

PEABODY ENERGY CORP

Form 8-K

October 06, 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) October 5, 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 ccodecode **(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  
SIGNATURE

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**Item 8.01. Other Events.**

On October 5, 2006, Peabody Energy Corporation ( Peabody ) priced its \$900,000,000 senior notes offering, the proceeds of which will be used, along with the proceeds of other sources of financing, to consummate the acquisition of Excel Coal Limited ( Excel ), with remaining proceeds being used for general corporate purposes. The unaudited pro forma combined financial statements which follow have been revised to reflect the pricing terms of the senior notes offering.

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**Unaudited Pro Forma Combined Financial Statements**

The following unaudited pro forma combined financial statements give effect to Peabody's anticipated acquisition of Excel and the related financings. The unaudited pro forma combined balance sheet as of June 30, 2006 is presented as if the acquisition and the related financings had occurred on that date. The unaudited pro forma combined statement of operations for the six months ended June 30, 2006 and 2005 and for the year ended December 31, 2005 assume that the acquisition had occurred on January 1, 2005. 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 Reports on Form 10-Q for the six months ended June 30, 2006 and 2005 and (iii) the historical audited financial statements of Excel.

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 June 30, 2006 was translated from A\$ to US\$ using a foreign exchange rate of A\$1.00=US\$0.7433, based on the closing rate on June 30, 2006. The unaudited pro forma combined statement of operations for the six months ended June 30, 2006 was translated from A\$ to US\$ using an exchange rate of A\$1.00=US\$0.7433, based on the average closing rates for the period from January 3, 2006 through June 30, 2006. The unaudited pro forma combined statement of operations for the six months ended June 30, 2005 was translated from A\$ to US\$ using an exchange rate of A\$1.00=US\$0.7728, based on the average closing rates for the period from January 4, 2005 through June 30, 2005. 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<br>Energy<br>Historical | Excel Coal<br>Limited<br>Historical | Pro Forma<br>Adjustments | Pro Forma<br>as Adjusted |
|---|---------------------------------|-------------------------------------|--------------------------|--------------------------|
| <b>REVENUES</b>   |                                 |                                     |                          |                          |
| 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                |
| <b>COSTS AND EXPENSES</b>   |                                 |                                     |                          |                          |
| Operating costs and expenses  | 3,715,836                       | 221,509                             |                          | 3,937,345                |
| Depreciation, depletion and<br>amortization                             | 316,114                         | 17,864                              | 18,575 (a)               | 352,553                  |
| 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<br>exchange of assets                    | (101,487)                       | 1                                   |                          | (101,486)                |
| Income from equity affiliates   | (30,096)                        | (3,445)                             |                          | (33,541)                 |
| <b>OPERATING PROFIT</b>   | <b>518,383</b>                  | <b>71,216</b>                       | <b>(18,575)</b>          | <b>571,024</b>           |
| Interest expense  | 102,939                         | 7,997                               | (7,997) (b)              | 102,939                  |
| Interest income   | (10,641)                        | (4,261)                             | 126,478 (c)<br>4,261 (b) | 126,478<br>(10,641)      |
| <b>INCOME (LOSS) BEFORE<br/>INCOME TAXES AND MINORITY<br/>INTERESTS</b> |                                 |                                     |                          |                          |
|   | 426,085                         | 67,480                              | (141,317)                | 352,248                  |
| Income tax provision (benefit)  | 960                             | 18,695                              | (39,822) (d)             | (20,167)                 |
| Minority interests  | 2,472                           | 4,755                               |                          | 7,227                    |
| <b>NET INCOME</b>   | <b>\$ 422,653</b>               | <b>\$ 44,030</b>                    | <b>\$ (101,495)</b>      | <b>\$ 365,188</b>        |
| Basic earnings per share  | \$ 1.62                         | \$ 0.17                             | \$ (0.39)                | \$ 1.40                  |
| Diluted earnings per share  | \$ 1.58                         | \$ 0.16                             | \$ (0.38)                | \$ 1.36                  |
| <b>Weighted average shares outstanding</b>                              |                                 |                                     |                          |                          |
| basic   | 261,519,424                     | 261,519,424                         | 261,519,424              | 261,519,424              |
| Weighted average shares outstanding<br>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  
 SIX MONTHS ENDED JUNE 30, 2005  
 (Dollars in thousands, except per share data)

