

PEABODY ENERGY CORP

Form 8-K

December 15, 2006

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**UNITED STATES
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) December 14, 2006

PEABODY ENERGY CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

1-16463

(Commission File Number)

13-4004153

(I.R.S. Employer Identification No.)

701 Market Street, St. Louis, Missouri

(Address of principal executive offices)

63101

(Zip Code)

Registrant's telephone number, including area code **(314) 342-3400**

Not Applicable

(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 8.01. Other Events
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Item 8.01. Other Events.

On October 25, 2006, Peabody Energy Corporation (Peabody) completed the acquisition of Excel Coal Limited, an independent coal company in Australia. Peabody funded the acquisition with net proceeds from its registered offering of senior notes and borrowings under its senior unsecured credit facility. On December 14, 2006, Peabody priced an offering of \$675,000,000 aggregate principal amount of convertible junior subordinated debentures (the Debentures). The net proceeds of this offering will be used to refinance certain borrowings under Peabody s senior unsecured credit facility. In addition, Peabody granted the underwriters the right to purchase up to an additional \$75,000,000 aggregate principal amount of Debentures solely to cover overallocments.

Unaudited Pro Forma Combined Financial Statements

The following unaudited pro forma combined financial statements give effect to Peabody s acquisition of Excel completed on October 25, 2006, the related acquisition financings and the refinancing of borrowings under our senior unsecured credit facility through the issuance of convertible junior subordinated debentures. The unaudited pro forma combined balance sheet as of September 30, 2006 is presented as if the acquisition and the related financings had occurred on that date. The unaudited pro forma combined statements of operations for the nine months ended September 30, 2006 and for the year ended December 31, 2005 assume that the acquisition had occurred at the beginning of each respective fiscal year. The acquisition and the related financings are accounted for using the purchase method of accounting, with the purchase price allocated to the assets acquired and liabilities assumed based on estimated fair values, pending the completion of independent appraisals.

The unaudited pro forma combined financial statements should be read in conjunction with (i) Peabody s historical audited financial statements and Management s Discussion and Analysis of Financial Condition and Results of Operations filed in our Annual Report on Form 10-K for the year ended December 31, 2005, (ii) our historical unaudited financial statements and Management s Discussion and Analysis of Financial Condition and Results of Operations filed in our Quarterly Report on Form 10-Q for the nine months ended September 30, 2006 and (iii) the historical audited financial statements of Excel, previously included in a Current Report on Form 8-K, filed on October 2, 2006.

The unaudited pro forma combined financial statements are for informational purposes only and are not necessarily indicative of the financial position that would have been obtained or the results of operations that would have occurred if the acquisition and the related financings had been consummated on the dates indicated, nor are they necessarily indicative of our financial position or results of operations in the future. The pro forma adjustments, as described in the Notes to Pro Forma Combined Financial Statements, are based upon available information and upon assumptions that Peabody s management believes are reasonable. The actual amounts that Peabody records based on its final assessment of fair values may differ materially from the information presented in these unaudited pro forma combined financial statements.

Due to differing fiscal years between Peabody, which ends its fiscal year on December 31, and Excel, which ends its fiscal year on June 30, calculations were necessary to conform Excel s financial information to the time periods presented.

Information related to Excel included in the unaudited pro forma combined balance sheet as of September 30, 2006 was translated from A\$ to US\$ using a foreign exchange rate of A\$1.00=US\$0.7480, based on the closing rate on September 29, 2006. The unaudited pro forma combined statement of operations for the nine months ended September 30, 2006 was translated from A\$ to US\$ using an exchange rate of A\$1.00=US\$0.7480, based on the average closing rates for the period from January 3, 2006 through September 29, 2006. The unaudited pro forma combined statement of operations for the year ended December 31, 2005 was translated from A\$ to US\$ using an exchange rate of A\$1.00=US\$0.7622, based on the average closing rates for the period from January 4, 2005 through December 30, 2005. Asset retirement obligation expense and depreciation, depletion and amortization were translated from A\$ to US\$ using a historical exchange rate equal to the opening rate on January 4, 2005 of A\$1.00=US\$0.7790 for all periods presented.

