

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-05-13** | Period of Report: **1994-03-31**
SEC Accession No. **0000950131-94-000627**

(HTML Version on secdatabase.com)

FILER

ADDINGTON RESOURCES INC

CIK: **810665** | IRS No.: **611125039** | State of Incorpor.: **DE** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **000-16498** | Film No.: **94528028**
SIC: **1221** Bituminous coal & lignite surface mining

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
Quarterly Report Under Section 13 or 15 (d) of
The Securities Exchange Act of 1934

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

For the quarterly period ended March 31, 1994

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

For the transition period from _____ to _____

Commission file number 0-16498

ADDINGTON RESOURCES, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

61-1125039

(State or other jurisdiction (IRS Employer ID Number)
of incorporation or organization)

1500 N. Big Run Road
Ashland, KY 41102

Registrant's telephone number, (606) 928-3433
including area code -----

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 x No

Indicate the number of shares outstanding of each of the issuer's classes
of common stock as of the latest practicable date.

Class - Common stock, \$1.00 Par Value

Outstanding at May 10, 1994 - 15,704,178 shares

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ITEM 1
ADDINGTON RESOURCES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

ASSETS

<TABLE>
<CAPTION>

	March 31, 1994 ----- (Unaudited) <C>	December 31, 1993 ----- <C>
<S> CURRENT ASSETS:		
Cash and cash equivalents	\$ 26,025,608	\$ 13,744,002
Short term investments	5,000,000	-
Net assets held for disposal	-	141,865,803
Accounts receivable	24,127,158	8,945,515
Inventories	8,623,926	11,803,046
Prepaid expenses and other	5,710,212	7,717,738
	-----	-----
Total current assets	69,486,904	184,076,104

PROPERTY, PLANT AND EQUIPMENT, at cost	146,494,953	139,054,751
Less - Accumulated depreciation	(24,141,259)	(22,664,255)
	122,353,694	116,390,496
MINERAL RESERVES, at cost	1,703,623	1,703,623
Less - Accumulated amortization	(18,489)	(18,489)
	1,685,134	1,685,134
OTHER ASSETS	14,292,617	13,506,692
Total assets	\$207,818,349	\$315,658,426

</TABLE>

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ADDINGTON RESOURCES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' EQUITY

<TABLE>
<CAPTION>

	March 31, 1994	December 31, 1993
	(Unaudited) <C>	<C>
CURRENT LIABILITIES:		
Accounts payable	\$ 12,732,512	\$ 5,609,230
Revolving line of credit	1,500,000	23,441,737
Current portion of long-term debt	1,294,057	126,228,033
Accrued expenses and other	18,030,307	13,714,495
Current portion of deferred income taxes	3,802,331	3,666,000
Total current liabilities	37,359,207	172,659,495
LONG-TERM DEBT, less current portion	17,293,644	11,954,354
OTHER LONG-TERM LIABILITIES	21,490,048	2,705,213
DEFERRED INCOME TAXES	3,532,853	3,406,184

COMMITMENTS AND CONTINGENCIES

STOCKHOLDERS' EQUITY:

Common stock, \$1.00 par value; 30,000,000
shares authorized, 15,704,178 and
15,675,378 shares outstanding at March 31,

1994 and December 31, 1993, respectively	15,704,178	15,675,378
Paid-in capital	81,856,648	81,544,648
Retained earnings	30,581,771	27,713,154
	-----	-----
Total stockholders' equity	128,142,597	124,933,180
	-----	-----
Total liabilities and stockholders' equity	\$207,818,349	\$315,658,426
	=====	=====

</TABLE>

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ADDINGTON RESOURCES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

<TABLE>

<CAPTION>

	THREE MONTHS ENDED	
	March 31, 1994	March 31, 1993
	-----	-----
<S>	<C>	<C>
REVENUES:		
Mining	\$32,318,978	\$77,712,883
Environmental	6,851,215	4,879,534
Other	428,447	-
	-----	-----
	39,598,640	82,592,417
	-----	-----
COSTS AND EXPENSES:		
Cost of operations	31,799,149	68,711,094
Depreciation and amortization	1,543,556	6,981,419
Selling, general and administrative	2,117,970	5,672,149
	-----	-----
	35,460,675	81,364,662
	-----	-----
INCOME FROM OPERATIONS	4,137,965	1,227,755
	-----	-----
INTEREST AND OTHER INCOME (EXPENSE):		
Interest income	29,029	218,557
Interest expense	(25,728)	(4,252,585)
Gain on sale of coal subsidiaries	118,498	-
(Loss)/gain on sale of assets	(80,398)	8,717
Other	(60,749)	390,894
	-----	-----
	(19,348)	(3,634,417)
	-----	-----
Income (loss) before income tax provisions	4,118,617	(2,406,662)
	-----	-----
INCOME TAX PROVISIONS (BENEFITS):		
Federal	1,000,000	(600,000)
State	250,000	(100,000)
	-----	-----
	1,250,000	(700,000)
	-----	-----
Net income (loss)	\$ 2,868,617	\$ (1,706,662)
	=====	=====

