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ARCH COAL INC
Form 8-K
April 24, 2001

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):
April 23, 2001 (April 23, 2001)

Arch Coal, Inc.

(Exact name of registrant as specified in its charter)

| | | |
|---|-----------------------------|---|
| <u>Delaware</u> | <u>1-13105</u> | <u>43-0921172</u> |
| (State or other jurisdiction of incorporation) | (Commission File Number) | (I.R.S. Employer Identification No.) |

CityPlace One, Suite 300, St. Louis, Missouri 63141
Address of principal executive offices) (Zip code)

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

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Exhibit Index begins on page 4.

Item 5. Other Events.

On April 23, 2001, Arch Coal, Inc. (the "Company"), announced via press

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release its earnings and operating results for the first quarter of 2001. 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.

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

| <u>Exhibit No.</u> | <u>Description</u> |
|--------------------|--|
| 99 | Press Release dated as of April 23, 2001 |

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: April 23, 2001

ARCH COAL, INC.

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

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EXHIBIT INDEX

Exhibit No.

99

Description

Press Release dated as of April 23, 2001

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Exhibit 99

News from
Arch Coal, Inc.

FOR FURTHER INFORMATION:

Deck S. Slone
Director, Investor Relations
and Public Affairs
(314) 994-2717

FOR IMMEDIATE RELEASE
April 23, 2001

Arch Coal, Inc. Reports First Quarter Results

Highlights:

- o Net income of \$6.1 million, or \$.15 per share, vs. a net loss of \$15.0 million, or \$.39 per share, in 1Q00
- o Adjusted EBITDA of \$80.3 million, vs. \$63.6 million in 1Q00
Total debt reduction of \$98.7 million, or 9%
- o Revenues of \$381.4 million, vs. \$357.8 million in 1Q00
- o Coal sales of 27.2 million tons, vs. 27.8 million tons in 1Q00

ST. LOUIS, April 23 /PRNewswire Interactive News Release/ -- Arch Coal, Inc. (NYSE: ACI - news) announced today that it had net income of \$6.1 million, or \$.15 per share, for its first quarter ended March 31, 2001. In comparison, Arch had a net loss of \$15.0 million, or \$.39 per share, in the same quarter of 2000.

"As previously announced, Arch Coal realized very strong margins on the limited tonnage that was open to market-based pricing during the quarter," said Steven F. Leer, Arch Coal's president and chief executive officer. "Moreover, nearly all of our mines performed well during the period, and continue to operate at high levels of efficiency today."

The one operation that struggled during the quarter was the West Elk mine in Colorado, which encountered higher-than-expected methane levels following the relocation of its longwall mining system to a new reserve area in late February. "We have made progress in combating the problem, and we are optimistic that the mine can return to reasonably strong levels of production in the second half of the year," Leer said. "However, the problem did lead to a substantial curtailment of planned shipments in the first quarter, and it will have an impact on shipments during the second quarter as well."

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In addition to strong market-based pricing on its open tonnage, the company also benefited from income tax credits related to depletion and a \$3.5 million pre-tax gain associated with the reversal of certain previously recorded reclamation liabilities. Offsetting those benefits were accruals related to stock-based compensation benefit programs that could be realized in future periods as a result of improved stock performance.

Arch had revenues of \$381.4 million and coal sales of 27.2 million tons in the first quarter of 2001, compared to \$357.8 million and 27.8 million tons in the same period of 2000. Adjusted EBITDA for the quarter totaled \$80.3 million, compared to \$63.6 million in the first quarter of 2000.

Coal markets

Coal markets continued to strengthen during the quarter, especially in Arch's two principal producing regions. "The spot price of Powder River Basin coal has tripled in the past 12 months, and the spot price of central Appalachian compliance coal has doubled," Leer said. "We are particularly encouraged by the fact that prices continued to improve in both regions during March and April, months when electricity demand typically falls off and coal prices soften."