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PEABODY ENERGY CORPORATION
 UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS
 YEAR ENDED DECEMBER 31, 2005

(Dollars in thousands, except per share data)

| | Peabody Energy Historical | Excel Coal Limited Historical | Pro Forma Adjustments | Pro Forma as Adjusted |
|--------------------------------------------------------------|---------------------------------|-------------------------------------|--------------------------|--------------------------|
| REVENUES | | | | |
| Sales | \$ 4,545,323 | \$ 326,208 | | \$ 4,871,531 |
| Other revenues | 99,130 | 2,130 | | 101,260 |
| Total revenues | 4,644,453 | 328,338 | | 4,972,791 |
| COSTS AND EXPENSES | | | | |
| Operating costs and expenses | 3,715,836 | 221,509 | 7,000(a) | 3,944,345 |
| Depreciation, depletion and amortization | 316,114 | 17,864 | 19,800(b) | 353,778 |
| Asset retirement obligation expense | 35,901 | 4,279 | | 40,180 |
| Selling and administrative expenses | 189,802 | 16,914 | | 206,716 |
| Net (gain) loss on disposal or exchange of assets | (101,487) | 1 | | (101,486) |
| Income from equity affiliates | (30,096) | (3,445) | | (33,541) |
| OPERATING PROFIT | 518,383 | 71,216 | (26,800) | 562,799 |
| Interest expense | 102,939 | 7,997 | (7,997)(c) | 102,939 |
| Interest income | (10,641) | (4,261) | 121,020(d) 4,261(c) | 121,020 (10,641) |
| INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS | | | | |
| | 426,085 | 67,480 | (144,084) | 349,481 |
| Income tax provision (benefit) | 960 | 18,695 | (40,285)(e) | (20,630) |
| Minority interests | 2,472 | 4,755 | | 7,227 |
| NET INCOME | \$ 422,653 | \$ 44,030 | \$ (103,799) | \$ 362,884 |
| | | | | |
| Basic earnings per share | \$ 1.62 | \$ 0.17 | \$ (0.40) | \$ 1.39 |
| Diluted earnings per share | \$ 1.58 | \$ 0.16 | \$ (0.39) | \$ 1.35 |
| | | | | |
| Weighted average shares outstanding basic | 261,519,424 | 261,519,424 | 261,519,424 | 261,519,424 |
| Weighted average shares outstanding diluted | 268,013,476 | 268,013,476 | 268,013,476 | 268,013,476 |

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PEABODY ENERGY CORPORATION
 UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS
 NINE MONTHS ENDED SEPTEMBER 30, 2006

(Dollars in thousands, except per share data)

| | Peabody Energy Historical | Excel Coal Limited Historical | Pro Forma Adjustments | Pro Forma as Adjusted |
|--------------------------------------------------------------|---------------------------------|-------------------------------------|--------------------------|--------------------------|
| REVENUES | | | | |
| Sales | \$ 3,805,838 | \$ 292,227 | | \$ 4,098,065 |
| Other revenues | 87,348 | 2,805 | | 90,153 |
| Total revenues | 3,893,186 | 295,032 | | 4,188,218 |
| COSTS AND EXPENSES | | | | |
| Operating costs and expenses | 3,078,880 | 183,110 | 7,000(a) | 3,268,990 |
| Depreciation, depletion and amortization | 263,103 | 17,503 | 14,430(b) | 295,036 |
| Asset retirement obligation expense | 25,911 | 1,933 | | 27,844 |
| Selling and administrative expenses | 118,793 | 17,404 | | 136,197 |
| Net gain on disposal or exchange of assets | (94,309) | (453) | | (94,762) |
| (Income) loss from equity affiliates | (19,132) | 129 | | (19,003) |
| OPERATING PROFIT | 519,940 | 75,406 | (21,430) | 573,916 |
| Interest expense | 79,130 | 6,703 | (6,703)(c) | 79,130 |
| Interest income | (6,026) | (1,758) | 90,758(d) 1,758(c) | 90,758 (6,026) |
| INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS | | | | |
| | 446,836 | 70,461 | (107,243) | 410,054 |
| Income tax provision | 10,905 | 21,052 | (29,593)(e) | 2,364 |
| Minority interests | 10,267 | 3,874 | | 14,141 |
| NET INCOME | \$ 425,664 | \$ 45,535 | \$ (77,650) | \$ 393,549 |
| | | | | |
| Basic earnings per share | \$ 1.61 | \$ 0.17 | \$ (0.29) | \$ 1.49 |
| Diluted earnings per share | \$ 1.58 | \$ 0.17 | \$ (0.29) | \$ 1.46 |
| | | | | |
| Weighted average shares outstanding basic | 263,631,134 | 263,631,134 | 263,631,134 | 263,631,134 |
| Weighted average shares outstanding diluted | 269,320,801 | 269,320,801 | 269,320,801 | 269,320,801 |

