PEABODY ENERGY CORP
Form 10-Q
August 08, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2014
or
¨ 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: 1-16463

PEABODY ENERGY CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	13-4004153
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
701 Market Street, St. Louis, Missouri	63101-1826
(Address of principal executive offices)	(Zip Code)

(314) 342-3400
(Registrant's telephone number, 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 þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No þ

There were 271,464,148 shares of the registrant's common stock (par value of $0.01 per share) outstanding at August 1, 2014.

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PART I - FINANCIAL INFORMATION
Item 1. Financial Statements.
PEABODY ENERGY CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(Dollars in millions, except per share data)			
Revenues				
Sales	$1,598.6	$1,588.6	$3,068.8	$3,165.8
Other revenues	159.4	136.7	316.0	307.5
Total revenues	1,758.0	1,725.3	3,384.8	3,473.3
Costs and expenses				
Operating costs and expenses (exclusive of items shown separately below)	1,467.6	1,437.2	2,862.4	2,826.6
Depreciation, depletion and amortization	163.1	185.7	320.3	356.4
Asset retirement obligation expenses	15.9	18.3	31.5	37.3
Selling and administrative expenses	59.2	64.0	118.7	129.1
Other operating (income) loss:				
Net gain on disposal or exchange of assets	(2.2)	(43.2)	(12.0)	(45.8)
Asset impairment	—	21.5	—	21.5
Loss from equity affiliates	21.6	15.4	28.2	33.0
Operating profit	32.8	26.4	35.7	115.2
Interest expense	105.2	110.8	208.5	212.1
Interest income	(4.4)	(1.1)	(8.0)	(7.0)
Loss from continuing operations before income taxes	(68.0)	(83.3)	(164.8)	(89.9)
Income tax provision (benefit)	4.0	(184.7)	(48.5)	(181.0)
(Loss) income from continuing operations, net of income taxes	(72.0)	101.4	(116.3)	91.1
Income (loss) from discontinued operations, net of income taxes	0.8	(14.3)	1.0	(23.4)
Net (loss) income	(71.2)	87.1	(115.3)	67.7
Less: Net income (loss) attributable to noncontrolling interests	2.1	(3.2)	6.5	0.8
Net (loss) income attributable to common stockholders	$(73.3)	$90.3	$(121.8)	$66.9
(Loss) income from continuing operations:				
Basic (loss) income per share	$(0.28)	$0.39	$(0.46)	$0.34
Diluted (loss) income per share	$(0.28)	$0.39	$(0.46)	$0.33
Net (loss) income attributable to common stockholders:				
Basic (loss) income per share	$(0.27)	$0.33	$(0.46)	$0.25
Diluted (loss) income per share	$(0.27)	$0.33	$(0.46)	$0.25
Dividends declared per share	$0.085	$0.085	$0.170	$0.170

See accompanying notes to unaudited condensed consolidated financial statements.

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PEABODY ENERGY CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(Dollars in millions)			
Net (loss) income	$(71.2)	$87.1	$(115.3)	$67.7
Other comprehensive income (loss), net of income taxes:				
Net change in unrealized holding gains (losses) on available-for-sale securities (net of respective tax provision (benefits) of $0.3, $3.7, ($0.8) and ($0.1))				
Unrealized holding gains (losses) on available-for-sale securities	0.5	(7.6)	(1.3)	(13.8)
Less: Reclassification for realized losses included in net (loss) income	—	13.6	—	13.5
Net change in unrealized gains (losses) on available-for-sale securities	0.5	6.0	(1.3)	(0.3)
Net unrealized gains (losses) on cash flow hedges (net of respective tax provision (benefits) of $37.2, ($217.1), $106.1 and ($228.0))				
Increase (decrease) in fair value of cash flow hedges	67.9	(339.0)	184.1	(270.3)
Less: Reclassification for realized gains included in net (loss) income	(10.6)	(38.3)	(5.0)	(115.4)
Net unrealized gains (losses) on cash flow hedges	57.3	(377.3)	179.1	(385.7)
Postretirement plans and workers' compensation obligations (net of respective tax provision (benefit) of $4.0, $8.4, ($2.2) and $16.7				
Prior service cost for the period	—	—	(17.4)	—
Amortization of actuarial loss and prior service cost included in net (loss) income	6.8	14.2	13.6	28.4
Postretirement plans and workers' compensation obligations	6.8	14.2	(3.8)	28.4
Foreign currency translation adjustment	9.9	(74.5)	26.4	(73.4)
Other comprehensive income (loss), net of income taxes	74.5	(431.6)	200.4	(431.0)
Comprehensive income (loss)	3.3	(344.5)	85.1	(363.3)
Less: Comprehensive income (loss) attributable to noncontrolling interests	2.1	(3.2)	6.5	0.8
Comprehensive income (loss) attributable to common stockholders	$1.2	$(341.3)	$78.6	$(364.1)

See accompanying notes to unaudited condensed consolidated financial statements.