NET INCOME (LOSS) PER SHARE	\$.18	\$ (.11)
	====	=====
Equivalent shares of stock outstanding	16,022,641	15,453,934
	=====	=====

</TABLE>

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ADDINGTON RESOURCES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

<TABLE>
<CAPTION>

	THREE MONTHS ENDED	
	March 31, 1994	March 31, 1993
	-----	-----
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 2,868,617	\$ (1,706,662)
	-----	-----
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization, including amortization of financing costs	1,543,556	7,274,115
Loss/(gain) on sale of assets	80,398	(8,717)
Gain on sale of coal mining subsidiaries	(118,498)	-
Change in assets and liabilities, net of effects from acquisitions and disposals:		
(Increase) decrease in -		
Accounts receivable	(16,578,268)	(4,764,486)
Inventories	(726,502)	(5,793,433)
Prepaid expenses and other	1,055,422	(3,153,550)
Other assets	(731,243)	(940,636)
Increase (decrease) in:		
Accounts payable	7,123,282	4,839,391
Accrued expenses	(5,667,144)	6,077,280
Income taxes payable	(400,000)	3,266,975
Deferred income taxes	263,000	(3,431,000)
Other liabilities	313,835	-
	-----	-----
Total adjustments	(13,842,162)	3,365,939
	-----	-----
Net cash provided by (used in) operating activities	(10,973,545)	1,659,277
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of assets	373,636	37,076
Net proceeds from sale of coal subsidiaries	185,074,261	-
Increase in short-term investments	(5,000,000)	-
Additions to property, plant and equipment	(9,214,786)	(7,204,458)
Acquisition of mineral reserves	-	(32,054)
	-----	-----
Net cash provided by (used in) investing activities	\$171,233,111	\$ (7,199,436)
	-----	-----

</TABLE>

ADDINGTON RESOURCES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Unaudited)

<TABLE>
<CAPTION>

	THREE MONTHS ENDED	
	March 31, 1994	March 31, 1993
<S>	<C>	<C>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of long-term debt	\$ 7,476,651	\$ 12,916
Repayments of long-term debt	(133,853,674)	(861,984)
Borrowings (repayments) on revolving lines of credit	(21,941,737)	-
Issuance of common stock	340,800	3,004,250
Net cash provided by (used in) financing activities	(147,977,960)	2,155,182
Net increase (decrease) in cash and cash equivalents	12,281,606	(3,384,977)
CASH AND CASH EQUIVALENTS, beginning of period	13,744,002	32,955,151
CASH AND CASH EQUIVALENTS, end of period	\$ 26,025,608	\$29,570,174

</TABLE>

Note: For purposes of these statements, the Company and its subsidiaries consider short-term investments having maturities of three months or less at time of purchase to be cash equivalents.

The cash amounts of interest and income taxes paid by the Company and its subsidiaries during the three months ended March 31, 1994 and 1993 are as follows:

<TABLE>
<CAPTION>

	1994	1993
<S>	<C>	<C>
Interest, including amounts capitalized of approximately \$238,000 and \$296,000, respectively	\$186,384	\$ 79,970
Income taxes	55,845	2,242,800

</TABLE>

During the three months ended March 31, 1993, the Company acquired property, plant and equipment and mineral reserves of approximately \$14.5 million by assuming certain liabilities. During the three months ended March 31, 1994,

the Company wrote off certain assets of approximately \$9.5 million against previously established contingency reserves and other accruals recorded in connection with the Company's de-emphasis on its mining operations (see Note 2 to the consolidated financial statements). Such non-cash activity has been excluded from the above statements of cash flows.

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ADDINGTON RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Financial Statement Presentation-

The accompanying consolidated unaudited financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission for interim financial information. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. Therefore, it is suggested that the accompanying financial statements be read in conjunction with the financial statements and notes thereto included in the Company's latest annual report on Form 10-K.

