

International Coal Group, Inc.
Form 10-Q
August 06, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2010

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File No. 001-32679

International Coal Group, Inc.
(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

20-2641185
(I.R.S. Employer
Identification No.)

300 Corporate Centre Drive
Scott Depot, West Virginia
(Address of Principal Executive Offices)

25560
(Zip Code)

(304) 760-2400
(Registrant's Telephone Number, Including Area Code)

N/A
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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 No

Edgar Filing: International Coal Group, Inc. - Form 10-Q

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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 definition of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Number of shares of the Registrant’s Common Stock, \$0.01 par value, outstanding as of August 1, 2010—203,766,832.

TABLE OF CONTENTS

	Page
PART I—FINANCIAL INFORMATION	
Item 1. Condensed Consolidated Financial Statements	3
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	24
Item 3. Quantitative and Qualitative Disclosures About Market Risk	41
Item 4. Controls and Procedures	41
PART II—OTHER INFORMATION	
Item 1. Legal Proceedings	42
Item 1A. Risk Factors	42
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	47
Item 6. Exhibits	48

PART I

Item 1. Condensed Consolidated Financial Statements

INTERNATIONAL COAL GROUP, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets (Unaudited)
(Dollars in thousands, except per share amounts)

	June 30, 2010	December 31, 2009
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 205,310	\$ 92,641
Accounts receivable, net of allowances of \$143 and \$222	92,259	80,291
Inventories, net	73,341	82,037
Deferred income taxes	15,548	15,906
Prepaid insurance	6,155	6,351
Income taxes receivable	13	1,423
Prepaid expenses and other	9,662	9,960
Total current assets	402,288	288,609
PROPERTY, PLANT, EQUIPMENT AND MINE DEVELOPMENT, net		
	1,022,984	1,038,200
DEBT ISSUANCE COSTS, net	13,371	7,634
ADVANCE ROYALTIES, net	17,046	18,025
OTHER NON-CURRENT ASSETS	8,842	15,492
Total assets	\$ 1,464,531	\$ 1,367,960
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 58,533	\$ 63,582
Short-term debt	2,334	2,166
Current portion of long-term debt and capital lease	24,947	17,794
Current portion of reclamation and mine closure costs	9,376	9,390
Current portion of employee benefits	4,043	3,973
Accrued expenses and other	69,455	74,803
Total current liabilities	168,688	171,708
LONG-TERM DEBT AND CAPITAL LEASE	337,969	366,515
RECLAMATION AND MINE CLOSURE COSTS	66,651	65,601
EMPLOYEE BENEFITS	76,330	63,767
DEFERRED INCOME TAXES	56,382	57,399
BELOW-MARKET COAL SUPPLY AGREEMENTS	28,398	29,939
OTHER NON-CURRENT LIABILITIES	3,158	3,797
Total liabilities	737,576	758,726
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		

Edgar Filing: International Coal Group, Inc. - Form 10-Q

Preferred stock—par value \$0.01, 200,000,000 shares authorized, none issued	—	—
Common stock—par value \$0.01, 2,000,000,000 shares authorized, 203,808,577 and 203,762,385 shares issued and outstanding, respectively, as of June 30, 2010 and 172,820,047 and 172,812,726 shares issued and outstanding, respectively, as of December 31, 2009	2,038	1,728
Treasury stock	(216)	(14)
Additional paid-in capital	857,925	732,124
Accumulated other comprehensive income (loss)	(2,770)	1,048
Retained deficit	(130,083)	(125,713)
Total International Coal Group, Inc. stockholders' equity	726,894	609,173
Noncontrolling interest	61	61
Total stockholders' equity	726,955	609,234
Total liabilities and stockholders' equity	\$ 1,464,531	\$ 1,367,960

See notes to condensed consolidated financial statements.

