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ARCH COAL INC
Form 8-K
January 30, 2004

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): January 29, 2004
(January 28, 2004)

Arch Coal, Inc.

(Exact name of registrant as specified in its charter)

Delaware	1-13105	43-0921172
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(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 5 pages.
Exhibit Index begins on page 5.

Item 7 Financial Statements, ProForma Financial Information and Exhibits.

See the Exhibit Index at page 5 of this Report.

Item 9. Regulation FD Disclosure.

Item 12. Disclosure of Results of Operations and Financial Condition.

The information in this Report is being furnished under Item 9, "Regulation FD Disclosure" and Item 12, "Disclosure of Results of Operations and Financial Condition."

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On January 28, 2004, Arch Coal, Inc. (the "Company"), announced via press release its earnings and operating results for the fourth quarter of 2003 and for the 2003 calendar year. A copy of the Company's press release is attached hereto and incorporated herein by reference in its entirety.

The Company is also providing the following reconciliation of Adjusted EBITDA for its Arch Western Resources, LLC subsidiary:

Arch Western Resources, LLC Reconciliation of net income to adjusted EBITDA	Three Months Ended December 31		
	2003	2002	2001
	(Amounts in 000's)		
Net income	\$ 680	\$ 19,376	\$ 19,376
Cumulative effect of accounting change	-	-	-
Interest expense, net	8,562	6,890	6,890
Depreciation, depletion and amortization - Arch Western Resources	16,190	14,104	14,104
DD&A - Equity interest in Canyon Fuel Company, LLC	4,807	5,758	5,758
Other nonoperating expense	3,388	-	-
Adjusted EBITDA	\$ 33,627	\$ 46,128	\$ 46,128

Reconciliation of net income to income before other nonoperating expense and cumulative effect of accounting change

Net income	\$ 680	\$ 19,376	\$ 19,376
Cumulative effect of accounting change	-	-	-
Other nonoperating expense	3,388	-	-
Income before other nonoperating expense and cumulative effect of accounting change	\$ 4,068	\$ 19,376	\$ 19,376

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Note: Adjusted EBITDA is defined as net income before the effect of net interest expense; income taxes; our depreciation, depletion and amortization; our equity interest in the depreciation, depletion and amortization of Canyon Fuel Company, LLC; cumulative effect of accounting changes; and expenses resulting from early extinguishment of debt; and mark-to market adjustments in the value of derivative instruments.

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Adjusted EBITDA is not a measure of financial performance in accordance with generally accepted accounting principles, and items excluded to calculate Adjusted EBITDA are significant in understanding and assessing our financial condition. Therefore, Adjusted EBITDA should not be considered in isolation nor as an alternative to net income, income from operations, cash flows from operations or as a measure of our profitability, liquidity or performance under generally accepted accounting principles. We believe that Adjusted EBITDA presents a useful measure of our ability to service and incur debt based on ongoing operations. Furthermore, analogous measures are used by industry analysts to evaluate operating performance. Investors should be aware that our presentation of Adjusted EBITDA may not be comparable to similarly titled measures used by other companies.

In accordance with General Instruction B.6 of Form 8-K, the information in this Current Report on Form 8-K, including Exhibit 99, shall not be deemed "filed" for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such a filing.

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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: January 29, 2004

ARCH COAL, INC.

By: /s/ Janet L. Horgan
Janet L.Horgan
Assistant General Counsel and
Assistant Secretary

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Exhibit Index begins on page 5.

EXHIBIT INDEX

Exhibit No.	Description
99	Press Release dated as of January 29, 2004

Page 5 of 5 pages.