The accompanying consolidated financial statements as of March 31, 1994 and 1993 include the accounts of Addington Resources, Inc. (the Company) and its wholly-owned subsidiary Addington Holding Company, Inc. and its wholly-owned subsidiaries.

In the opinion of management, the accompanying consolidated unaudited financial statements include all adjustments necessary to present fairly the Company's financial position as of March 31, 1994 and results of operations for the three months ended March 31, 1994 and 1993. All adjustments were of a normal recurring nature. The results of operations for such interim periods are not necessarily indicative of the results to be expected for the full year.

2. Sale of Certain Coal Subsidiaries-

During September, 1993, the Company entered into an agreement to sell the stock of five of its coal subsidiaries to Pittston Minerals Group, Inc. ("Pittston") for \$157 million cash. Before closing, certain property, plant and equipment (the net book value of which was approximately \$43 million as of December 31, 1993) was transferred to other subsidiaries of the Company from the subsidiaries to be sold. In addition, the Company retained all of the net working capital (the net value of which was approximately \$30 million as of December 31, 1993) of the sold subsidiaries as of the date of closing. In connection with the sale, the Company has provided certain guarantees to Pittston.

This transaction was completed on January 14, 1994.

The subsidiaries sold to Pittston include: Addington, Inc. and its wholly-owned subsidiary, Ironton Coal Company; Appalachian Mining, Inc.; Appalachian Land Company; Vandalia Resources, Inc.; and Kanawha Development Corporation. The operations of these subsidiaries are located in Ohio, West Virginia and Kentucky.

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Other terms of the transaction include the Company entering into a coal supply contract with Pittston for the sale of 4,920,000 tons over 3-1/2 years at a base price of \$26 per ton. Additionally, the Company will receive a \$1 per ton production royalty for coal produced from certain West Virginia properties being sold to Pittston with a minimum royalty of \$100,000 per month, a maximum aggregate royalty in any one year of \$1.5 million, and a maximum aggregate royalty under the agreement of \$3.75 million. The Company will also pay Pittston a royalty of \$0.50 per ton of coal produced by two retained highwall mining machines for 3-1/2 years.

With respect to the \$157,000,000 sale price and the net working capital retained by the Company, approximately \$2,500,000 was used to pay the Company's closing costs for the transaction, including a \$1,000,000 payment to a consultant for the Company and \$500,000 to the financial advisors for their services. The Company used approximately \$131,725,000 of the proceeds to provide for the early redemption of its 12% Senior Secured Notes due July 1, 1995, including the payment of \$4,288,000 as a redemption premium and approximately \$2,437,000 in net interest through March 15, 1994 (the redemption date). In addition, the Company used certain of the proceeds to retire all indebtedness outstanding under the Company's revolving line of credit agreement related to its coal operations. The outstanding balance on the line of credit as of January 14, 1994 was \$23,442,000. The Company also used approximately \$3,800,000 to compensate its employees for extraordinary efforts expended in connection with the consummation of the transaction, including approximately \$416,500 in connection with the termination of stock options held by employees who became employees of Pittston as a result of the transaction.

As a result of this transaction, the net assets relating to the sales transaction appear as net assets held for disposal in the accompanying December 31, 1993 balance sheet. Additionally, since the \$125,000,000 Senior Secured Notes were redeemed in connection with the transaction, they have been classified as a current liability in the accompanying December 31, 1993 balance sheet.

The Company recorded a pre-tax gain of approximately \$118,000 in connection with this transaction. Included in the calculation of this gain, the Company established certain reclamation reserves due to the phase-down of production from those mines retained by the Company. The Company also established other contingency reserves due to the de-emphasis of its mining operations.

After the transaction discussed above, the Company continues to own and operate four eastern Kentucky mines with estimated annual production capacity of 3,000,000 tons per year. Future production from these retained coal mines will be placed on the Pittston Coal Supply Contract and a new coal supply contract entered into with The Cincinnati Gas & Electric Company (the "CG&E Coal Supply Contract"). The CG&E Coal Supply Contract calls for the sale of 5,400,000 tons of coal over six years beginning January 1, 1994.