As previously announced, Arch had committed nearly all of its expected production for 2001 before the year began, and has only about 1.5 million tons of coal to ship at current spot pricing for the remainder of 2001. The company currently has approximately 30% of its expected production open to market-based pricing in 2002, 50% in 2003, and 75% in 2004.

"In recent years, power generators have waited until the summer months or even later before seeking to secure new supply commitments for the following year," Leer said. "In contrast, we have already received a substantial number of solicitations for 2002 business and are engaged in active negotiations with some of these generators. We view this development as a positive indication that pricing for our open-to-market business in 2002 could be quite strong."

Debt reduction

During the quarter, Arch reduced its total debt by \$98.7 million, or more than 9%, principally through the use of proceeds raised in an equity offering in early February made in connection with a secondary offering by Ashland Inc. "We continue to view the strengthening of our balance sheet as our top financial priority and one of the best options we have to create value for our shareholders," Leer said.

Leer noted that the company was able to achieve this debt reduction despite the fact that capital spending is historically higher in the first quarter due to the timing of reserve acquisition payments for the Thundercloud lease and Arch's normal capital budget cycle. Arch made the third of five annual payments of \$31.6 million on the Thundercloud lease in January 2001.

West Elk mine

In recent weeks, West Elk has completed revisions to its ventilation plan and has made progress in diluting the liberated methane levels. "We are making strides in addressing the higher methane levels, and we are optimistic about our ability to effectively manage the problem over the long term," Leer said. West Elk is in the process of drilling degasification holes inside the mine and will soon drill similar holes from the surface that should help control methane levels over time.

The West Elk mine was idle for roughly six months in 2000 due to a fire that occurred in the western section of the mine. In February 2001, West Elk

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completed mining the last longwall panel in the western section and moved its longwall mining system to a new reserve area on the mine's east side. West Elk recently completed efforts to permanently seal the entire west side of the mine.

Operating statistics

Regional analysis: Of the 27.2 million tons of coal that Arch sold during the first quarter, approximately 8.9 million tons originated at its eastern operations and 18.3 million tons originated at its western operations. Arch Coal had an average operating realization of \$13.24 per ton and average operating costs of \$12.12 per ton. The eastern operations had an average realized sales price of \$27.76 per ton and an average cost of \$24.57 per ton during the quarter. The western operations had an average realized sales price of \$6.28 per ton and an average cost of \$6.14 per ton during the quarter. (Western operations data does not include the results of 65%-owned Canyon Fuel Company, which is accounted for on the equity method.)

Expected 2001 production: In the east, Arch expects to sell a total of approximately 34 million tons of coal in 2001 from its mines in central Appalachia. In the west, Arch expects to sell approximately 65 million tons of coal at its Black Thunder mine in the Powder River Basin of Wyoming and between 4 million and 6 million tons of coal at the West Elk mine in Colorado. The actual volume produced at West Elk will be largely dependent on the company's ability to manage the high methane levels currently being experienced there.

Financial: Arch currently expects depreciation, depletion and amortization to total approximately \$225 million in 2001, which includes \$54.1 million in the quarter just ended. Capital expenditures are expected to total approximately \$130 million, which includes \$51.5 million expended in the quarter just ended. (Projections for depreciation, depletion and amortization and capital expenditures include Arch's ownership percentage in Canyon Fuel Company.)

Looking ahead

"In recent weeks, we have received a substantial number of solicitations from power generators that are looking to secure a supply of coal for 2002 and thereafter," Leer said. "Given the current tightness in U.S. coal markets, we expect favorable pricing for our tonnage that is uncommitted or open to market-based pricing."

"Moreover, we continue to be encouraged by other developments that should continue to exert a positive influence on coal prices," Leer continued. "Natural gas prices remain high, hydroelectric output is being adversely affected by drought-like conditions in the western United States, and the nuclear system is producing at near its practical capacity. Furthermore, coal stockpiles at U.S. power plants were 35% lower at the outset of 2001 than a year earlier, and given current coal production levels we could see a further erosion of those stockpiles this summer."

