ARCH COAL INC
Form 8-K
April 22, 2003

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 21, 2003
(April 21, 2003)

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

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Exhibit Index begins on page 4.

Item 5. Other Events.

On April 21, 2003, Arch Coal, Inc. (the "Company"), announced via press release its earnings and operating results for the first quarter of 2003. 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:

Exhibit No.	Description
99	Press Release dated as of April 21, 2003

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 21, 2003 ARCH COAL, INC.

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

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EXHIBIT INDEX

Exhibit No.	Description
99	Press Release dated as of April 21, 2003

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
April 21, 2003

Arch Coal, Inc. Reports First Quarter Results

- o Net loss of $14.4 million, or $.27 per share, before the cumulative effect of an accounting change, vs. a net loss of $7.4 million, or $.14 per share, in 1Q02
- o Reduction in debt of $42.5 million and increase in cash balance of $56.2 million
- o Total revenues of $349.6 million, vs. $368.5 million in 1Q02
- o Coal sales of 22.7 million tons, vs. 24.7 million tons in 1Q02
- o Adjusted EBITDA of $38.7 million, vs. $49.1 million in 1Q02

St. Louis - Arch Coal, Inc. (NYSE:ACI) today reported that for its first quarter ended March 31, 2003, the company had a net loss of $14.4 million, or $.27 per share, before a $3.7 million, or $.07 per share, non-cash charge related to the cumulative effect of an accounting change resulting from the adoption of FAS 143, "Accounting for Asset Retirement Obligations." These results include $1.2 million of accumulated dividends related to the company's recently issued preferred stock. In the same quarter of 2002, Arch had a net loss of $7.4 million, or $.14 per share.

"Coal demand was weaker than anticipated in the first quarter, as power generators continued to draw down their coal stockpiles in lieu of purchasing spot coal," said Steven F. Leer, Arch Coal's president and CEO. "As a result, Arch further curtailed production at its mining operations, with predictable consequences for our first quarter results. Nevertheless, we continue to believe that our strategic decision to leave uncommitted tons in the ground, rather than sell them at a price that does not provide an adequate return, is sound."

In addition, first quarter results were adversely affected by previously announced post-retirement medical cost increases, heavy snows in February and March that disrupted production and shipments, higher diesel fuel costs, and difficult mining conditions at the Mingo Logan mine early in the quarter. Mingo Logan has since mined through the difficult conditions and returned to normal production levels. The increase in diesel fuel costs was partially mitigated by the company's hedging program.

During the first quarter, Arch produced 1.2 million fewer tons in the east and 1.5 million fewer tons in the west when compared to the first quarter of 2002, when production was already constrained.

Other developments

In February, Arch completed the sale of 2,875,000 shares of 5% Perpetual Cumulative Convertible Preferred Stock, applying some of the net proceeds from the sale, which totaled approximately $139.1 million, to debt reduction and the repayment of lines of credit. During the first quarter, Arch reduced total debt by $42.5 million, while building its cash balance to $65.8 million.

In addition, Arch announced in April that it had agreed to terms with a large customer seeking to buy out of the remaining term of an above-market contract. The buyout resulted in the receipt of approximately $52 million in cash early in the second quarter. Arch will record a deferred gain of approximately $15 million, which will be recognized ratably through 2012. Arch has entered into a new contract for an equivalent number of eastern tons with the same customer.

The value of Arch's equity investment in Natural Resource Partners also increased significantly during the quarter. In October 2002, Arch contributed reserves to NRP that had been valued on the company's balance sheet at $84.9 million. In exchange, Arch received 1.9 million common units of NRP that it sold in an initial public offering for $33.6 million; an additional 7.7 million common and subordinated units that the company continues to hold; and 42.25% of the general partner interest. At NRP's closing price of $25.05 on April 17, Arch's 7.7 million units of NRP were worth more than $190 million.

"The coal industry is in the midst of a dramatic restructuring, which has caused a number of long-time industry participants to exit the business and others to significantly pare back their operations," Leer said. "Our much improved balance sheet and significant cash reserves have positioned us to take advantage of attractive opportunities that may arise in the marketplace."