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
January 28, 2004

Arch Coal, Inc. Reports Fourth Quarter Results

Highlights:

- o Income available to common shareholders of \$22.1 million, or \$.40 per fully diluted share, vs. net income of \$1.1 million, or \$.02 per fully diluted share, in 4Q02
- o Adjusted EBITDA of \$75.9 million, vs. \$57.9 million in 4Q02
- o Revenues from coal sales of \$374.9 million, vs. \$369.7 million in 4Q02
- o Income from operations of \$30.7 million, vs. \$8.2 million in 4Q02
- o Coal sales volumes of 27.0 million tons, vs. 28.4 million tons in 4Q02
- o Total cash on hand of \$254.5 million, vs. \$9.6 million at Dec. 31, 2002

St. Louis - Arch Coal, Inc. (NYSE:ACI) today announced that it had income available to common shareholders of \$22.1 million, or \$.40 per fully diluted share, for its fourth quarter ended December 31, 2003. Excluding a net gain of \$20.0 million, which includes the partial sale of the company's investment in Natural Resource Partners offset in part by a charge related to a long-term incentive compensation plan, Arch had income available to common shareholders of \$2.2 million, or \$.04 per fully diluted share. In the same quarter of 2002, Arch had net income of \$1.1 million, or \$.02 per fully diluted share.

"Arch Coal made good progress on a number of fronts during the fourth quarter," said Steven F. Leer, Arch Coal's president and chief executive officer. "We increased our cash balance to more than \$250 million through the monetization of a percentage of our stake in Natural Resource Partners. We signed contracts in a rising coal market environment for much of our previously unsold tonnage for 2004, as well as committing nearly 20 million tons for delivery in 2005 and 2006. And we reduced the average mining cost per ton for the corporation as a whole, although eastern costs were up modestly compared to the previous quarter due to a 5% reduction in produced volumes in that region related to routine variations in mining rates at several operations." (Arch

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expects a return to normal mining rates for the first quarter of 2004.)

For the year ended December 31, 2003, Arch Coal had a net loss available to common shareholders of \$9.0 million, or \$.17 per fully diluted share, excluding a total of \$19.0 million, or \$.36 per fully diluted share, related to the full year impact of the items discussed above. That compares to a loss of \$2.6 million, or \$.05 per fully diluted share, during the same period of 2002. Total coal sales for the year were \$1,435.5 million and coal sales volumes totaled 100.6 million tons, vs. \$1,473.6 million and 106.7 million tons in the comparable period of 2002. Adjusted EBITDA totaled \$220.3 million in 2003, compared to \$228.9 million in 2002.

U.S. coal markets

In recent months, U.S. coal markets have strengthened markedly, particularly in the eastern United States where cold weather has recently emerged as a key driver for coal consumption after a slow start to winter.

Even without the cold, demand for coal-fired power was already on the rise - the result of a strengthening U.S. economy in general and an uptick in industrial activity in particular. Through September 30, 2003, coal consumption for electric generation was up an estimated 3%, according to the U.S. Energy Information Administration. "The resurgence in U.S. manufacturing is boosting demand for baseload power, and that means coal," Leer said.

As a result, utility stockpiles have dipped into the lower end of their five-year average range, according to recent estimates. Arch estimates that stockpiles declined to approximately 123 million tons at the end of December, 16% lower than last year. "In the near future, we expect activity in both the spot and contract markets to accelerate as power generators re-enter the market," Leer said.

In fact, the expectation of that development may already be pushing coal prices higher. The current spot price for eastern coal is approximately 40% higher than at the same time last year, according to Coal Daily's most recently published pricing indices. Spot prices for Powder River Basin coal have increased approximately 10% over the same time period, according to Coal Daily.

Contract activity

Arch signed a number of new commitments in the rising market environment that prevailed during the quarter. At present, Arch has signed commitments for nearly 95% of its expected 2004 production. On those already committed tons, Arch expects average realizations for the full year to increase by approximately 8% compared to 2003 levels. (Average realizations are expected to increase gradually throughout the year due to differences in the timing of the new commitments.)

Arch also signed commitments since October for approximately 10 million tons to be delivered in 2005. At present, Arch has priced approximately 65% of its expected 2005 production and 50% of its expected 2006 production. Arch has also signed contracts for approximately 700,000 tons of metallurgical coal to be delivered during 2004 and 2005.

"We are pleased with our recent contract activity, and we regard our sizable open positions in 2005 and 2006 as highly advantageous given our expectations for U.S. coal demand and pricing in the near to intermediate term," Leer said.

