PEABODY ENERGY CORP
Form 8-K
December 15, 2006

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	**1-16463**	**13-4004153**
(State or other jurisdiction of incorporation or organization)	(Commission File Number)	(I.R.S. Employer Identification No.)

701 Market Street, St. Louis, Missouri	**63101**
(Address of principal executive offices)	(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:

o Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

o 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.

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 overallotments.

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
			121,020(d)	121,020
Interest income	(10,641)	(4,261)	4,261(c)	(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
			90,758(d)	90,758
Interest income	(6,026)	(1,758)	1,758(c)	(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)

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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