|   | Peabody<br>Energy<br>Historical | Excel Coal<br>Limited<br>Historical | Pro Forma<br>Adjustments | Pro Forma<br>as Adjusted |
|---|---------------------------------|-------------------------------------|--------------------------|--------------------------|
| <b>REVENUES</b>   |                                 |                                     |                          |                          |
| Sales   | \$ 2,152,338                    | \$ 144,004                          |                          | \$ 2,296,342             |
| Other revenues  | 33,928                          | 470                                 |                          | 34,398                   |
| Total revenues  | 2,186,266                       | 144,474                             |                          | 2,330,740                |
| <b>COSTS AND EXPENSES</b>   |                                 |                                     |                          |                          |
| Operating costs and expenses  | 1,791,986                       | 91,013                              |                          | 1,882,999                |
| Depreciation, depletion and<br>amortization                             | 155,262                         | 9,681                               | 8,850 (a)                | 173,793                  |
| Asset retirement obligation expense                                     | 16,357                          | 2,468                               |                          | 18,825                   |
| Selling and administrative expenses                                     | 78,431                          | 7,462                               |                          | 85,893                   |
| Net (gain) loss on disposal or<br>exchange of assets                    | (47,574)                        | 1                                   |                          | (47,573)                 |
| Income from equity affiliates   | (18,308)                        | (3,166)                             |                          | (21,474)                 |
| <b>OPERATING PROFIT</b>   | <b>210,112</b>                  | <b>37,015</b>                       | <b>(8,850)</b>           | <b>238,277</b>           |
| Interest expense  | 50,761                          | 4,492                               | (4,492) (b)              | 50,761                   |
|   |                                 |                                     | 63,239 (c)               | 63,239                   |
| Interest income   | (3,183)                         | (2,417)                             | 2,417 (b)                | (3,183)                  |
| <b>INCOME (LOSS) BEFORE<br/>INCOME TAXES AND MINORITY<br/>INTERESTS</b> |                                 |                                     |                          |                          |
|   | 162,534                         | 34,940                              | (70,014)                 | 127,460                  |
| Income tax provision (benefit)  | 14,586                          | 8,832                               | (19,849) (d)             | 3,569                    |
| Minority interests  | 804                             | 4,159                               |                          | 4,963                    |
| <b>NET INCOME</b>   | <b>\$ 147,144</b>               | <b>\$ 21,949</b>                    | <b>\$ (50,165)</b>       | <b>\$ 118,928</b>        |
| <br>  |                                 |                                     |                          |                          |
| Basic earnings per share  | \$ 0.56                         | \$ 0.08                             | \$ (0.19)                | \$ 0.46                  |
| Diluted earnings per share  | \$ 0.55                         | \$ 0.08                             | \$ (0.19)                | \$ 0.44                  |
| <br>  |                                 |                                     |                          |                          |
| Weighted average shares outstanding<br>basic                            | 261,164,418                     | 261,164,418                         | 261,164,418              | 261,164,418              |
| Weighted average shares outstanding<br>diluted                          | 267,367,248                     | 267,367,248                         | 267,367,248              | 267,367,248              |





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PEABODY ENERGY CORPORATION  
 UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS  
 SIX MONTHS ENDED JUNE 30, 2006