INTERNATIONAL COAL GROUP, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Operations (Unaudited)
(Dollars in thousands, except per share amounts)

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
REVENUES:				
Coal sales revenues	\$ 270,714	\$ 254,677	\$ 541,204	\$ 528,493
Freight and handling revenues	9,006	6,041	18,383	14,675
Other revenues	20,720	17,079	29,447	39,595
Total revenues	300,440	277,797	589,034	582,763
COSTS AND EXPENSES:				
Cost of coal sales	211,927	207,324	431,992	439,289
Freight and handling costs	9,006	6,041	18,383	14,675
Cost of other revenues	26,400	6,630	33,581	15,966
Depreciation, depletion and amortization	26,135	26,035	52,532	52,298
Selling, general and administrative	8,335	8,670	16,920	19,281
Gain on sale of assets, net	(34)	(3,108)	(3,515)	(3,186)
Total costs and expenses	281,769	251,592	549,893	538,323
Income from operations	18,671	26,205	39,141	44,440
INTEREST AND OTHER INCOME (EXPENSE):				
Loss on extinguishment of debt	(6,098)	—	(28,085)	—
Interest expense, net	(10,015)	(13,214)	(23,315)	(26,232)
Total interest and other income (expense)	(16,113)	(13,214)	(51,400)	(26,232)
Income (loss) before income taxes	2,558	12,991	(12,259)	18,208
INCOME TAX (EXPENSE) BENEFIT	1,924	(2,613)	7,889	(4,108)
Net income (loss)	4,482	10,378	(4,370)	14,100
Net (income) loss attributable to noncontrolling interest	—	4	—	(25)
Net income (loss) attributable to International Coal Group, Inc.	\$ 4,482	\$ 10,382	\$ (4,370)	\$ 14,075
Earnings per share:				
Basic	\$ 0.02	\$ 0.07	\$ (0.02)	\$ 0.09
Diluted	\$ 0.02	\$ 0.07	\$ (0.02)	\$ 0.09
Weighted-average common shares outstanding:				
Basic	202,484,814	152,832,797	191,992,083	152,803,420
Diluted	203,932,265	154,672,255	191,992,083	153,983,725

See notes to condensed consolidated financial statements.

INTERNATIONAL COAL GROUP, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows (Unaudited)
(Dollars in thousands)

	Six months ended June 30,	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ (4,370)	\$ 14,100
Adjustments to reconcile net income (loss) to net cash from operating activities:		
Depreciation, depletion and amortization	52,532	52,298
Loss on extinguishment of debt	28,085	—
Amortization and write-off of deferred finance costs and debt discount	4,753	3,378
Amortization of accumulated employee benefit obligations	206	(52)
Compensation expense on share based awards	1,756	2,233
Gain on sale of assets, net	(3,515)	(3,186)
Provision for bad debt	(79)	(110)
Deferred income taxes	(11,051)	3,632
Changes in Assets and Liabilities:		
Accounts receivable	(11,889)	(9,308)
Inventories	8,676	(22,812)
Prepaid expenses and other	1,904	16,663
Other non-current assets	(1,235)	(630)
Accounts payable	3,278	(10,784)
Accrued expenses and other	(5,228)	(5,058)
Reclamation and mine closure costs	191	176
Other liabilities	5,672	(1,438)
Net cash from operating activities	69,686	39,102
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from the sale of assets	3,785	3,066
Additions to property, plant, equipment and mine development	(41,190)	(35,750)
Withdrawals (deposits) of restricted cash	8,792	(163)
Net cash from investing activities	(28,613)	(32,847)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings on short-term debt	2,388	—
Repayments on short-term debt	(2,220)	(3,578)
Borrowings on long-term debt	—	9,086
Repayments on long-term debt and capital lease	(9,435)	(8,755)
Proceeds from convertible notes offering	115,000	—
Proceeds from senior notes offering	198,596	—
Proceeds from common stock offering	102,453	—
Repurchases of senior notes	(182,777)	—
Repurchases of convertible notes	(137,342)	—
Purchases of treasury stock	(202)	(14)
Proceeds from stock options exercised	10	—
Debt issuance costs	(14,875)	(609)

Edgar Filing: International Coal Group, Inc. - Form 10-Q

Net cash from financing activities	71,596	(3,870)
NET CHANGE IN CASH AND CASH EQUIVALENTS	112,669	2,385
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	92,641	63,930
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 205,310	\$ 66,315

Supplemental information:

Cash paid for interest (net of amount capitalized)	\$ 25,221	\$ 22,402
Cash received for income taxes	\$ 531	\$ 7,588

Supplemental disclosure of non-cash items:

Issuance of common stock in exchange for convertible notes	\$ 25,712	\$ —
Purchases of property, plant, equipment and mine development through accounts payable	\$ 9,089	\$ 3,794
Purchases of property, plant, equipment and mine development through financing arrangements	\$ 5,447	\$ 6,900

See notes to condensed consolidated financial statements.

