

PEABODY ENERGY CORP

Form 8-K

March 10, 2004

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**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) **February 29, 2004**

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**

N/A

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

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Item 2. Acquisition or Disposition of Assets.

Structure and Price of the Transactions

On February 29, 2004, Peabody Energy Corporation (the Company) signed two definitive agreements to purchase three coal operations from RAG Coal International AG. Closing on the transactions is expected within the next three months and requires no additional U.S. or Australian regulatory approvals. The combined purchase price is \$441 million in cash, subject to certain price adjustments.

Under the Australia purchase agreement, the Company will acquire, through one of its subsidiaries, all of the outstanding ordinary shares and redeemable preference shares of RAG Australia Coal Pty Limited (RAG Australia). In exchange for the shares, the Company agreed to pay \$250 million, subject to adjustment for certain changes in shareholder s equity between December 31, 2003 and the closing.

Under the Colorado purchase agreement, the Company will acquire, through one of its subsidiaries, all of the outstanding shares of capital stock of Twentymile Coal Company, Colorado Yampa Coal Company, RAG Empire Corporation and RAG Shoshone Coal Corporation (collectively, RAG Colorado). In exchange for the shares of capital stock, the Company agreed to pay \$191 million, subject to adjustment for certain changes in stockholder s equity of the four companies and changes in liabilities and assets relating to employee benefits of former employees of RAG Shoshone Coal Corporation, between December 31, 2003 and the closing.

The Company plans to finance the \$441 million purchase price with the issuance of \$200 million aggregate principal amount of new senior notes and the remainder from the sale of shares of Company common stock.

Transaction Closing and Closing Conditions

Each party s obligation to consummate the transactions is subject to the satisfaction of closing conditions as specified in the purchase agreement for the transaction. The RAG Australia and RAG Colorado transactions will close the later of April 15, 2004 and five business days after the satisfaction or waiver of these conditions.

In the case of RAG International (the seller), each acquisition is contingent upon the approval of the Federal Republic of Germany and the State of North Rhineland-Westphalia. Also, the RAG Colorado transaction is contingent upon the receipt of approval from the institutional lenders under RAG American Coal Company s credit facility. In addition to customary closing conditions, the closing of each of the RAG Australia transaction and the RAG Colorado transaction is contingent upon the simultaneous closing of the other transaction.

In the case of the Company, each transaction is contingent upon the absence of a material adverse change in the business of the companies being acquired under the purchase agreement for such transaction since December 31, 2003 and the receipt of third-party approvals identified by us in the purchase agreements. The Australia transaction is contingent upon RAG Australia Coal s underground mine at North Goonyella being in operation in all material respects at the closing and having produced at least 187,393 tons of run-of-mine coal during March 2004.

We expect both closings to occur in the second quarter of 2004.

Item 7. Financial Statements and Exhibits.

(a) Financial statements of business acquired.

The combined balance sheets of RAG Colorado as of December 31, 2003 and 2002, and the related combined statements of operations, stockholder s equity, and cash flows for each of the three years in the period ended December 31, 2003 are attached hereto as Exhibit 99.1.

The consolidated statements of financial position of RAG Australia Coal Pty Limited and its controlled entities as of December 31, 2003 and 2002, and the related consolidated statements of financial performance and cash flows for each of the years in the three-year period ended December 31, 2003 (all expressed in Australian dollars) are attached hereto as Exhibit 99.2.

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(b) Pro forma financial information.

Unaudited pro forma combined financial statements of Peabody Energy Corporation as of and for the year ended December 31, 2003 are included on pages F-1 to F-5 of this report.

(c) Exhibits.

See the Exhibit Index

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: March 10, 2004

/s/ RICHARD A. NAVARRE

Richard A. Navarre
Executive Vice President and
Chief Financial Officer

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PEABODY ENERGY CORPORATION

UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENTS

The following unaudited pro forma combined financial statements give effect to the Company's anticipated acquisitions (and related financing) of RAG Colorado and RAG Australia described in Item 2 above. The unaudited pro forma combined balance sheet as of December 31, 2003 is presented as if the acquisitions had occurred on that date. The unaudited pro forma combined statement of operations for the year ended December 31, 2003 assumes that the acquisitions and related financing occurred on January 1, 2003. The acquisitions 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) the historical audited financial statements of the Company and Management's Discussion and Analysis of Financial Condition and Results of Operations included in its annual report on Form 10-K for the year ended December 31, 2003, (ii) the historical audited financial statements of RAG Colorado included in this Form 8-K and (iii) the historical audited financial statements of RAG Australia included in this Form 8-K.

