Totals		$ (358)	$ 2,291	$ 859	$ 201

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 March 31, 2013 and 2012.

Table of Contents

Derivatives Not Designated as Hedging Instruments (in thousands)

For the three months ended March 31,

		Gain (Loss) Recognized 2013	2012
Coal unrealized	(3)	$ 1,470	$ 7,552
Coal realized	(4)	$ 9,217	$ 3,158
Heating oil diesel purchases	(4)	$ (4,261)	$ 423
Heating oil fuel surcharges	(4)	$ (565)	$ 367

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 losses of $2.8 million and $3.9 million during the three months ended March 31, 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 March 31, 2013, gains on derivative contracts designated as hedge instruments in cash flow hedges of approximately $1.0 million are expected to be reclassified from other comprehensive income into earnings during the next twelve months.

8. Debt

	March 31, 2013	December 31, 2012
	(In thousands)	
Term loan ($1.64 billion face value) due 2018	$ 1,623,955	$ 1,627,384
8.75% senior notes ($600.0 million face value) due 2016	591,535	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	360,621	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	34,400	40,350
	5,110,511	5,118,775

Less current maturities of debt		28,306		32,896
Long-term debt	$	5,082,205	$	5,085,879

9. 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

Table of Contents

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 March 31, 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 March 31, 2013 (In thousands)			
	Total	Level 1	Level 2	Level 3
Assets:				
Investments in marketable securities	$ 256,458	$ 98,410	$ 158,048	$
Derivatives	27,290	21,250		6,040
Total assets	$ 283,748	$ 119,660	$ 158,048	$ 6,040
Liabilities:				
Derivatives	$ 643	$	$ 245	$ 398

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

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

	Three Months Ended March 31, 2013
Balance, beginning of period	$ 8,174
Realized and unrealized losses recognized in earnings, net	(4,472)
Realized and unrealized losses recognized in other comprehensive income, net	
Purchases	3,217
Issuances	(25)
Settlements	(1,252)
Ending balance	$ 5,642

Net unrealized losses during the three month period ended March 31, 2013 related to level 3 financial instruments held on March 31, 2013 were $4.0 million.

Fair Value of Long-Term Debt

At March 31, 2013 and December 31, 2012, the fair value of the Company s debt, including amounts classified as current, was $5.0 billion. 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.

10. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following:

Table of Contents

	March 31, 2013	December 31, 2012
	(In thousands)	
Payroll and employee benefits	$ 63,375	$ 72,405
Taxes other than income taxes	121,159	121,029
Interest	83,855	42,413
Acquired sales contracts	14,456	14,038
Workers compensation	12,732	10,371
Asset retirement obligations	38,919	38,920
Other	17,544	18,842
	$ 352,040	$ 318,018

11. Stock-Based Compensation and Other Incentive Plans

During the three months ended March 31, 2013 the Company granted options to purchase approximately 2.0 million shares of common stock with a weighted average exercise price of $5.23 per share and a weighted average grant-date fair value of $2.38 per share. The options fair value was determined using the Black-Scholes option pricing model, using a weighted average risk-free rate of 0.648%, a weighted average dividend yield of 2.29% and a weighted average volatility of 66.76%. 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 three months ended March 31, 2013, the Company also granted restricted stock units totaling 974,500 shares whose grant date fair value at the time of grant was $5.23. 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 accrued and unpaid for all grants under the plan totaled $10.4 million and $13.1 million as of March 31, 2013 and December 31, 2012, respectively.

12. Workers Compensation Expense

The following table details the components of workers compensation expense:

	Three Months Ended March 31, 2013	2012