INTERNATIONAL COAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
June 30, 2010
(Dollars in thousands, except per share amounts)

(1) Basis of Presentation

The accompanying interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial reporting and include the accounts of International Coal Group, Inc. and its subsidiaries (the "Company") and its controlled affiliates. Significant intercompany transactions, profits and balances have been eliminated in consolidation. The Company accounts for its undivided interest in coalbed methane wells using the proportionate consolidation method, whereby its share of assets, liabilities, revenues and expenses are included in the appropriate classification in the financial statements.

The accompanying interim condensed consolidated financial statements as of June 30, 2010 and for the three and six months ended June 30, 2010 and 2009, and the notes thereto, are unaudited. However, in the opinion of management, these financial statements reflect all normal, recurring adjustments necessary for a fair presentation of the results of the periods presented. The balance sheet information as of December 31, 2009 has been derived from the Company's audited consolidated balance sheet. These statements should be read in conjunction with the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2009. The results of operations for the three and six months ended June 30, 2010 are not necessarily indicative of the results to be expected for future quarters or for the year ending December 31, 2010.

(2) Summary of Significant Accounting Policies and General

Subsequent Events—In February 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2010-09, Subsequent Events—Amendments to Certain Recognition and Disclosure Requirements ("ASU 2010-09"), which amends ASC Topic 855, Subsequent Events, so that SEC filers no longer are required to disclose the date through which subsequent events have been evaluated in originally issued and revised financial statements. ASU 2010-09 was effective upon issuance. Adoption of ASU 2010-09 did not have a material effect on the Company's financial position, results of operations or cash flows.

Fair Value—In January 2010, the FASB issued ASU 2010-06, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements ("ASU 2010-06"). This amendment to ASC Topic 820, Fair Value Measurements and Disclosures, requires additional disclosures about fair value measurements. This is effective for interim and annual periods beginning after December 15, 2009, except for disclosures about purchases, sales, issuance and settlements in the roll forward of activity in Level III fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Adoption of ASU 2010-06 did not have a material effect on the Company's financial position, results of operations or cash flows.

Consolidation—In June 2009, the FASB issued updates to ASC Topic 810, Consolidation ("ASC 810") to improve financial reporting by enterprises involved with variable interest entities. ASC 810 is effective as of the first fiscal year beginning after November 15, 2009. Adoption of ASC 810 did not have a material impact on the Company's financial position, results of operations or cash flows.

Cost of Other Revenues—Cost of other revenues includes costs of contract mining, coalbed methane activities, ash disposal services, equipment and parts sales, equipment rebuild and maintenance services, royalties and coal handling

and processing income, as well as costs incurred associated with other non-coal producing transactions. For the three and six months ended June 30, 2010, cost of other revenues includes \$10,000 related to a payment made in the second quarter of 2010 for the early termination of a coal supply agreement.

INTERNATIONAL COAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
June 30, 2010
(Dollars in thousands, except per share amounts)

(3) Capital Restructuring

In March 2010, the Company completed public offerings of 24,444,365 shares of its common stock, par value \$0.01 per share (the “Common Stock”), at a public offering price of \$4.47 per share, \$115,000 aggregate principal amount of 4.00% Convertible Senior Notes due 2017 (the “2017 Convertible Notes”) and \$200,000 aggregate principal amount of 9.125% Senior Secured Second-Priority Notes due 2018 (the “2018 Senior Notes”) pursuant to a shelf registration statement deemed effective by the Securities and Exchange Commission on January 15, 2010.