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Operating statistics

Fourth Quarter 2003 Regional Analysis:

	Eastern Operations	Western Operations	Tot
Tons sold (in mm)	7.5	19.5	27
Sales price per ton	\$31.05	\$7.28	\$13
Cost per ton	\$32.03	\$6.43	\$13
Margin per ton	\$ (.98)	\$.85	\$

Note: Western operations data do not include the results of 65%-owned Canyon Fuel Company, which equity method.

Capital Spending and DD&A (in millions):

	FY 2003	FY 2002	F
Capital spending	\$147.9	\$158.9	
DD&A	\$179.9	\$199.6	

Note: Data on capital spending and depreciation, depletion and amortization include Arch's ownership percentage in Canyon Fuel Company. Projected capital spending and DD&A do not include Triton Coal Company, other potential acquisitions or reserve additions.

Natural Resource Partners

During the quarter, Arch strengthened its balance sheet and greatly increased its liquidity through the previously announced sale of its 4.8 million subordinated units, general partner interest and incentive distribution rights in Natural Resource Partners for a purchase price of \$115 million. The sale was part of a long-term effort to monetize the value of certain non-strategic, fee-based royalty properties previously undervalued on the company's balance sheet.

"The sale of the NRP units provides us with tremendous financial flexibility as we continue to prepare for the acquisition of Triton Coal Company," Leer said. "Our balance sheet is the strongest it has been since 1998, when we purchased Arco Coal Company. With our large cash balance, net debt as a percent of total capitalization currently stands at 40% -- down from 83% at the beginning of 2000."

Arch continues to hold 2.9 million common units of NRP, which have a current market value of \$118 million at close of market at Jan. 27, 2004. The Triton acquisition is currently undergoing review by the Federal Trade Commission.

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Award-winning reclamation and safety practices

Arch received a number of prestigious honors for its industry-leading safety and reclamation practices during 2003. For the third year in a row, an Arch Coal subsidiary - Arch of West Virginia - claimed the Greenlands Award for best mine reclamation in the state of West Virginia. In addition, Ducks Unlimited awarded Catenary Coal with the 2003 West Virginia Wetlands Award for its outstanding accomplishments in the creation and preservation of wetlands habitat.

Moreover, two Arch subsidiaries - Hobet Mining and Coal-Mac, Inc. - received Mountaineer Guardian awards "for their determined and successful efforts in producing energy from within a safe working environment." Overall, Arch reduced its total incident rate by 14% during 2003.

"We regard excellence in safety and environmental performance as defining characteristics of our organization, and the foundation upon which our future success will be built," Leer said.

Looking ahead

"The outlook for U.S. coal markets is strong," Leer said. "We believe there is great potential for increased profitability in the future, driven in large part by the ongoing expiration of older, lower-priced contracts."

During 2004, Arch will begin to benefit from the replacement of legacy contracts with new commitments signed in the current market environment, according to Leer. Arch currently expects profits of between \$.08 and \$.12 in the first quarter, excluding charges related to the termination of hedge accounting for interest rate swaps. (Note: First quarter projections include approximately \$1.5 million in severance costs related to the previously announced closure of Canyon Fuel Company's Skyline mine in Utah.) The company expects stronger results in subsequent quarters.

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

During the fourth quarter, the conditions necessary for the conversion option in Arch's cumulative convertible preferred stock to become exercisable were met. As a result, beginning with the fourth quarter, the impact of the preferred shares must be considered in the calculation of fully diluted weighted average shares outstanding.

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.

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

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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 December 31	
	2003	2002
	(Unaudited)	
Revenues		
Coal sales	\$ 374,930	\$ 369,676
Costs and expenses		
Cost of coal sales	366,302	356,347
Selling, general and administrative expenses	13,630	10,344
Long-term incentive compensation plan expense	14,992	-
Amortization of coal supply agreements	3,412	6,311
Other expenses	5,824	9,262
	404,160	382,264
Other operating income		
Income from equity investments	5,432	7,800
Gain on sale of units of Natural Resource Partners, LP	42,743	-
Other operating income	11,798	12,966
	59,973	20,766
Income from operations	30,743	8,178
Interest expense, net:		