Market conditions

Despite continuing weakness in spot coal demand, there appears to be good reason for optimism in coming quarters. Electricity demand increased by as much as 4% in 2002, according to Edison Electric Institute, while U.S. coal production fell by an estimated 35 million tons. Furthermore, both those trends appear to have carried over into the first quarter of 2003.

"It appears that U.S. power generators are planning to maintain their stockpiles at historically low levels, and that has delayed the recovery in U.S. coal markets," Leer said. "However, the current trends in supply and demand suggest that a correction is inevitable. Eventually, power generators will need to re-enter the market, and that should provide an impetus for improving coal demand and pricing."

Stockpiles were 15% to 20% lower at the end of March compared to 12 months earlier, according to Arch's internal modeling. Meanwhile, competing fuels appear to be in short supply. The U.S. nuclear system is running at very near maximum output levels. Limited precipitation in the Pacific Northwest this winter has raised serious concerns about hydroelectric output this coming summer. And natural gas storage levels are at an all-time low, which has prompted growing concern about gas supply, availability and pricing. Monthly NYMEX natural gas prices currently average approximately $5.75 per million Btu's for the remainder of 2003, and do not fall below $4 per million Btu's for any month in the forward six-year period.

Operating statistics

Regional analysis: Of the 22.7 million tons of coal that Arch sold during the first quarter, approximately 6.8 million tons originated at its eastern mines and 15.9 million tons originated at its western operations. Arch had an average realized sales price of $14.44 per ton and average operating costs of $14.72 per ton during the quarter. The eastern operations had an average realized sales price of $31.21 per ton and an average cost of $32.97 per ton. The western operations had an average realized sales price of $7.24 per ton and an average cost of $6.84 per ton. (Western operations data does not include the results of 65%-owned Canyon Fuel Company, which is accounted for on the equity method.)

Capital spending: Arch invested $50.8 million in its mining operations during the first quarter of 2003, a total that included the fifth and final annual payment of $31.6 million for the Thundercloud federal coal tract adjacent to the Black Thunder mine. Arch acquired the 412-million-ton Thundercloud tract in 1998. For the full year 2003, Arch expects capital expenditures to remain relatively flat compared to 2002, at approximately $160 million. (Actual and projected capital expenditure figures include Arch's ownership percentage in Canyon Fuel Company.)

Depreciation, depletion and amortization: DD&A totaled $45.0 million in the first quarter of 2003. For the full year 2003, DD&A is expected to total approximately $190 million. (Actual and projected DD&A figures include Arch's ownership percentage in Canyon Fuel Company.)

Looking Ahead

"We continue to be bullish on the future of U.S. coal markets," Leer said. "With approximately 50 millions tons of planned production as yet uncommitted for 2004, we have significant leverage to an improving market environment. At the same time, we are implementing aggressive steps to reduce both overhead and operating costs. While many of the cost increases we experienced during the quarter were tied to lower volume levels or are unlikely to recur in future periods, we have identified a number of areas where we can cut costs significantly."

Arch expects second quarter results to range from breakeven to a loss of $.10 per share, excluding severance costs associated with the aforementioned cost reduction efforts. If coal demand and pricing strengthen this summer, the company's financial performance should improve significantly in the year's second half.

A conference call concerning first quarter earnings will be webcast live today at 11 a.m. EDT. 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.