3. Inventories-

As of March 31, 1994 and December 31, 1993 inventories consisted of:

<TABLE>
<CAPTION>

March 31, 1994	December 31, 1993
-----	-----
(Unaudited)	

<S>	<C>	<C>
Coal	\$ 7,139,385	\$10,222,372
Supplies and Parts	1,484,541	1,580,674
	-----	-----
	\$8,623,926	\$11,803,046
	=====	=====

</TABLE>

4. Commitments and Contingencies-

(a) Coal Sales Contracts-

Subsequent to the transaction discussed in Note 2, the Company has commitments to deliver scheduled base quantities of coal annually to three customers under three coal sales contracts. One contract expires in 1994, one expires in 1997 and one expires in 2000. The contracts have sales price adjustment provisions, subject to certain limitations and adjustments, based on changes in specified production costs.

(b) Potential Landfill Acquisitions-

The Company is negotiating agreements to purchase two landfills at an estimated purchase price of approximately \$8 million, which includes cash and stock of the Company. The Company expects to finalize the purchase during May, 1994.

5. Related-Party Transactions-

The Company has dealt with certain companies or individuals which are related parties either by having stockholders in common or because they are controlled by stockholders/officers or by relatives of stockholders/officers of the Company. The Company recorded various expenses to related parties consisting of approximately \$1,715,000 and \$4,351,000 for trucking services for the three month periods ending March 31, 1994 and 1993, respectively, and office rent of \$27,500 for the three month periods ending March 31, 1994 and 1993.

The Company had amounts payable to related parties of \$387,000 and \$640,000 as of March 31, 1994 and December 31, 1993, respectively.

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6. Stockholders' Equity-

During the three months ended March 31, 1993 and 1994, 303,000 and 28,800 shares, respectively, of common stock were issued in connection with the exercise of stock options. As a result, common stock increased \$303,000 and \$28,800, respectively, and paid-in capital increased \$2,701,250 and \$312,000, respectively, during the three months ended March 31, 1993 and 1994.

7. Short-term Investments-

Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (SFAS 115), became effective for the Company as of January 1, 1994. In accordance with SFAS 115, the Company's securities investments at March 31, 1994, which consist solely of

investments in economic development revenue bonds, are deemed as "available-for-sale" and are reported at their fair value of \$5 million. As the fair value approximates the cost of such investments, there were no unrealized holding gains or losses associated with such investments for the three months ended March 31, 1994. The market value of the investments was determined based on quoted market prices.

The investments have a stated maturity date of December 1, 2015, but may be redeemed at face value at any time by the Company. No investments were sold or redeemed by the Company during the three months ended March 31, 1994.

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ITEM 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

QUARTER ENDED MARCH 31, 1994 COMPARED WITH SAME PERIOD IN 1993

Net income during the quarter ended March 31, 1994 was \$2,869,000 or \$.18 per share, compared to net loss of \$1,707,000 or \$.11 per share for the comparable quarter of 1993. This significant increase in net income is primarily attributable to the following:

- (1) Pursuant to the Stock Purchase Agreement dated September 24, 1993, (the "Agreement"), the Company entered into an agreement to sell the stock of five of its coal subsidiaries to an indirect wholly-owned subsidiary of The Pittston Company ("Pittston") for \$157 million cash. The Agreement also contemplated that, before closing, certain property, plant and equipment (the net book value of which was approximately \$43,000,000 as of December 31, 1993) would be transferred to other subsidiaries of the Company from the subsidiaries to be sold. In addition, the Company will retain all of the net working capital (the net book value of which was approximately \$30,000,000 as of December 31, 1993) of the sold subsidiaries as of the date of closing (the "Closing Date"). The Agreement also required that within 60 days after the Closing Date, the Company would deliver to Pittston a statement of working capital for the subsidiaries showing the subsidiaries' combined net working capital, as defined in the Agreement, as of the close of business on the Closing Date. If the combined net working capital exceeds zero, Pittston is to pay the Company an appropriate adjustment. If the combined net working capital is less than zero, the Company is to pay Pittston an appropriate adjustment. The transaction was completed on January 14, 1994. By letter dated March 15, 1994, the Company asserted that Pittston should make a payment in the amount of \$2,286,000 to the Company in light of the subsidiaries' combined net working capital as of the Closing Date. By letter dated April 12, 1994, Pittston asserted that the Company should make a payment in the amount of \$3,866,739 to Pittston in light of the subsidiaries' combined net working capital as of the Closing Date. In accordance with the terms of the Agreement, the Company and Pittston are currently seeking to resolve their differences with respect to the subsidiaries' combined net working capital as of the Closing Date. Because the parties are not in agreement with respect to the appropriate adjustment, the Company cannot predict at this time the amount which will be owed by one party to the other with respect to such an adjustment. In connection with the

sale, the Company has provided certain guarantees to Pittston.