"Meanwhile, coal-fired power plants are operating at a utilization rate of only 70%. "Clearly, coal demand will continue to climb as power generators seek to run these plants at ever-higher levels of efficiency," Leer said.

The longer-term demand picture is strengthening as well. "The high price of competing fuels has spurred a renewed interest in new coal-fired generation," Leer added. "The announced additional capacity that is expected to come on-line towards the middle of the decade should provide a smooth transition for continued coal demand growth as existing coal-fired plants begin to approach their effective capacity limits."

So far, plans to build roughly 20,000 megawatts of new coal-fired capacity have already been announced, according to Energy Ventures Analysis. That equates to

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between 60 million and 80 million tons of new coal demand annually.

A conference call concerning first quarter earnings will be webcast live today at 11 a.m. EST. The conference call can be accessed via the "investor info" 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 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 contained 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 our current expectations and projections about future events, some or all of which may be incorrect, and which are also subject to various risks and uncertainties that could cause actual results to differ materially from those projected in the statements. These expectations, assumptions and uncertainties include the following: our expectation of continued growth in the demand for electricity; our belief that legislation, regulations and the relatively higher costs of competing fuels will increase demand for our compliance and low-sulfur coal; projected production and financial results; our expectation of improving market conditions for the price of our coal; our expectation that we will continue to have adequate liquidity from our cash flow from operations, together with available borrowings under our credit facilities, to pay down our debt and to finance our working capital needs; a variety of operational, geologic, permitting, labor and weather-related factors, including equipment availability; and other risks and uncertainties detailed 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 March 31 | |
|-------------------------------|--------------------------------|-----------|
| | 2001 | 2000 |
| | (Unaudited) | |
| Revenues | | |
| Coal sales | \$360,043 | \$344,399 |
| Income from equity investment | 6,059 | 3,631 |
| Other revenues | 15,325 | 9,771 |
| | 381,427 | 357,801 |
| Costs and expenses | | |
| Cost of coal sales | 329,525 | 329,985 |

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|--|----------|-------------|
| Selling, general and administrative expenses | 13,794 | 9,756 |
| Amortization of coal supply agreements | 7,586 | 10,096 |
| Other expenses | 4,329 | 5,066 |
| | 355,234 | 354,903 |
| Income from operations | 26,193 | 2,898 |
| Interest expense, net: | | |
| Interest expense | (21,354) | (22,920) |
| Interest income | 251 | 295 |
| | (21,103) | (22,625) |
| Income (loss) before income taxes | 5,090 | (19,727) |
| Benefit from income taxes | (1,000) | (4,700) |
| Net income (loss) | \$6,090 | \$ (15,027) |
| Basic and diluted earnings (loss) per common share | \$0.15 | \$ (0.39) |
| Weighted average shares outstanding | 40,411 | 38,164 |
| Dividends declared per share | \$0.0575 | \$0.0575 |
| Adjusted EBITDA (A) | \$80,313 | \$63,589 |

(A) Adjusted EBITDA is defined as income from operations before the effect of net interest expense; income taxes; 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)

| | March 31, 2001 (Unaudited) | December 31, 2000 |
|------------------------------------|----------------------------------|----------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$2,349 | \$6,028 |
| Trade receivables | 153,628 | 141,727 |
| Other receivables | 24,305 | 38,540 |
| Inventories | 51,288 | 47,930 |
| Prepaid royalties | 3,459 | 2,262 |
| Deferred income taxes | 27,440 | 27,440 |
| Other | 14,911 | 13,963 |
| Total current assets | 277,380 | 277,890 |
| Property, plant and equipment, net | 1,441,749 | 1,430,053 |