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Interest expense	(13,726)	(12,140)
Interest income	1,386	284
	<hr/>	
	(12,340)	(11,856)
	<hr/>	
Other non-operating income (expense):		
Expenses resulting from early debt extinguishment and termination of hedge accounting for interest rate swaps	(2,066)	-
Other non-operating income	1,897	-
	<hr/>	
	(169)	-
	<hr/>	
Income (loss) before income taxes and cumulative effect of accounting change	18,234	(3,678)
Benefit from income taxes	(5,700)	(4,750)
	<hr/>	
Income (loss) before cumulative effect of accounting change	23,934	1,072
Cumulative effect of accounting change, net of taxes	-	-
	<hr/>	
Net income (loss)	23,934	1,072
Preferred stock dividends	(1,797)	-
	<hr/>	
Net income (loss) available to common shareholders	\$ 22,137	\$ 1,072
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Earnings per common share		
Basic earnings (loss) before cumulative effect of accounting change	\$ 0.42	\$ 0.02
Cumulative effect of accounting change	-	-
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Basic earnings (loss) per common share	\$ 0.42	\$ 0.02
	<hr/>	
Diluted earnings (loss) before cumulative effect of accounting change	\$ 0.40	\$ 0.02
Cumulative effect of accounting change	-	-
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Diluted earnings (loss) per common share	\$ 0.40	\$ 0.02
	<hr/>	
Weighted average shares outstanding		
Basic	52,720	52,382
Diluted	60,297	52,533
	<hr/>	
Dividends declared per common share	\$ 0.0575	\$ 0.0575
	<hr/>	
Adjusted EBITDA (A)	\$ 75,872	\$ 57,853
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(A) Adjusted EBITDA is defined as net income before the effect of net interest expense; income taxes; our depreciation, depletion and amortization; our equity interest in the depreciation, depletion and amortization of Canyon Fuel Company, LLC; cumulative effect of accounting changes; expenses resulting from early extinguishment of debt; and mark-to-market adjustments in the value of derivative instruments.

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Adjusted EBITDA is not a measure of financial performance in accordance with generally accepted accounting principles, and items excluded to calculate Adjusted EBITDA are significant in understanding and assessing our financial condition. Therefore, Adjusted EBITDA should not be considered in isolation nor as an alternative to net income, income from operations, cash flows from operations or as a measure of our profitability, liquidity or performance under generally accepted accounting principles. We believe that Adjusted EBITDA presents a useful measure of our ability to service and incur debt based on ongoing operations. Furthermore, analogous measures are used by industry analysts to evaluate operating performance. Investors should be aware that our presentation of Adjusted EBITDA may not be comparable to similarly titled measures used by other companies. The table below shows how we calculate Adjusted EBITDA.

	Three Months Ended December 31	
	2003	2002
	(Unaudited)	
Net income (loss)	\$ 23,934	\$ 1,072
Cumulative effect of accounting change	-	-
Benefit from income taxes	(5,700)	(4,750)
Interest expense, net	12,340	11,856
Depreciation, depletion and amortization - Arch Coal, Inc.	40,322	43,917
DD&A - Equity interest in Canyon Fuel Company, LLC	4,807	5,758
Expenses from early debt extinguishment and other nonoperating	169	-
	\$ 75,872	\$ 57,853
Adjusted EBITDA	\$ 75,872	\$ 57,853

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

	December 31, 2003	
	(Unaudited)	
Assets		
Current assets		
Cash and cash equivalents	\$	254,541
Trade receivables		118,376
Other receivables		29,897
Inventories		69,907

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Prepaid royalties	4,586
Deferred income taxes	19,700
Other	16,638

Total current assets	513,645

Property, plant and equipment, net	1,315,135

Other assets	
Prepaid royalties	70,880
Coal supply agreements	6,397
Deferred income taxes	246,024
Equity investments	172,045
Other	63,523

	558,869

Total assets	\$ 2,387,649
	=====
Liabilities and stockholders' equity	
Current liabilities	
Accounts payable	\$ 89,975
Accrued expenses	180,314
Current portion of debt	6,349