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Other terms of the transaction include the Company entering into a coal supply contract with Pittston for the sale of 4,920,000 tons over 3-1/2 years at a base price of \$26 per ton. Additionally, the Company will receive a \$1 per ton production royalty for coal produced from certain West Virginia properties being sold to Pittston with a minimum royalty of \$100,000 per month, a maximum aggregate royalty in any one year of \$1.5 million, and a maximum aggregate royalty under the agreement of \$3.75 million. The Company will also pay Pittston a royalty of \$0.50 per ton of coal produced by two retained highwall mining machines for 3-1/2 years.

With respect to the \$157,000,000 sale price and the net working capital retained by the Company, approximately \$2,500,000 was used to pay the Company's closing costs for the transaction, including a \$1,000,000 payment to a consultant for the Company and \$500,000 to the financial advisors for their services. The Company used approximately \$131,725,000 of the proceeds to provide for the early redemption of its 12% Senior Secured Notes due July 1, 1995, including the payment of \$4,288,000 as a redemption premium and approximately \$2,437,000 in net interest through March 15, 1994 (the redemption date). In addition, the Company used certain of the proceeds to retire all indebtedness outstanding under the Company's revolving line of credit agreement related to its coal operations. The outstanding balance on the line of credit as of January 14, 1994 was \$23,442,000. The Company also used approximately \$3,800,000 to compensate its employees for extraordinary efforts expended in connection with the consummation of the transaction, including approximately \$416,500 in connection with the termination of stock options held by employees who will become employees of Pittston as a result of the transaction.

As a result of this transaction, the net assets relating to the sales transaction appear as net assets held for disposal in the accompanying December 31, 1993 balance sheet. Additionally, since the \$125,000,000 Senior Secured Notes were redeemed in connection with the transaction, they have been classified as a current liability in the accompanying December 31, 1993 balance sheet.

The Company recorded a pre-tax gain of approximately \$118,000 in connection with this transaction. Included in the calculation of this gain, the Company established certain reclamation reserves due to the phase-down of production from those mines retained by the Company. The Company also established other contingency reserves due to the de-emphasis of its mining operations.

After the transaction discussed above, the Company continues to own and operate four eastern Kentucky mines with estimated annual production capacity of 3,000,000 tons per year. Future production from these retained coal mines will be placed on the Pittston Coal Supply Contract and a new coal supply contract entered into with The Cincinnati Gas & Electric Company (the "CG&E Coal Supply Contract"). The

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CG&E Coal Supply Contract calls for the sale of 5,400,000 tons of coal over six years beginning January 1, 1994.

During the first quarter of 1993, these mines produced 571,500 tons with an average cost of operations of \$27.17 per ton. The average sales price received by the Company from coal produced by these eastern

Kentucky mines during 1993 was \$32.10 per ton.

During the first quarter of 1994, these mines produced 528,000 tons with an average cost of operations of \$23.24 per ton. The average sales price received by the Company from coal produced by these eastern Kentucky mines during 1994 was \$26.74 per ton.

- (2) During the first quarter of 1994, the Company recognized interest expense of approximately \$26,000 compared to \$4,253,000 during the first quarter of 1993. This substantial decline in interest expense is primarily due to the use of the proceeds from the sale of the five coal subsidiaries to retire the Company's \$125,000,000 principal amount of 12% Senior Secured Notes and all indebtedness outstanding under the Company's revolving line of credit related to its coal operations. (See Note 2 to the consolidated financial statements.)
- (3) Adverse wet weather conditions during the first quarter of 1993 caused major inefficiencies at the Company's mining operations, causing a major increase in production costs.

The Company's mining revenues decreased from \$77,713,000 in the first quarter of 1993 to \$32,319,000 in the first quarter of 1994. This decline in mining revenues is primarily due to a decrease in tons sold from 2,325,000 in the first quarter of 1993 to 1,176,000 in the first quarter of 1994. The Company also experienced a decrease in average sales price per ton from \$30.15 recognized in the first quarter of 1993 to \$26.74 per ton recognized in the first quarter of 1994. These declines in mining revenues and sales prices per ton are primarily attributable to the sale of five of the Company's coal subsidiaries in January, 1994. (See Note 2 to the consolidated financial statements.) Additionally, the Company recognized revenue of \$3,957,000 associated with the sale of a highwall mining machine sold to Pittston during the first quarter of 1993.