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PEABODY ENERGY CORPORATION
 UNAUDITED PRO FORMA COMBINED BALANCE SHEET
 SEPTEMBER 30, 2006
 (Dollars in thousands)

| | Peabody Energy Historical | Excel Coal Limited Historical | Pro forma Adjustments | Total |
|------------------------------------------------------|---------------------------------|----------------------------------------|--------------------------|---------------------|
| Assets | | | | |
| Cash and cash equivalents | \$ 317,405 | \$ 30,052 | \$ 11,094 | \$ 358,551 |
| Accounts receivable, less allowance | 244,730 | 18,735 | | 263,465 |
| Inventories | 181,444 | 35,321 | 7,000(g) | 223,765 |
| Assets from coal trading activities | 96,087 | | | 96,087 |
| Deferred income taxes | 94,124 | | | 94,124 |
| Other current assets | 84,409 | 5,346 | | 89,755 |
| Total current assets | 1,018,199 | 89,454 | 18,094 | 1,125,747 |
| Property, plant, equipment and mine development, net | 5,565,540 | 540,405 | 1,475,000(g) | 7,580,945 |
| Deferred income taxes | | 19,185 | | 19,185 |
| Goodwill | | | 99,457(g) | 99,457 |
| Investments and other assets | 644,798(f) | 167,761 | (276,841)(f) | 535,718 |
| Total assets | \$ 7,228,537 | \$ 816,805 | \$ 1,315,710 | \$ 9,361,052 |
| Liabilities and Stockholders Equity | | | | |
| Current liabilities | | | | |
| Current maturities of long-term debt | \$ 77,691 | \$ 17,122(h) | \$ (17,122)(h) | \$ 77,691 |
| Liabilities from coal trading activities | 80,695 | | | 80,695 |
| Accounts payable and accrued expenses | 853,003 | 135,317 | | 988,320 |
| Total current liabilities | 1,011,389 | 152,439 | (17,122) | 1,146,706 |
| Long-term debt, less current maturities | 1,624,912 | 271,941(h) | 1,325,144(h) | 3,221,997 |
| Deferred income taxes | 254,387 | 24,220 | | 278,607 |
| Asset retirement obligations | 407,365 | 7,171 | | 414,536 |
| Workers compensation obligations | 240,312 | | | 240,312 |
| Accrued postretirement benefit costs | 975,413 | 3,357 | | 978,770 |
| Other noncurrent liabilities | 329,621 | 23,056 | 323,000(g) | 675,677 |
| Total liabilities | 4,843,399 | 482,184 | 1,631,022 | 6,956,605 |
| Minority interests | 15,506 | 18,298 | | 33,804 |
| Stockholders equity | | | | |
| Common stock | 2,667 | 215,368 | (215,368)(g) | 2,667 |
| Additional paid-in capital | 1,562,113 | | | 1,562,113 |
| Retained earnings | 956,790 | 99,944 | (99,944)(g) | 956,790 |
| Accumulated other comprehensive income (loss) | (48,245) | 1,011 | | (47,234) |

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| | | | | |
|--------------------------------------------|--------------|------------|--------------|--------------|
| Treasury stock | (103,693) | | | (103,693) |
| Total stockholders' equity | 2,369,632 | 316,323 | (315,312) | 2,370,643 |
| Total liabilities and stockholders' equity | \$ 7,228,537 | \$ 816,805 | \$ 1,315,710 | \$ 9,361,052 |

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NOTES TO PRO FORMA COMBINED FINANCIAL STATEMENTS

- (a) To adjust operating costs and expenses based on our estimated fair value adjustment to coal inventory.
- (b) To adjust depreciation, depletion and amortization based on the portion of the acquisition cost allocated to long-lived assets.
- (c) To reverse historical interest expense incurred by Excel, as well as historical interest income earned by Excel.
- (d) Represents pro forma interest expense, including the amortization of debt issuance costs where applicable, resulting from our new capital structure (dollars in thousands):

Year Ended

Nine Months
Ended

| | December 31, 2005 | September 30, 2006 |
|------------------------------------------------|-------------------------|--------------------------|
| Revolving credit facility (1) | 1,126 | 1,408 |
| Term loan facility (2) | 30,711 | 27,689 |
| 7 7/8% Senior notes (3) | 20,150 | 15,113 |
| 7 3/8% Senior notes (4) | 48,718 | 36,538 |
| 6 7/8% Senior notes (5) | 47,746 | 36,012 |
| 5 7/8% Senior notes (6) | 14,879 | 10,894 |
| Subordinated note (7) | 6,656 | 4,445 |
| Convertible junior subordinated debentures (8) | 32,639 | 24,479 |
| Surety bond expense (9) | 11,095 | 6,043 |
| Other long-term debt (10) | 10,239 | 7,267 |
| | | |
| Total pro forma interest expense | 223,959 | 169,888 |
| Less historical interest expense | 102,939 | 79,130 |
| | | |
| Net adjustment to interest expense | 121,020 | 90,758 |

(1) Reflects pro forma amortization of debt issuance costs. Borrowings outstanding under this facility were limited to \$312.0 million at September 30, 2006, which is assumed to be replaced by the convertible junior subordinated debentures.