(Dollars in thousands, except per share data)

|   | Peabody<br>Energy<br>Historical | Excel Coal<br>Limited<br>Historical | Pro Forma<br>Adjustments | Pro Forma<br>as Adjusted |
|---|---------------------------------|-------------------------------------|--------------------------|--------------------------|
| <b>REVENUES</b>   |                                 |                                     |                          |                          |
| Sales   | \$ 2,582,564                    | \$ 201,176                          |                          | \$ 2,783,740             |
| Other revenues  | 45,634                          | 2,561                               |                          | 48,195                   |
| Total revenues  | 2,628,198                       | 203,737                             |                          | 2,831,935                |
| <b>COSTS AND EXPENSES</b>   |                                 |                                     |                          |                          |
| Operating costs and expenses  | 2,075,876                       | 123,017                             |                          | 2,198,893                |
| Depreciation, depletion and<br>amortization                             | 172,439                         | 10,972                              | 10,075 (a)               | 193,486                  |
| Asset retirement obligation expense                                     | 18,843                          | 1,462                               |                          | 20,305                   |
| Selling and administrative expenses                                     | 87,305                          | 10,562                              |                          | 97,867                   |
| Net gain on disposal or exchange of<br>assets                           | (59,269)                        | (450)                               |                          | (59,719)                 |
| Income from equity affiliates   | (13,932)                        | (15)                                |                          | (13,947)                 |
| <b>OPERATING PROFIT</b>   | <b>346,936</b>                  | <b>58,189</b>                       | <b>(10,075)</b>          | <b>395,050</b>           |
| Interest expense  | 52,738                          | 5,534                               | (5,534) (b)              | 52,738                   |
|   |                                 |                                     | 63,239 (c)               | 63,239                   |
| Interest income   | (4,140)                         | (1,578)                             | 1,578 (b)                | (4,140)                  |
| <b>INCOME (LOSS) BEFORE<br/>INCOME TAXES AND MINORITY<br/>INTERESTS</b> |                                 |                                     |                          |                          |
|   | 298,338                         | 54,233                              | (69,358)                 | 283,213                  |
| Income tax provision (benefit)  | 8,248                           | 16,216                              | (19,285) (d)             | 5,179                    |
| Minority interests  | 6,434                           | 3,003                               |                          | 9,437                    |
| <b>NET INCOME</b>   | <b>\$ 283,656</b>               | <b>\$ 35,014</b>                    | <b>\$ (50,073)</b>       | <b>\$ 268,597</b>        |
| <br>  |                                 |                                     |                          |                          |
| Basic earnings per share  | \$ 1.08                         | \$ 0.13                             | \$ (0.19)                | \$ 1.02                  |
| Diluted earnings per share  | \$ 1.05                         | \$ 0.13                             | \$ (0.19)                | \$ 1.00                  |
| <br>  |                                 |                                     |                          |                          |
| Weighted average shares outstanding<br>basic                            | 263,726,123                     | 263,726,123                         | 263,726,123              | 263,726,123              |
| Weighted average shares outstanding<br>diluted                          | 269,597,156                     | 269,597,156                         | 269,597,156              | 269,597,156              |