The Company used \$136,394 of the net proceeds from the Common Stock and 2017 Convertible Notes offerings to finance a cash tender offer to repurchase \$114,489 aggregate principal amount of its 9.00% Convertible Senior Notes due 2012 (the “2012 Convertible Notes”). The repurchases closed on April 6, 2010. The Company used \$187,561 of the net proceeds from the 2018 Senior Notes offering to finance a cash tender offer and consent solicitation to repurchase \$175,000 aggregate principal amount of its 10.25% Senior Notes due 2014 (the “2014 Senior Notes”), \$169,074 of which closed on March 22, 2010, \$50 of which closed on April 5, 2010 and \$5,876 of which closed on July 15, 2010. The Company recorded losses of \$6,098 and \$28,085 related to the debt repurchases during the three and six months, respectively, ended June 30, 2010. The remaining proceeds will be used for general corporate purposes.

Additionally, the Company secured a new four-year \$125,000 asset-based loan facility (the “ABL Loan Facility”) to replace its prior revolving credit facility which was set to expire in June 2011. The ABL Loan Facility provides the potential for \$25,000 in additional borrowing capacity, contains minimal financial covenants and matures in February 2014. The ABL Loan Facility is expected to be used primarily for issuing letters of credit that collateralize the Company’s reclamation bonds.

(4) Inventories

Inventories consisted of the following:

	June 30, 2010	December 31, 2009
Coal	\$ 41,176	\$ 49,120
Parts and supplies	34,553	35,065
Reserve for obsolescence—parts and supplies	(2,388)	(2,148)
Inventories, net	\$ 73,341	\$ 82,037

INTERNATIONAL COAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
June 30, 2010
(Dollars in thousands, except per share amounts)

(5) Property, Plant, Equipment and Mine Development

Property, plant, equipment and mine development are summarized by major classification as follows:

	June 30, 2010	December 31, 2009
Plant and equipment	\$ 629,673	\$ 620,451
Coal lands and mineral rights	586,842	586,706
Mine development	208,598	195,756
Land and land improvements	26,420	26,351
Coalbed methane well development costs	14,697	14,889
	1,466,230	1,444,153
Less accumulated depreciation, depletion and amortization	(443,246)	(405,953)
Property, plant, equipment and mine development, net	\$ 1,022,984	\$ 1,038,200

Depreciation, depletion and amortization expense related to property, plant, equipment and mine development for the three months ended June 30, 2010 and 2009 was \$26,752 and \$28,422, respectively. Depreciation, depletion and amortization expense related to property, plant, equipment and mine development for the six months ended June 30, 2010 and 2009 was \$54,002 and \$57,433, respectively.

(6) Debt

Long-Term Debt and Capital Lease

Long-term debt and capital lease consisted of the following:

	June 30, 2010	December 31, 2009
9.125% Senior Notes, due 2018, net of debt discount of \$1,370	\$ 198,630	\$ —
4.00% Convertible Senior Notes, due 2017, net of debt discount of \$33,685	81,315	—
9.00% Convertible Senior Notes, due 2012, net of debt discount of \$1,216 and \$9,480, respectively	23,796	152,022
10.25% Senior Notes, due 2014	5,876	175,000
Equipment notes	51,411	54,417
Capital lease and other	1,888	2,870
Total	362,916	384,309
Less current portion	(24,947)	(17,794)
Long-term debt and capital lease	\$ 337,969	\$ 366,515

4.00% Convertible senior notes due 2017—On March 16, 2010, the Company completed a public offering of \$115,000 aggregate principal amount of its 2017 Convertible Notes. Net proceeds from the offering were \$111,550, after deducting underwriting fees of \$3,450. The 2017 Convertible Notes are the Company's senior unsecured obligations

and are guaranteed jointly and severally on a senior unsecured basis by all of the Company's material future and current domestic subsidiaries or that guarantee the ABL Loan Facility on a senior basis. The 2017 Convertible Notes and the related guarantees rank equal in right of payment to all of the Company's and the guarantors' respective existing and future unsecured senior indebtedness. Interest is payable semi-annually in arrears on April 1st and October 1st of each year, commencing October 1, 2010. The Company assesses the convertibility of the 2017 Convertible Notes on an ongoing basis. The 2017 Convertible Notes were not convertible as of June 30, 2010.

INTERNATIONAL COAL GROUP, INC. AND SUBSIDIARIES