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ARCH COAL INC
Form 8-K
July 19, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

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

Date of Report (Date of earliest event reported): July 18, 2002 (July 18, 2002)

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

Page 1 of 4 pages.
Exhibit Index begins on page 4.

Item 5. Other Events.

On July 18, 2002, Arch Coal, Inc. (the "Company"), announced via press release its earnings and operating results for the second quarter of 2002. A copy of the Company's press release is attached hereto and incorporated herein by reference in its entirety.

Item 7. Financial Statements and Exhibits.

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(c) The following Exhibit is filed with this Current Report on Form 8-K:

| Exhibit No. | Description |
|-------------|---|
| 99 | Press Release dated as of July 18, 2002 |

Page 2 of 4 pages.
Exhibit Index begins on page 4.

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: July 18, 2002

ARCH COAL, INC.

By: /s/ Robert G. Jones
Robert G. Jones
Vice President - Law, General Counsel
and Secretary

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Exhibit Index begins on page 4.

EXHIBIT INDEX

| Exhibit No. | Description |
|-------------|---|
| 99 | Press Release dated as of July 18, 2002 |

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Exhibit 99

News from
Arch Coal, Inc.

FOR FURTHER INFORMATION:

Deck S. Slone
Vice President,
Investor and Public Relations
(314) 994-2717

FOR IMMEDIATE RELEASE
July 18, 2002

Arch Coal, Inc. reports second quarter results

Highlights:

- o Net income of \$2.1 million, or \$.04 per share, vs. net income of \$0.8 million, or \$.02 per share, in 2Q01
- o Adjusted EBITDA of \$62.7 million, vs. \$68.3 million in 2Q01
- o Total revenues of \$374.5 million, vs. \$368.6 million in 2Q01
- o Coal sales of 24.9 million tons, vs. 26.7 million tons in 2Q01

St. Louis - Arch Coal, Inc. (NYSE:ACI) today announced that it had net income of \$2.1 million, or \$.04 per share, for its second quarter ended June 30, 2002. In the same quarter of 2001, Arch had net income of \$0.8 million, or \$.02 per share.

"Our decision to reduce production in response to weak coal demand and pricing continues to be the single most significant factor in our financial performance," said Steven F. Leer, Arch Coal's president and chief executive officer. "We remain confident that this decision is in the best interest of the company and its shareholders. However, it has had an adverse impact on our financial performance during the first two quarters of the year."

Arch had announced in March that it would reduce production at its mining operations by an estimated 7% due to weak coal demand resulting from a very mild winter and the U.S. economic downturn. In keeping with this announcement, Arch's shipped volumes were down approximately 7% in the second quarter compared to the

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same period of 2001.

Late in the quarter, Arch settled certain coal contracts with a customer that was unwinding its coal supply position and desired to buy out of the remaining terms of those contracts. These settlements resulted in a pre-tax gain of \$5.6 million. Without the settlements, Arch's results would have been within the projected range announced by the company in April.

U.S. coal markets

"Although stockpiles at coal-fired power plants remain at higher-than-optimal levels, we are optimistic about the potential for a rebound in U.S. coal markets in the near future," Leer said. "Several recent developments support that view. First, above-average temperatures during the first half of the summer have led to substantially higher air conditioning load, which has likely resulted in a draw-down of stockpiles. The summer months have been 19% warmer than normal when measured by cooling degree days. Second, U.S. coal production is down nearly 4% year to date through July 6, according to the U.S. Energy Information Administration."

Coal supply is likely to remain constrained in the near term, especially in the eastern United States, Leer added. "Not only are eastern producers struggling to remain profitable given recent spot coal prices, but they are also facing challenges related to permitting, trucking, bonding, access to capital and insurance. Smaller producers continue to be most distressed."

Given these trends, and the potential for a stronger U.S. economy in the year's second half, the prospects for better supply-demand balance and stronger coal pricing appear strong, according to Leer.

"Although we are continuing to restrict production, we are seeing signs that the market is progressing towards a healthier balance between supply and demand," Leer said. In fact, coal prices have begun to move higher in recent weeks.