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 acquisitions had been consummated on the dates indicated, nor are they necessarily indicative of the 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 the Company's management believes are reasonable. The actual amounts the Company records based on its final assessment of fair values may differ materially from the information presented in these unaudited pro forma combined financial statements.

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PEABODY ENERGY CORPORATION
 UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS
 YEAR ENDED DECEMBER 31, 2003
 (Dollars in thousands, except per share data)

| | Peabody Energy Historical | RAG Colorado Historical | RAG Australia Historical | Pro Forma Adjustments | Pro Forma as Adjusted |
|---|---------------------------------|-------------------------------|--------------------------------|---------------------------|--------------------------|
| REVENUES | | | | | |
| Sales | \$ 2,729,323 | \$ 146,514 | \$ 241,473 | \$ | \$ 3,117,310 |
| Other revenues | 100,157 | 441 | 2,278 | | 102,876 |
| Total revenues | 2,829,480 | 146,955 | 243,751 | | 3,220,186 |
| COSTS AND EXPENSES | | | | | |
| Operating costs and expenses | 2,335,800 | 104,369 | 165,460 | 280 (a) | 2,605,909 |
| Depreciation, depletion and amortization | 234,336 | 23,668 | 26,666 | (2,109) (b) | 282,561 |
| Asset retirement obligation expense | 31,156 | 233 | 1,142 | 865 (c) | 33,396 |
| Selling and administrative expenses | 108,525 | 1,956 | 8,438 | | 118,919 |
| Net (gain) loss on property and equipment disposals | (25,123) | (140) | 90 | | (25,173) |
| OPERATING PROFIT | 144,786 | 16,869 | 41,955 | 964 | 204,574 |
| Interest expense | 98,540 | 2 | 6,427 | (6,429) (d) 12,417 (e) | 110,957 |
| Early debt extinguishment costs | 53,513 | | | | 53,513 |
| Interest income | (4,086) | (47) | (3,367) | 3,414 (d) | (4,086) |
| INCOME (LOSS) BEFORE INCOME TAXES AND MINORITY INTERESTS | | | | | |
| Income tax provision (benefit) | (47,708) | 6,438 | 11,546 | (3,037) (f) | (32,761) |
| Minority interests | 3,035 | | | | 3,035 |
| INCOME FROM CONTINUING OPERATIONS | \$ 41,492 | \$ 10,476 | \$ 27,349 | \$ (5,401) | \$ 73,916 |
| Basic earnings per share | \$ 0.78 | | | | \$ 1.25 |

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| | | | | | |
|--|------------|-----------|-----------|----------|------------|
| Diluted earnings per share | 0.76 | | | | 1.22 |
| Weighted average shares outstanding basic | 53,409,521 | | 5,639,869 | | 59,049,390 |
| Weighted average shares outstanding diluted | 54,835,628 | | 5,639,869 | | 60,475,497 |
| Other Data: | | | | | |
| Adjusted EBITDA(g) | \$ 410,278 | \$ 40,770 | \$ 69,763 | \$ (280) | \$ 520,531 |
| Capital Expenditures | 156,443 | 3,623 | 39,532 | | 199,598 |