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

|  | Peabody<br>Energy<br>Historical | Excel<br>Coal<br>Limited<br>Historical | Pro Forma<br>Adjustments<br>(e) | Total               |
|--|---------------------------------|--|---------------------------------|---------------------|
| <b>ASSETS</b>  |                                 |  |                                 |                     |
| Cash and cash equivalents                            | \$ 318,736                      | \$ 29,585                              | \$ (29,585)                     | \$ 318,736          |
| Accounts receivable, less allowance                  | 261,997                         | 33,816                                 |                                 | 295,813             |
| Inventories  | 167,116                         | 80,465                                 | (6,353) (g)                     | 241,228             |
| Assets from coal trading activities                  | 84,692                          |  |                                 | 84,692              |
| Deferred income taxes                                | 94,124                          |  |                                 | 94,124              |
| Other current assets                                 | 78,682                          | 33,493                                 |                                 | 112,175             |
| <b>Total current assets</b>                          | <b>1,005,347</b>                | <b>177,359</b>                         | <b>(35,938)</b>                 | <b>1,146,768</b>    |
| Property, plant, equipment and mine development, net | 5,511,559                       | 493,688                                | 1,475,000                       | 7,480,247           |
| Deferred income taxes                                |                                 | 35,985                                 |                                 | 35,985              |
| Goodwill   |                                 | 251                                    | 79,382 (g)                      | 79,633              |
| Investments and other assets                         | 324,696                         | 71,267                                 | 17,001                          | 412,964             |
| <b>Total assets</b>                                  | <b>\$ 6,841,602</b>             | <b>\$ 778,550</b>                      | <b>\$ 1,535,445</b>             | <b>\$ 9,155,597</b> |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>           |                                 |  |                                 |                     |
| <b>Current liabilities</b>                           |                                 |  |                                 |                     |
| Current maturities of long-term debt                 | \$ 72,088                       | \$ 18,034                              | \$ (18,034)                     | \$ 72,088           |
| Liabilities from coal trading activities             | 74,271                          |  |                                 | 74,271              |
| Accounts payable and accrued expenses                | 778,669                         | 123,094                                |                                 | 901,763             |
| <b>Total current liabilities</b>                     | <b>925,028</b>                  | <b>141,128</b>                         | <b>(18,034)</b>                 | <b>1,048,122</b>    |
| Long-term debt, less current maturities              | 1,308,565                       | 204,785                                | 1,577,329 (f)                   | 3,090,679           |
| Deferred income taxes                                | 289,083                         | 45,489                                 |                                 | 334,572             |
| Asset retirement obligations                         | 410,566                         | 13,092                                 |                                 | 423,658             |
| Workers compensation obligations                     | 239,822                         |  |                                 | 239,822             |
| Accrued postretirement benefit costs                 | 971,493                         | 3,689                                  |                                 | 975,182             |
| Other noncurrent liabilities                         | 350,940                         | 29,263                                 | 300,000                         | 680,203             |
| <b>Total liabilities</b>                             | <b>4,495,497</b>                | <b>437,446</b>                         | <b>1,859,295</b>                | <b>6,792,238</b>    |
| Minority interests                                   | 12,828                          | 17,254                                 |                                 | 30,082              |
| <b>Stockholders equity</b>                           |                                 |  |                                 |                     |
| Common stock   | 2,661                           | 272,891                                | (272,891)                       | 2,661               |
| Additional paid-in capital                           | 1,546,985                       |  |                                 | 1,546,985           |
| Retained earnings                                    | 830,648                         | 50,856                                 | (50,856)                        | 830,648             |
| Accumulated other comprehensive loss                 | (31,625)                        | 103                                    | (103)                           | (31,625)            |

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|  |              |            |              |              |
|--|--------------|------------|--------------|--------------|
| Treasury stock                             | (15,392)     |            |              | (15,392)     |
| Total stockholders' equity                 | 2,333,277    | 323,850    | (323,850)    | 2,333,277    |
| Total liabilities and stockholders' equity | \$ 6,841,602 | \$ 778,550 | \$ 1,535,445 | \$ 9,155,597 |

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- (a) To adjust depreciation, depletion and amortization based on the portion of the acquisition cost allocated to long-lived assets.
- (b) To reverse historical interest expense incurred by Excel, as well as historical interest income earned by Excel.
- (c) Represents pro forma interest expense resulting from our new capital structure using, in the case of revolving and term loan borrowings, an assumed LIBOR rate of 5.38% (dollars in thousands):