(2) Reflects pro forma interest expense on our term loan facility at an assumed LIBOR plus 1% interest rate of 6.3%.

- (3) Reflects pro forma interest expense on the 2026 senior notes at an interest rate of 7.88%.
- (4) Reflects pro forma interest expense on the 2016 senior notes at an interest rate of 7.38%.
- (5) Reflects historical interest expense on our 6 7/8% senior notes.
- (6) Reflects historical interest expense on our 5 7/8% senior notes.
- (7) Reflects historical interest expense on our 5% subordinated note.
- (8) Reflects pro forma interest expense on our convertible junior subordinated debentures at an interest rate of 4.75%. The underwriters have been granted the right to purchase up to an additional \$75 million aggregate principal

amount of convertible junior subordinated debentures to cover overallotments, which would result in proceeds, net of issuance costs, of up to \$73.2 million. Assuming the full purchase right is exercised, interest expense would increase by \$3.6 million for the additional convertible junior subordinated debentures based on a 4.75% interest rate. Peabody intends to utilize the net proceeds to further pay down the term loan facility, which would result in a reduction to interest expense of \$4.6 million, based on a 6.3% interest rate.

- (9) Reflects historical fees for surety bonds outstanding.
- (10) Reflects historical letter of credit fees, interest on

capital leases,
the effect of
interest rate
swaps and
interest on
Excel debt
assumed in the
acquisition.

(e) To record
income tax
expense
(benefit) on the
pro forma
adjustments to
results of
operations using
an assumed
Australian
effective tax
rate of 28%.

(f) The
September 30,
2006 historical
Peabody
balance sheet
includes an
investment of
\$307.8 million
for a 19.99%
interest in
Excel. The pro
forma
adjustment
reversed this
investment and
assumes
capitalization of
\$20.2 million of
debt issue costs
incurred in
connection with
the convertible
junior
subordinated
debentures and
\$10.8 million of
debt issue costs
incurred related
to Peabody s

issuance of
\$900 million
aggregate
principal
amount of
senior notes in
October 2006.

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(g) To record the purchase transaction and allocate the \$1,525 million purchase price (and \$49 million of transaction costs) to the assets acquired and the liabilities assumed based on the estimated fair values of each item as follows (dollars in thousands):

| | Estimated Fair Value |
|------------------------------------------------------|-------------------------|
| Current assets | \$ 96,454 |
| Property, plant, equipment and mine development, net | 2,015,405 |
| Goodwill | 99,457 |
| Investments and other assets | 186,946 |
| Current liabilities | (135,317) |
| Long-term debt, including current maturities | (289,063) |
| Asset retirement obligations | (11,530) |
| Accrued postretirement benefit costs | (3,357) |
| Other noncurrent liabilities | (365,917) |
| Minority interest | (18,298) |
| Accumulated other comprehensive income | (1,011) |
| Total | \$ 1,573,769 |

(h) Reflects the issuance of additional debt to acquire Excel, the assumption of Excel's outstanding debt, and the repayment of previously outstanding debt obligations. As

of
September 30,
2006, Peabody
borrowed
\$312 million on
the revolving
credit facility to
acquire the
initial 19.99%
interest in
Excel. To
finance the
remaining
portion of the
Excel
acquisition on
October 25,
2006, Peabody
borrowed
\$510 million
under the term
loan facility and
issued
\$900 million
aggregate
principal
amount of
senior notes
(\$896.9 million
net of issue
discount).
Peabody expects
to issue
\$675 million
aggregate
principal
amount of
convertible
junior
subordinated
debentures,
subject to the
right of
underwriters to
purchase up to
an additional
\$75 million
aggregate
principal
amount to cover
overallotments,

and utilize the proceeds to repay the outstanding balance under the revolving credit facility and additional amounts related to the term loan facility. A summary of these transactions are as follows:

| | |
|--------------------------------------------------------------------------|------------|
| Term loan facility | \$ 510.0 |
| Senior notes issued | 896.9 |
| Convertible junior subordinated debentures | 675.0 |
| Excel debt assumed | 289.0 |
| | 2,370.9 |
| Repayment of debt under revolving credit facility and term loan facility | (773.8) |
| Additional debt to acquire Excel | \$ 1,597.1 |

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SIGNATURE

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.

PEABODY ENERGY CORPORATION

Date: December 15, 2006

/s/ RICHARD A. NAVARRE

Richard A. Navarre
Chief Financial Officer and
Executive Vice President of Corporate
Development

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