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PEABODY ENERGY CORPORATION
 UNAUDITED PRO FORMA COMBINED BALANCE SHEET
 AS OF DECEMBER 31, 2003
 (Dollars in thousands)

| | Peabody Energy Historical | RAG Colorado Historical | RAG Australia Historical | Pro Forma Adjustments(h) | Total |
|---|--|--|---|-------------------------------------|--------------------|
| Assets | | | | | |
| Current assets | | | | | |
| Cash and cash equivalents | \$ 117,502 | \$ 14 | \$ 83,725 | \$ (74,006) | \$ 127,235 |
| Accounts receivable, less allowance | 220,891 | 9,934 | 27,160 | | 257,985 |
| Receivables from affiliates | | | 17,325 | (17,325) | |
| Materials and supplies | 44,421 | 2,686 | | | 47,107 |
| Coal inventory | 202,072 | 10,911 | 12,385 | | 225,368 |
| Assets from coal trading activities | 58,321 | | | | 58,321 |
| Deferred income taxes | 15,749 | 623 | 8,510 | (9,133) | 15,749 |
| Other current assets | 23,784 | 2,763 | 20,749 | (1,252) | 46,044 |
| Total current assets | 682,740 | 26,931 | 169,854 | (101,716) | 777,809 |
| Land and coal interests owned, net | | | | | |
| Buildings and improvements and machinery and equipment, net | 1,711,532 | 26,094 | | (14,108) | 1,723,518 |
| Leased coal interests and advance royalties, net | 818,726 | 49,151 | 142,254 | (83,368) | 926,763 |
| Investments and other assets | 1,750,728 | 89,806 | | 238,943 | 2,079,477 |
| | 316,539 | 909 | 5,935 | 4,761 | 328,144 |
| Total assets | 5,280,265 | \$192,891 | \$318,043 | \$ 44,512 | \$5,835,711 |
| Liabilities and Stockholders | | | | | |
| Equity | | | | | |
| Current liabilities | | | | | |
| Current maturities of long-term debt | \$ 23,049 | \$ | \$ 11,259 | \$ (11,259) | \$ 23,049 |
| Liabilities from coal trading activities | 36,304 | | | | 36,304 |
| Due to RAG Coal & RAG Holding | | 10,979 | | (10,979) | |
| Accounts payable and accrued expenses | 572,615 | 12,806 | 36,135 | | 621,556 |

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| | | | | | |
|---|-------------|-----------|-----------|-----------|-------------|
| Total current liabilities | 631,968 | 23,785 | 47,394 | (22,238) | 680,909 |
| Long-term debt, less current maturities | 1,173,490 | | 121,970 | 78,030 | 1,373,490 |
| Deferred income taxes | 434,426 | 26,835 | 10,955 | (37,790) | 434,426 |
| Asset retirement obligations | 384,048 | 6,770 | 2,702 | 5,264 | 398,784 |
| Workers compensation obligations | 209,954 | | | 3,889 | 213,843 |
| Accrued postretirement benefit costs | 961,811 | | | 9,000 | 970,811 |
| Obligation to industry fund | 44,779 | | | | 44,779 |
| Other noncurrent liabilities | 305,823 | 4,250 | | 8,911 | 318,984 |
| Total liabilities | 4,146,299 | 61,640 | 183,021 | 45,066 | 4,436,026 |
| Minority interests | 1,909 | | | | 1,909 |
| Stockholders equity | 1,132,057 | 131,251 | 135,022 | (554) | 1,397,776 |
| Total liabilities and stockholders equity | \$5,280,265 | \$192,891 | \$318,043 | \$ 44,512 | \$5,835,711 |

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PEABODY ENERGY CORPORATION

NOTES TO PRO FORMA COMBINED FINANCIAL STATEMENTS
(UNAUDITED)

- (a) To adjust operating costs and expenses related to postretirement benefits based on the portion of the acquisition cost allocated to postretirement benefit obligations.
- (b) To adjust depreciation, depletion and amortization based on the portion of the acquisition cost allocated to long-lived assets.
- (c) To adjust asset retirement obligation expense based on the portion of the acquisition cost allocated to asset retirement obligations.
- (d) To reverse historical interest expense incurred by RAG Colorado and RAG Australia, as well as historical interest income earned by RAG Colorado and RAG Australia.
- (e) To reflect the interest expense on \$200 million aggregate principal amount of new senior notes, including the amortization of \$5 million of debt issuance costs.
- (f) To record income tax expense (benefit) on the pro forma adjustments to results of operations using the statutory rates in effect in the United States and Australia.
- (g) Adjusted EBITDA is defined as income from continuing operations before deducting early debt extinguishment costs, net interest expense, income taxes, minority interests, asset retirement obligation expense and depreciation, depletion and amortization. Adjusted EBITDA is not a substitute for operating income, net income and cash flow from operating activities as determined in accordance with generally accepted accounting principles as a measure of profitability or liquidity. Adjusted EBITDA is used by management to measure operating performance, and management also believes it is a useful indicator of our ability to meet debt service and capital expenditure requirements. Because Adjusted EBITDA is not calculated identically by all companies, our calculation may not be comparable to similarly titled measures of other companies. Adjusted EBITDA is calculated as follows (unaudited, dollars in thousands):