Total environmental revenues and environmental income from operations increased to \$6,851,000 and \$1,020,000, respectively, during the first quarter of 1994 compared to total environmental revenues of \$4,880,000 and environmental income from operations of \$851,000 during the first quarter of 1993. Included in environmental revenues and environmental income from operations is revenue and income from operations generated by the Company's landfill operations and waste collection services. During the first quarter of 1994, the Company's landfill operations generated \$4,687,000 of revenue and \$1,505,000 of income from operations. During the first quarter of 1994, the Company's waste collection services generated \$2,164,000 of revenues and \$485,000 of losses from operations.

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During the first quarter of 1993, the Company's landfill operations generated \$3,327,000 of revenues and \$1,174,000 of income from operations. During the first quarter of 1993, the Company's waste collection services generated \$1,552,000 of revenues and \$324,000 of losses from operations. The primary reasons for the substantial increases in total environmental revenues and income from operations is an increase in tons of waste received from 145,000 tons during the quarter ended March 31, 1993 to 233,000 tons during the quarter ended March 31, 1994.

In June, 1992, the Company entered into a 14-year exclusive licensing agreement that permits Joy Technologies, Inc. ("Joy") to manufacture and market a highwall mining system that the Company developed and currently uses in its own mining operations. In accordance with the terms of the June 1992 agreement, Joy plans to market the system to mining companies on the basis of a cost per ton of material mined by the system. If Joy successfully markets the system, the Company will receive approximately \$130,000 in origination fees for each of the first eight machines leased and approximately \$255,000 in origination fees for

each machine leased thereafter, and a royalty based on tons of material mined by these other mining companies. The agreement provides that Joy will charge a lessee a minimum royalty per ton of material mined of \$3.77, subject to adjustment for inflation and safety-related changes. The Company will receive 30% of the minimum royalty of \$3.77 (as adjusted for inflation) and generally 50% of any part of such royalty payments in excess of \$3.77 (as adjusted for inflation).

Included in the Company's other revenues in the first quarter of 1994 was \$127,500 in origination fees received from Joy. These fees relate to a highwall miner leased by Joy to a third party during the first quarter of 1994. During the first quarter of 1994, Joy paid per ton royalty fees of approximately \$300,000. The Company did not receive any revenues related to this agreement during the first quarter of 1993.

As a percentage of total revenues, cost of operations decreased from 83% for the first quarter of 1993 to 80% for the first quarter of 1994. This decrease is primarily a result of improved operating results at the Company's mining and environmental operations.

Depreciation and amortization decreased from \$6,981,000 in the first quarter of 1993 to \$1,544,000 in the first quarter of 1994. This 78% decrease is primarily attributable to a decrease in depreciable coal mining assets. This decrease in coal mining assets is due to the sale of the five coal subsidiaries to Pittston on January 14, 1994.

Selling, general and administrative expenses decreased from \$5,672,000 during the first quarter of 1993 to \$2,118,000 during the first quarter of 1994. This decrease is primarily attributable to a decline in sales commissions paid based on coal sold under certain coal supply contracts. This decline is due to the sale of the five coal subsidiaries to Pittston on January 14, 1994.

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Interest expense decreased from \$4,253,000 during the first quarter of 1993 to \$26,000 during the first quarter of 1994. This decrease is due to the retirement of the Company's Senior Secured Notes and payoff of the Company's revolving line of credit relating to its coal operations. The amount of interest capitalized for the three months ended March 31, 1994 and 1993 was \$238,000 and \$296,000, respectively.

Interest income decreased from \$219,000 during the first quarter of 1993 compared to \$29,000 during the first quarter of 1994. This 87% decrease is due to a decrease in the average amount of short-term investments outstanding coupled with a decrease in the interest rate yields on short-term investments.

The Company's effective tax rate during the first quarter of 1993 was 29% and remained relatively unchanged as compared to the 30% tax rate recognized during the first quarter of 1994.

The Company's cash and cash equivalents totalled \$26,026,000 at March 31, 1994, compared to \$13,744,000 at December 31, 1993. This increase is primarily due to additional cash generated from the sale of five coal subsidiaries to Pittston on January 14, 1994.

Accounts receivable at March 31, 1994 totalled \$24,127,000, compared to the balance of \$8,946,000 at December 31, 1993. As of December 31, 1993, the accounts receivable related to the coal subsidiaries sold to Pittston were included in net assets held for disposal. The increase since that date represents accounts receivable generated by 1994 coal sales from the Company's retained mining operations (see Note 2 to the consolidated financial statements).