|                               | Year Ended<br>December 31,<br>2005 | Six Months<br>Ended June<br>30,<br>2005 | Six Months<br>Ended June<br>30,<br>2006 |
|-------------------------------|------------------------------------|---|---|
| Revolving credit facility (1) | \$ 24,981                          | \$ 12,492                               | \$ 12,492                               |
| Term loan facility (2)        | 52,089                             | 25,335                                  | 28,650                                  |
| 2026 Senior notes (3)         | 20,139                             | 10,069                                  | 10,069                                  |
| 2016 Senior notes (4)         | 48,660                             | 24,330                                  | 24,330                                  |
| 6 7/8% Senior notes (5)       | 47,746                             | 23,815                                  | 23,815                                  |
| 5 7/8% Senior notes (6)       | 14,879                             | 7,440                                   | 7,355                                   |
| Subordinated note (7)         | 6,656                              | 3,423                                   | 3,026                                   |
| Surety bond expense (8)       | 11,095                             | 5,292                                   | 4,165                                   |

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|                                    |            |            |            |
|------------------------------------|------------|------------|------------|
| Other long-term debt (9)           | 3,172      | 1,804      | 2,075      |
| Total pro forma interest expense   | \$ 229,417 | \$ 114,000 | \$ 115,977 |
| Less historical interest expense   | 102,939    | 50,761     | 52,738     |
| Net adjustment to interest expense | \$ 126,478 | \$ 63,239  | \$ 63,239  |

(1) Reflects pro forma interest expense on our revolving unsecured credit facility at an assumed LIBOR plus 1% interest rate of 6.38%. A portion of the revolving credit facility is expected to be drawn at closing of the acquisition of Excel.

(2) Reflects pro forma interest expense on our term loan facility at an assumed LIBOR plus 1% interest rate of 6.38%. A portion of the term loan facility is expected to be drawn at closing of the acquisition of Excel.

(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 offered hereby 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 subordinated note.
  - (8) Reflects historical fees for surety bonds outstanding.
  - (9) Reflects historical letter of credit fees, interest on capital leases and the effect of interest rate swaps.
- (d) To record income tax expense (benefit) on the pro forma adjustments to

results of  
operations using  
the statutory  
rate in effect in  
Australia.



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- (e) To record the purchase transaction and allocate the \$1,540 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<br>Fair Value |
|--|-------------------------|
| Current assets                                       | \$ 171,006              |
| Property, plant, equipment and mine development, net | 1,968,688               |
| Goodwill   | 79,633                  |
| Investments and other assets                         | 124,253                 |
| Current liabilities                                  | (123,094)               |
| Long-term debt                                       | (222,819)               |
| Asset retirement obligations                         | (13,092)                |
| Accrued postretirement benefit costs                 | (3,689)                 |
| Other noncurrent liabilities                         | (374,752)               |
| Minority interest                                    | (17,254)                |
| <br>Total  | <br>\$ 1,588,880        |

- (f) Reflects indebtedness incurred to finance the acquisition of Excel consisting of \$512.5 million of the Term Loan Facility, \$369.6 million of borrowings under our Revolving Credit Facility and \$900.0 million of Senior Notes.
- (g) To record the effects of Emerging Issues Task Force ( EITF ) Issue No. 04-6, Accounting for Stripping Costs in the Mining Industry (EITF Issue No. 04-6 ), which states that stripping costs incurred during the production phase of a mine are variable production costs that should be included in the costs of the inventory produced during the period that the stripping costs are incurred. EITF Issue No. 04-6 is effective for the first reporting period in fiscal years beginning after December 15, 2005 (January 1, 2006 for Peabody and July 1, 2006 for Excel). On January 1, 2006, Peabody implemented EITF Issue No. 04-6 using its modified transition provisions which allow companies adopting in periods beginning after June 29, 2005 to utilize a cumulative effect adjustment approach where the cumulative effect adjustment is recorded directly to retained earnings in the year of adoption. The adjustment to recognize the impact of EITF Issue No. 04-6 as of June 30, 2006 for Excel resulted in a reduction of Inventories by \$6.4 million.

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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: October 6, 2006

/s/ RICHARD A. NAVARRE  
Richard A. Navarre  
Chief Financial Officer and  
Executive Vice President of Corporate  
Development