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 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 Mo Mar
	2003
Revenues	
Coal sales	$ 327,390
Income from equity investment	11,110
Other revenues	11,089
	349,589
Costs and expenses	
Cost of coal sales	333,639
Selling, general and administrative expenses	11,873
Amortization of coal supply agreements	5,793
Other expenses	4,549
	355,854
Loss from operations	(6,265)

Interest expense, net:		
Interest expense		(11,552)
Interest income		332
		(11,220)
Loss before income taxes and cumulative effect of accounting change		(17,485)
Benefit from income taxes		(4,300)
Loss before cumulative effect of accounting change		(13,185)
Cumulative effect of accounting change, net of taxes		(3,654)
Net loss	$	(16,839)
Preferred stock dividends		(1,198)
Net loss available to common shareholders	$	(18,037)
Earnings per common share		
Loss before cumulative effect of accounting change	$	(0.27)
Cumulative effect of accounting change		(0.07)
Basic and diluted earnings (loss) per common share	$	(0.34)
Weighted average shares outstanding		52,384
Common dividends declared per share	$	0.0575
Adjusted EBITDA (A)	$	38,739

(A) Adjusted EBITDA is defined as income (loss) from operations 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, and the cumulative effect of accounting changes. 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
March 31

	2003	2002
Loss from operations	$ (6,265)	$ (1,320)
Depreciation, depletion and amortization of Arch Coal, Inc.	39,511	42,741
Arch Coal's equity interest in depreciation, depletion and amortization of Canyon Fuel Company, LLC	5,493	7,717
Adjusted EBITDA	$ 38,739	$ 49,138

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

	March 31, 2003
	(Unaudited)
Assets	
Current assets	
Cash and cash equivalents	$ 65,787
Trade receivables	127,549
Other receivables	23,124
Inventories	75,741
Prepaid royalties	6,250
Deferred income taxes	27,775
Other	13,285
Total current assets	339,511
Property, plant and equipment, net	1,335,614
Other assets	
Prepaid royalties	67,078
Coal supply agreements	53,447
Deferred income taxes	228,513
Equity investments	231,862
Other	44,617
	625,517
Total assets	$ 2,300,642
Liabilities and stockholders' equity	

Current liabilities	
Accounts payable	$ 99,438
Accrued expenses	153,090
Current portion of debt	4,650
Total current liabilities	257,178
Long-term debt	700,195
Accrued postretirement benefits other than pension	331,169
Asset retirement obligations	145,554
Accrued workers' compensation	81,771
Other noncurrent liabilities	132,792
Total liabilities	1,648,659
Stockholders' equity	
Preferred stock	29
Common stock	528
Paid-in capital	974,877
Retained deficit	(274,992)
Treasury stock, at cost	(5,047)
Accumulated other comprehensive loss	(43,412)
Total stockholders' equity	651,983
Total liabilities and stockholders' equity	$ 2,300,642

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.

ARCH COAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)

	Three Months March 31
	2003
	(Unaudit
Operating activities	
Net loss	$ (16,839)
Adjustments to reconcile to cash provided by operating activities:	
Depreciation, depletion and amortization	39,511
Prepaid royalties expensed	3,105
Accretion on asset retirement obligations	3,442
Net gain on disposition of assets	(148)
Income from equity investment	(11,110)
Net distributions from equity investments	9,660
Cumulative effect of accounting change	3,654
Changes in:	
Receivables	16,157

Inventories	(8,942)
Accounts payable and accrued expenses	(8,662)
Income taxes	(4,438)
Accrued postretirement benefits other than pension	6,630
Asset retirement obligations	(3,266)
Accrued workers' compensation benefits	786
Other	2,457
Cash provided by operating activities	31,997
Investing activities	
Additions to property, plant and equipment	(48,085)
Proceeds from dispositions of property, plant and equipment	168
Additions to prepaid royalties	(20,384)
Cash used in investing activities	(68,301)
Financing activities	
Net (payments on) proceeds from revolver and lines of credit	(42,497)
Deferred financing costs	(1,101)
Reduction of obligations under capital lease	-
Dividends paid	(3,012)
Proceeds from sale of preferred stock	139,078
Proceeds from sale of common stock	66
Cash provided by (used in) financing activities	92,534
Increase (decrease) in cash and cash equivalents	56,230
Cash and cash equivalents, beginning of period	9,557
Cash and cash equivalents, end of period	$ 65,787
Canyon Fuel Company cash flow information (Arch Coal ownership percentage)	
Depreciation, depletion and amortization	5,493
Additions to property, plant and equipment	(2,666)