Inventories decreased from \$11,803,000 at December 31, 1993, compared to \$8,624,000 at March 31, 1994, primarily due to a decrease in tons of coal in inventory at March 31, 1994.

Prepaid expenses and other at March 31, 1994 totalled \$5,710,000 compared to the balance of \$7,718,000 at December 31, 1993. This decrease is primarily due to deferred selling costs of approximately \$1,100,000 related to the sale of coal subsidiaries to Pittston on January 14, 1994 included in prepaid expenses at December 31, 1993 and a reduction in prepaid insurance associated with a decrease in the Company's mining operations.

Property, plant and equipment increased to \$146,495,000 at March 31, 1994, compared to \$139,055,000 at December 31, 1993. This 5% increase is primarily due to an increase in landfill and other environmental related development costs, the manufacture of additional highwall mining machines to be utilized by the Company in its third party contract mining operations and costs capitalized in association with the development of the Company's gold mining project in Arizona.

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Accounts payable at March 31, 1994 increased to \$12,733,000 as compared to the December 31, 1993 balance of \$5,609,000. As of December 31, 1993, the accounts payable related to the coal subsidiaries sold to Pittston were included in net assets held for disposal. The increase since that date represents accounts payable generated by the Company's retained mining operations during 1994 (see Note 2 to the consolidated financial statements).

Accrued expenses and other liabilities increased to \$18,030,000 at March 31, 1994 compared to the \$13,714,000 balance at December 31, 1993. This increase is attributable to an increase in reclamation reserves.

The Company's new line of credit balance at March 31, 1994 totalled \$1,500,000 compared to the December 31, 1993 balance of \$23,442,000 drawn on the Company's previous line of credit related to its coal operations. This decrease is primarily due to the payoff of the Company's line of credit during the first quarter of 1994.

The Company's long-term debt outstanding increased from \$11,954,000 at December 31, 1993 to \$17,294,000 at March 31, 1994. This increase is primarily due to the \$3,000,000 borrowed against the Company's environmental subsidiary's line of credit during 1994.

The Company's other long-term liabilities increased from \$2,705,000 at December 31, 1993 to \$21,490,000 at March 31, 1994. This increase is primarily due to the normal increase in landfill closure and post-closure costs accrued, as well as an increase in the long-term accrual for reclamation on the Company's coal mining properties and contingency reserves recorded in connection with the Company's disposal as described in Note 2.

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LIQUIDITY AND CAPITAL RESOURCES

The working capital needs of the Company have been met primarily through a combination of funds provided by banks and other institutions and cash generated through operations.

As of March 31, 1994, the Company had approximately \$20,500,000 remaining available under its lines of credit secured by certain accounts receivable and coal inventory and substantially all of its environmental assets bearing interest at rates ranging from prime to prime plus 1/2%.

There are certain environmental contingencies related to the Company's coal operations and integrated solid waste disposal system operations, primarily land reclamation obligations and landfill closure obligations, respectively. Under current federal and state surface mining laws, the Company is required to reclaim land where surface mining operations are conducted. Accruals for the estimated cost of restoring the land are provided as mining takes place, based upon engineering estimates of costs. The Company also estimates and records its costs associated with closure and post-closure monitoring and maintenance for operating landfills based upon relevant government regulations. Accruals for these closure and post-closure costs are provided as permitted airspace of the landfill is consumed. The Company revises its estimates on a periodic basis. As of March 31, 1994, the Company had accrued expenses for reclamation and closure costs of approximately \$20,000,000. There is a possibility that such obligations, when ultimately paid, may differ substantially from the recorded accrued expenses, thus affecting the Company's liquidity.

In 1990, the Company implemented a self-insurance program to cover most of its employees for workers' compensation, including black lung benefits. Black lung expense is being provided, based upon a recent actuarial study, over the estimated remaining working lives of the miners using accounting methods similar to that of a defined benefit pension plan. Benefits provided are subject to federal and state law and, thus, are not under the control of the Company. Workers' compensation (including black lung) expense for the three months ended March 31, 1994 was approximately \$55,000. There is a possibility that workers' compensation (including black lung) obligations, when ultimately settled and paid, may differ substantially from the recorded balance and thus affect the Company's liquidity.