"Spot pricing for eastern coal has strengthened by \$1 to \$2 per ton in recent weeks, and we expect further increases as the summer wears on," Leer said. "In the west, we have committed in recent weeks approximately 3 million tons of Powder River Basin coal for delivery in 2003 or 2004, at an average price of approximately \$7 per ton."

Leer noted that the company had participated in recent contract negotiations in a limited fashion only. "We are very comfortable with our position and feel no sense of urgency to sign contracts at current pricing levels," Leer said. "We continue to believe that the current market has far more upside potential than downside."

Operating statistics

Regional analysis: Of the 24.9 million tons of coal that Arch sold during the second quarter, approximately 8.0 million tons originated at its eastern operations and 16.9 million tons originated at its western operations. Arch Coal had an average realized sales price of \$14.40 per ton and average operating costs of \$13.67 per ton. The eastern operations had an average realized sales price of \$30.47 per ton and an average cost of \$29.12 per ton during the quarter. The western operations had an average realized sales price of \$6.85 per ton and an average cost of \$6.39 per ton during the quarter. (Western operations data does not include the results of 65%-owned Canyon Fuel Company, which is

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accounted for on the equity method.)

Expected sales volume for the third quarter of 2002: In the east, Arch expects to sell a total of approximately 7.4 million tons of coal in the third quarter of 2002 from its mines in Central Appalachia, excluding brokered tons. In the west, Arch expects to sell approximately 18 million tons of coal at its Black Thunder mine in the Powder River Basin of Wyoming, and roughly 1.5 million tons at the West Elk mine in Colorado, excluding brokered tons. Total sales (on a 100% basis) at Arch's 65%-owned Canyon Fuel operations in Utah are expected to be approximately 3.4 million tons for the quarter.

Financial: Arch expects depreciation, depletion and amortization to total approximately \$210 million for the full year. Capital expenditures are expected to total approximately \$150 million. (Projections for depreciation, depletion and amortization and capital expenditures include Arch's ownership percentage in Canyon Fuel Company.)

Looking ahead

"While we are enthusiastic about recent developments in the contract market, demand for spot coal in the year's second half remains relatively light," Leer said. "As a result, we do not expect to increase shipments significantly during the third quarter, traditionally our weakest earnings period. At present, we expect roughly breakeven results for the third quarter."

Regardless of spot market activity, the fourth quarter should be stronger, but the company is not yet prepared to project earnings for that period, Leer said. "We continue to take steps to maximize the efficiency of our operations, without compromising our ability to return our mines to optimal levels of production when coal markets rebound," he added.

Leer also noted that the performances of both the West Elk and Samples mines had improved substantially in the second quarter. "We are increasingly confident that these mines have worked through their recent challenges and will once again make positive contributions to the company's financial results once market conditions rebound," he said.

"For the remainder of 2002, we will continue to ship most of our production under contracts that were signed during the latter half of the 1990s," Leer said. "Over the next 18 months, the vast majority of those contracts will roll off. If we are able to replace those low-priced contracts in an improved market environment, with commitments characterized by the more favorable terms and pricing that the market currently seems to be indicating, we should see significant improvements in our financial results."

A conference call concerning second quarter earnings will be webcast live today at 11 a.m. Eastern time. The conference call can be accessed via the "investor" section of the Arch Coal Web site (www.archcoal.com).

Arch Coal is the nation's second largest coal producer, with subsidiary operations in West Virginia, Kentucky, Virginia, Wyoming, Colorado and Utah. Through these operations, Arch Coal provides the fuel for approximately 6% of the electricity generated in the United States.

Definition: Adjusted EBITDA is presented above because it is a widely accepted financial indicator of a company's ability to incur and service debt. Adjusted EBITDA should not be considered in isolation or as an alternative to net income, operating income, cash flows from operations, or as a measure of a

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company's profitability, liquidity or performance under generally accepted accounting principles. Adjusted EBITDA is defined as income from operations before the effect of net interest expense, income taxes, and depreciation, depletion and amortization for Arch Coal, Inc., its subsidiaries and its ownership percentage in its equity investments.