| | Peabody Energy Historical | RAG Colorado Historical | RAG Australia Historical | Pro Forma Adjustments | Pro Forma as Adjusted |
|--|---------------------------------|-------------------------------|--------------------------------|--------------------------|--------------------------|
| Income (loss) from continuing operations | \$ 41,492 | \$ 10,476 | \$ 27,349 | \$(5,401) | \$ 73,916 |
| Income tax provision (benefit) | (47,708) | 6,438 | 11,546 | (3,037) | (32,761) |
| Minority interests | 3,035 | | | | 3,035 |
| Interest expense | 98,540 | 2 | 6,427 | 5,988 | 110,957 |
| Early debt extinguishment costs | 53,513 | | | | 53,513 |
| Interest income | (4,086) | (47) | (3,367) | 3,414 | (4,086) |
| Depreciation, depletion and amortization | 234,336 | 23,668 | 26,666 | (2,109) | 282,561 |
| Asset retirement obligation expense | 31,156 | 233 | 1,142 | 865 | 33,396 |

| | | | | | |
|-----------------|------------------|------------------|------------------|-----------------|------------------|
| Adjusted EBITDA | <u>\$410,278</u> | <u>\$ 40,770</u> | <u>\$ 69,763</u> | <u>\$ (280)</u> | <u>\$520,531</u> |
|-----------------|------------------|------------------|------------------|-----------------|------------------|

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- (h) To record the purchase transaction and allocate the \$441 million purchase price (and \$10 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 | \$ 85,350 |
| Land and coal interests owned, net | 11,986 |
| Building and improvement and machinery and equip., net | 108,037 |
| Leased coal interests and advance royalties, net | 328,749 |
| Investments and other assets | 6,605 |
| Current liabilities | (48,941) |
| Asset retirement obligations | (14,736) |
| Workers' compensation obligations | (3,889) |
| Accrued postretirement benefit costs | (9,000) |
| Other noncurrent liabilities | (13,161) |
| | <hr/> |
| Total | 451,000 |
| | <hr/> |

Also reflected in the pro forma combined balance sheet adjustments is the Company's issuance of \$200 million aggregate principal amount of new senior notes (net of \$5 million in debt issuance costs) and proceeds of \$275 million from the sale of shares of Company common stock (net of \$9.2 million in estimated underwriting fees).

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The exhibits below are numbered in accordance with the Exhibit Table of Item 601 of Regulation S-K.

| Exhibit No. | Description of Exhibit |
|------------------------|---|
| 2.1 | Stock Purchase Agreement among RAG Coal International AG, RAG American Coal Company, BTU Worldwide, Inc. and Peabody Energy Corporation dated as of February 29, 2004 |
| 2.2 | Share Purchase Agreement among RAG Coal International AG, Peabody Energy Corporation and Peabody Energy Australia Pty Limited dated as of February 29, 2004 |
| 23.1 | Consent of Ernst & Young LLP, Independent Auditors |
| 23.2 | Consent of KPMG, Independent Auditors |
| 99.1 | Report of Independent Auditors and combined balance sheets of RAG Colorado Business Unit as of December 31, 2003 and 2002, and the related combined statements of operations, stockholder's equity, and cash flows for each of the three years in the period ended December 31, 2003 |
| 99.2 | Independent Auditors' Report and consolidated statements of financial position of RAG Australia Coal Pty Limited and its controlled entities as of December 31, 2003 and 2002, and the related consolidated statements of financial performance and cash flows for each of the years in the three-year period ended December 31, 2003 (all expressed in Australian dollars) |