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| | | |
|--|-------------|-------------|
| Other assets | | |
| Prepaid royalties | 33,500 | 17,500 |
| Coal supply agreements | 101,298 | 108,884 |
| Deferred income taxes | 194,067 | 179,343 |
| Investment in Canyon Fuel | 174,004 | 188,700 |
| Other | 29,393 | 30,244 |
| | 532,262 | 524,671 |
| Total assets | \$2,251,391 | \$2,232,614 |
| Liabilities and stockholders' equity | | |
| Current liabilities | | |
| Accounts payable | \$115,164 | \$103,014 |
| Accrued expenses | 154,402 | 152,303 |
| Current portion of debt | 95,000 | 60,129 |
| Total current liabilities | 364,566 | 315,446 |
| Long-term debt | 957,070 | 1,090,666 |
| Accrued postretirement benefits other than pension | 332,837 | 336,663 |
| Accrued reclamation and mine closure | 116,133 | 118,928 |
| Accrued workers' compensation | 79,637 | 78,593 |
| Accrued pension cost | 21,453 | 19,287 |
| Obligations under capital leases | 10,596 | 11,348 |
| Other noncurrent liabilities | 63,118 | 41,809 |
| Total liabilities | 1,945,410 | 2,012,740 |
| Stockholders' equity | | |
| Common stock | 435 | 397 |
| Paid-in capital | 550,940 | 473,428 |
| Retained deficit | (231,385) | (234,980) |
| Treasury stock, at cost | - | (18,971) |
| Accumulated other comprehensive loss | (14,009) | - |
| Total stockholders' equity | 305,981 | 219,874 |
| Total liabilities and stockholders' equity | \$2,251,391 | \$2,232,614 |

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

| | Three Months Ended | |
|--|--------------------|------------|
| | March 31, | |
| | 2001 | 2000 |
| | (Unaudited) | |
| Operating activities | | |
| Net income (loss) | \$6,090 | \$(15,027) |
| Adjustments to reconcile to cash provided by operating activities: | | |
| Depreciation, depletion and amortization | 44,240 | 51,769 |
| Prepaid royalties expensed | 1,607 | 1,590 |
| Net gain on disposition of assets | (3,435) | (2,343) |
| Income from equity investment | (6,059) | (3,631) |
| Net distributions from (contributions to) equity investment | 20,755 | (7,800) |

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|--|----------|----------|
| Changes in: | | |
| Receivables | 2,334 | 18,953 |
| Inventories | (3,358) | (1,191) |
| Accounts payable and accrued expenses | 14,249 | 26,307 |
| Income taxes | (5,767) | (4,642) |
| Accrued postretirement benefits other than pension | (3,826) | (661) |
| Accrued reclamation and mine closure | (2,795) | 699 |
| Accrued workers' compensation benefits | 1,044 | (6,325) |
| Other | 413 | (1,711) |
| Cash provided by operating activities | 65,492 | 55,987 |
| Investing activities | | |
| Additions to property, plant and equipment | (48,547) | (50,129) |
| Proceeds from dispositions of property, plant and equipment | 3,631 | 2,942 |
| Additions to prepaid royalties | (18,804) | (17,901) |
| Cash used in investing activities | (63,720) | (65,088) |
| Financing activities | | |
| Net (payments on) borrowings from revolver and lines of credit | (98,725) | 11,101 |
| Reductions of obligations under capital lease | (752) | - |
| Dividends paid | (2,495) | (2,195) |
| Proceeds from sale of common stock | 77,550 | - |
| Proceeds from sale of treasury stock | 18,971 | - |
| Cash provided by (used in) financing activities | (5,451) | 8,906 |
| Decrease in cash and cash equivalents | (3,679) | (195) |
| Cash and cash equivalents, beginning of period | 6,028 | 3,283 |
| Cash and cash equivalents, end of period | \$2,349 | \$3,088 |
| Canyon Fuel Company cash flow information (Arch Coal Ownership Percentage) | | |
| Depreciation, depletion and amortization | 9,880 | 8,922 |
| Additions to property, plant and equipment | 2,901 | 1,637 |