Forward-Looking Statements: Statements in this press release which are not statements of historical fact are forward-looking statements within the "safe harbor" provision of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on information currently available to, and expectations and assumptions deemed reasonable by, the company. Because these forward-looking statements are subject to various risks and uncertainties, actual results may differ materially from those projected in the statements. These expectations, assumptions and uncertainties include: the company's expectation of continued growth in the demand for electricity; belief that legislation and regulations relating to the Clean Air Act and the relatively higher costs of competing fuels will increase demand for its compliance and low-sulfur coal; expectation of continued improved market conditions for the price of coal; expectation that the company will continue to have adequate liquidity from its cash flow from operations, together with available borrowings under its credit facilities, to finance the company's working capital needs; a variety of operational, geologic, permitting, labor and weather related factors; and the other risks and uncertainties which are described from time to time in the company's reports filed with the Securities and Exchange Commission.

Arch Coal, Inc. and Subsidiaries Condensed Consolidated Statements of Operations (In thousands, except per share data)

| | Three Months Ended June 30 | | Six Mo Ju |
|--|-------------------------------|------------|--------------|
| | 2002 | 2001 | 2002 |
| | (Unaudited) | | (Una |
| Revenues | | | |
| Coal sales | \$ 358,990 | \$ 350,214 | \$ 717,585 |
| Income (loss) from equity investment | (198) | 4,247 | 1,070 |
| Other revenues | 15,684 | 14,119 | 24,287 |
| | 374,476 | 368,580 | 742,942 |
| Costs and expenses | | | |
| Cost of coal sales | 340,928 | 332,577 | 688,139 |
| Selling, general and administrative expenses | 10,071 | 12,043 | 19,940 |
| Amortization of coal supply agreements | 5,374 | 7,575 | 10,488 |

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| | | | |
|-------------------------------------|-----------|-----------|------------|
| Other expenses | 5,781 | 4,196 | 13,373 |
| | ----- | ----- | ----- |
| | 362,154 | 356,391 | 731,940 |
| | ----- | ----- | ----- |
| Income from operations | 12,322 | 12,189 | 11,002 |
| Interest expense, net: | | | |
| Interest expense | (14,356) | (14,726) | (26,358) |
| Interest income | 314 | 3,386 | 582 |
| | ----- | ----- | ----- |
| | (14,042) | (11,340) | (25,776) |
| | ----- | ----- | ----- |
| Income (loss) before income taxes | (1,720) | 849 | (14,774) |
| Benefit from income taxes | (3,800) | - | (9,500) |
| | ----- | ----- | ----- |
| Net Income (loss) | \$ 2,080 | \$ 849 | \$ (5,274) |
| | ===== | ===== | ===== |
| Earnings (loss) per common share | | | |
| Basic | \$ 0.04 | \$ 0.02 | \$ (0.10) |
| Diluted | \$ 0.04 | \$ 0.02 | \$ (0.10) |
| | ===== | ===== | ===== |
| Weighted average shares outstanding | | | |
| Basic | 52,377 | 48,194 | 52,367 |
| Diluted | 52,672 | 49,585 | 52,591 |
| | ===== | ===== | ===== |
| Dividends declared per share | \$ 0.0575 | \$ 0.0575 | \$ 0.1150 |
| | ===== | ===== | ===== |
| Adjusted EBITDA (A) | \$ 62,658 | \$ 68,274 | \$ 111,795 |
| | ===== | ===== | ===== |

(A) Adjusted EBITDA is defined as income from operations before the effect of net interest expense; income taxes; and depreciation, depletion and amortization for Arch Coal, Inc., its subsidiaries and its ownership percentage in its equity investments.