Total current liabilities	276,638
Long-term debt	700,022
Accrued postretirement benefits other than pension	352,097
Asset retirement obligations	143,545
Accrued workers' compensation	77,672
Other noncurrent liabilities	149,640

Total liabilities	1,699,614

Stockholders' equity	
Preferred stock	29
Common Stock	536
Paid-in capital	988,476
Retained deficit	(255,936)
Treasury stock, at cost	(5,047)
Accumulated other comprehensive loss	(40,023)

Total stockholders' equity	688,035

Total liabilities and stockholders' equity	\$ 2,387,649
	=====

NOTE: Certain amounts in the December 31, 2002 balance sheet have been reclassified to conform with the classifications in the 2003 balance sheet with no effect on previously reported stockholders' equity.

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

		Twelve Months December 31
		----- 2003 ----- (Unaudited)
Operating activities		
Net income (loss)	\$	16,686
Adjustments to reconcile to cash		
provided by operating activities:		
Depreciation, depletion and amortization		158,464
Prepaid royalties expensed		13,153
Accretion on asset retirement obligations		12,999
Net gain on disposition of assets		(3,782)
Gain on sale of units of Natural Resource Partners, LP		(42,743)
Income from equity investments		(34,390)
Net distributions from equity investments		49,686
Cumulative effect of accounting change		3,654
Other nonoperating income		(4,256)
Changes in:		
Receivables		18,805
Inventories		(2,857)
Accounts payable and accrued expenses		8,844
Income taxes		(13,822)
Accrued postretirement benefits other than pension		27,558
Asset retirement obligations		(20,606)
Accrued workers' compensation benefits		(3,313)
Other noncurrent liabilities		(14,984)
Other		(6,735)

Cash provided by operating activities		162,361

Investing activities		
Additions to property, plant and equipment		(132,427)
Proceeds from sale of units of Natural Resource Partners, LP		115,000
Proceeds from dispositions of property, plant and equipment		4,282
Proceeds from coal supply agreements		52,548
Additions to prepaid royalties		(32,571)

Cash provided by (used in) investing activities		6,832

Financing activities		
Net payments on revolver and lines of credit		(65,971)
Payments on term loans		(675,000)
Proceeds from issuance of senior notes		700,000
Debt financing costs		(18,508)
Proceeds from sale and leaseback of equipment		-
Reductions of obligations under capital lease		-
Dividends paid		(17,481)
Proceeds from issuance of preferred stock		139,024

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Proceeds from sale of common stock	13,727

Cash provided by (used in) financing activities	75,791

Increase in cash and cash equivalents	244,984
Cash and cash equivalents, beginning of period	9,557

Cash and cash equivalents, end of period	\$ 254,541
	=====

Canyon Fuel Company cash flow information (Arch Coal ownership percentage)	
Depreciation, depletion and amortization	21,425
Additions to property, plant and equipment	(15,498)

Arch Coal, Inc. and Subsidiaries
Reconciliation of Non-GAAP Measures
(In thousands, except per share data)

Included in the accompanying release, we have disclosed income available to common shareholders for the quarter and year ending December 31, 2003 excluding the partial sale of the company's investment in Natural Resource Partners and a charge related to a long-term incentive compensation plan. These measures are considered non-GAAP measures as defined by Regulation G. The following reconciles these amounts to net income available to common shareholders reported under GAAP:

	Three Months Ended December 31

	2003

	(Unaudited)
Net income available to common shareholders	\$ 22,137
Gain on sale of units of Natural Resource Partners, LP	(42,743)
Long-term incentive compensation plan expense	14,992
Long-term incentive compensation plan expense included in equity income from Canyon Fuel Company	1,129
Tax impact of the excluded items (at AMT rate of 25%)	6,656

Net income (loss) available to common shareholders excluding items	\$ 2,171
	=====
Fully diluted shares outstanding	60,297

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Adjustment to exclude impact of stock options due to net loss	-
Adjustment to exclude impact of convertible preferred shares that would not be dilutive	(6,896)
Fully diluted shares outstanding	53,401
Earnings (loss) per common share excluding items	\$ 0.04