The Company believes that its present financial condition, considering the funds available under the existing lines of credit, the proceeds received from the sale of certain coal subsidiaries (see Note 2 of the consolidated financial statements), and internal financial resources, provide adequate capital reserves and liquidity.

The overall net increase (decrease) in cash and cash equivalents was \$12,282,000 and (\$3,385,000) for the three months ended March 31, 1994 and 1993, respectively. Such net increase (decrease) reflects net cash provided by (used in) operating, investing and financing activities.

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Net cash provided by (used in) operating activities was (\$10,974,000) and \$1,659,000 for the three months ended March 31, 1994 and 1993, respectively. These fluctuations among years primarily reflect changes in working capital items whereby increases in net working capital would cause a decline in net cash provided by operating activities.

During the three months ended March 31, 1994, the Company's working capital (net of non-cash activity) increased by \$15,348,000, which primarily consists of a \$16,578,000 increase in accounts receivable and a \$5,667,000 decrease in accrued expenses, net of a \$7,123,000 increase in accounts payable. During the three months ended March 31, 1993, the Company's working capital increased by \$3,899,000, which primarily consists of a \$5,793,000 increase in inventories, a \$4,764,000 increase in accounts receivable and a \$3,431,000 decrease in deferred income tax liabilities, net of a \$6,077,000 increase in accrued expenses and a \$4,839,000 increase in accounts payable.

Net cash provided by (used in) investing activities was \$171,233,000 and (\$7,199,000) for the three months ended March 31, 1994 and 1993, respectively. The 1994 amount primarily consists of net proceeds of \$185,074,000 from the sale of coal subsidiaries, net of property, plant and equipment purchases of \$9,215,000 and investment purchases of \$5,000,000. The 1993 amount primarily consists of property, plant and equipment purchases.

Net cash provided by (used in) financing activities was (\$147,978,000) and \$2,155,000 for the three months ended March 31, 1994 and 1993, respectively. The 1994 amount primarily represents net repayments of long-term debt and the revolving lines of credit. The 1993 amount primarily represents proceeds of \$3,004,000 from the issuance of common stock, net of repayments of long-term debt of \$862,000.

Inflation has not had a significant effect on the Company's business primarily because the United States economy has been experiencing a period of relatively low inflation.

The Company's capital needs, earnings and cash flow are somewhat dependent on events beyond the Company's control, such as weather patterns, the state of the economy, and changes in existing governmental and environmental regulations.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

Reference is hereby made to the discussion under Item 3, Legal Proceedings of the Company's Form 10-K for the fiscal year ended December 31, 1993, concerning a suit filed by Bill Robinson, Sr. against Addwest Gold, Inc., Addwest Mining, Inc., Addington Resources, Inc., Addington Holding Co., Inc., Larry Addington, and Larry Harrington. Settlement documents have been executed in which Mr. Robinson released all parties from all claims. In connection with the settlement, the Company paid Mr. Robinson \$3,450,000 on April 18, 1994. On April 15, 1994, the action was dismissed by the U.S. District Court for the District of Montana, Butte Division.

Item 2. Changes in Securities.

None.

Item 3. Defaults upon Senior Securities.

None.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

Item 5. Other Information.

None.

Item 6. Exhibits and Reports on Form 8-K.

(a) List of Exhibits Filed.

None.

(b) Reports on Form 8-K.

During the quarter ended March 31, 1994, the Company filed a Current Report on Form 8-K dated January 14, 1994 concerning Item 2, Acquisition or Disposition of Assets, reporting the Company's sale of five of the Company's indirect wholly-owned coal subsidiaries. The subsidiaries constituted a substantial portion of the Company's coal operations. The following pro forma financial information was included in the Form 8-K:

- (1) Addington Resources, Inc. Pro Forma Condensed Consolidated Statement of Operations for the nine months ended September 30, 1993, with accompanying notes (unaudited).

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- (2) Addington Resources, Inc. Pro Forma Condensed Consolidated Statement of Operations for the year ended December 31, 1992, with accompanying notes (unaudited).

- (3) Addington Resources, Inc. Pro Forma Condensed Consolidated Balance Sheet as of September 30, 1993, with accompanying notes (unaudited).

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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 thereunto duly authorized.

ADDINGTON RESOURCES, INC.
(Registrant)

Date: May 12, 1994

By: \s\ Larry Addington

Larry Addington
President, Chief Executive Officer,
Director

Date: May 12, 1994

By: \s\ R. Douglas Striebel

R. Douglas Striebel
Vice President and
Chief Financial Officer

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