Arch Coal, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
(In thousands)

June 30,
2002

(Unaudited)

Assets

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| | | |
|--|----|-------------|
| Current assets | | |
| Cash and cash equivalents | \$ | 1,343 |
| Trade receivables | | 145,970 |
| Other receivables | | 32,318 |
| Inventories | | 76,084 |
| Prepaid royalties | | 2,460 |
| Deferred income taxes | | 23,840 |
| Other | | 11,118 |
| | | <hr/> |
| Total current assets | | 293,133 |
| | | <hr/> |
| Property, plant and equipment, net | | 1,406,681 |
| | | <hr/> |
| Other assets | | |
| Prepaid royalties | | 51,116 |
| Coal supply agreements | | 70,936 |
| Deferred income taxes | | 202,178 |
| Investment in Canyon Fuel | | 153,978 |
| Other | | 45,021 |
| | | <hr/> |
| | | 523,229 |
| | | <hr/> |
| Total assets | \$ | 2,223,043 |
| | | <hr/> <hr/> |
| Liabilities and stockholders' equity | | |
| Current liabilities | | |
| Accounts payable | \$ | 124,036 |
| Accrued expenses | | 141,004 |
| Current portion of debt | | 6,497 |
| | | <hr/> |
| Total current liabilities | | 271,537 |
| Long-term debt | | 790,641 |
| Accrued postretirement benefits other than pension | | 323,571 |
| Accrued reclamation and mine closure | | 127,557 |
| Accrued workers' compensation | | 82,631 |
| Accrued pension cost | | 839 |
| Obligations under capital leases | | 519 |
| Other noncurrent liabilities | | 61,517 |
| | | <hr/> |
| Total liabilities | | 1,658,812 |
| | | <hr/> |
| Stockholders' equity | | |
| Common stock | | 527 |
| Paid-in capital | | 835,716 |
| Retained deficit | | (250,631) |
| Treasury stock, at cost | | (5,047) |
| Accumulated other comprehensive loss | | (16,334) |
| | | <hr/> |
| Total stockholders' equity | | 564,231 |
| | | <hr/> |
| Total liabilities and stockholders' equity | \$ | 2,223,043 |
| | | <hr/> <hr/> |

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Arch Coal, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(In Thousands)

| | Six Months End June 30, |
|---|----------------------------|
| | 2002 |
| | (Unaudited) |
| Operating activities | |
| Net income (loss) | \$ (5,274) |
| Adjustments to reconcile to cash provided by operating activities: | |
| Depreciation, depletion and amortization | 86,589 |
| Prepaid royalties expensed | 3,674 |
| Net gain on disposition of assets | (607) |
| Income from equity investment | (1,070) |
| Net distributions from equity investment | 17,778 |
| Changes in: | |
| Receivables | 3,971 |
| Inventories | (15,951) |
| Accounts payable and accrued expenses | 13,898 |
| Income taxes | (9,640) |
| Accrued postretirement benefits other than pension | (2,527) |
| Accrued reclamation and mine closure | 3,796 |
| Accrued workers' compensation benefits | 3,863 |
| Other | (1,029) |
| | ----- |
| Cash provided by operating activities | 97,471 |
| | ----- |
| Investing activities | |
| Additions to property, plant and equipment | (96,089) |
| Proceeds from dispositions of property, plant and equipment | 2,162 |
| Additions to prepaid royalties | (20,037) |
| | ----- |
| Cash used in investing activities | (113,964) |
| | ----- |
| Financing activities | |
| Net proceeds from (payments on) revolver and lines of credit | 23,283 |
| Payments on term loans | - |
| Debt financing costs | (8,127) |
| Proceeds from sale and leaseback of equipment | 9,213 |
| Reductions of obligations under capital lease | (7,691) |
| Dividends paid | (6,021) |
| Proceeds from sale of common stock | 289 |
| | ----- |
| Cash provided by (used in) financing activities | 10,946 |
| | ----- |
| Decrease in cash and cash equivalents | (5,547) |
| Cash and cash equivalents, beginning of period | 6,890 |

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Cash and cash equivalents, end of period

\$ 1,343
=====

Canyon Fuel Company cash flow information (Arch Coal ownership percentage)

Depreciation, depletion and amortization 14,204

Additions to property, plant and equipment (5,021)