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PEABODY ENERGY CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

	(Unaudited) June 30, 2014	December 31, 2013
	(In millions, except per share data)	
ASSETS		
Current assets		
Cash and cash equivalents	$498.4	$444.0
Accounts receivable, net of allowance for doubtful accounts of $5.8 at June 30, 2014 and $7.4 at December 31, 2013	447.1	557.9
Inventories	548.4	506.7
Assets from coal trading activities, net	50.8	36.1
Deferred income taxes	67.2	66.4
Other current assets	265.9	381.6
Total current assets	1,877.8	1,992.7
Property, plant, equipment and mine development, net	10,700.5	11,082.5
Deferred income taxes	82.1	7.8
Investments and other assets	1,031.8	1,050.4
Total assets	$13,692.2	$14,133.4
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current liabilities		
Current maturities of long-term debt	$20.8	$31.7
Deferred income taxes	7.5	—
Liabilities from coal trading activities, net	14.4	6.1
Accounts payable and accrued expenses	1,462.0	1,737.7
Total current liabilities	1,504.7	1,775.5
Long-term debt, less current maturities	5,973.2	5,970.7
Deferred income taxes	59.5	40.9
Asset retirement obligations	721.2	712.8
Accrued postretirement benefit costs	713.0	684.0
Other noncurrent liabilities	716.2	1,001.6
Total liabilities	9,687.8	10,185.5
Stockholders’ equity		
Preferred Stock — $0.01 per share par value; 10.0 shares authorized; no shares issued or outstanding as of June 30, 2014 or December 31, 2013	—	—
Perpetual Preferred Stock — 0.8 shares authorized, no shares issued or outstanding as of June 30, 2014 or December 31, 2013	—	—
Series Common Stock — $0.01 per share par value; 40.0 shares authorized, no shares issued or outstanding as of June 30, 2014 or December 31, 2013	—	—
Common Stock — $0.01 per share par value; 800.0 shares authorized, 285.4 shares issued and 271.5 shares outstanding as of June 30, 2014 and 283.9 shares issued and 270.1 shares outstanding as of December 31, 2013	2.9	2.8
Additional paid-in capital	2,361.7	2,340.0
Treasury stock, at cost — 13.9 shares as of June 30, 2014 and 13.8 shares as of December 31, 2013	(466.9)	(464.7)
Retained earnings	2,281.9	2,449.8
Accumulated other comprehensive loss	(218.8)	(419.2)
Peabody Energy Corporation stockholders’ equity	3,960.8	3,908.7

Noncontrolling interests	43.6	39.2
Total stockholders’ equity	4,004.4	3,947.9
Total liabilities and stockholders’ equity	$13,692.2	$14,133.4

See accompanying notes to unaudited condensed consolidated financial statements.

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PEABODY ENERGY CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30,	
	2014	2013
	(Dollars in millions)	
Cash Flows From Operating Activities		
Net (loss) income	$(115.3)	$67.7
(Income) loss from discontinued operations, net of income taxes	(1.0)	23.4
(Loss) income from continuing operations, net of income taxes	(116.3)	91.1
Adjustments to reconcile (loss) income from continuing operations, net of income taxes to net cash provided by operating activities:		
Depreciation, depletion and amortization	320.3	356.4
Noncash interest expense	11.7	11.1
Deferred income taxes	(113.9)	(205.3)
Share-based compensation	24.0	28.6
Asset impairment	—	21.5
Net gain on disposal or exchange of assets	(12.0)	(45.8)
Loss from equity affiliates	28.2	33.0
Gains on previously monetized foreign currency hedge positions	(74.8)	—
Changes in current assets and liabilities:		
Accounts receivable	99.8	(7.8)
Change in receivable from accounts receivable securitization program	10.0	50.0
Inventories	(41.7)	(33.4)
Net assets from coal trading activities	(19.1)	6.0
Other current assets	(1.7)	13.6
Accounts payable and accrued expenses	13.2	(0.7)
Asset retirement obligations	19.5	26.3
Accrued postretirement benefit costs	9.3	8.8
Accrued pension costs	9.9	25.0
Other, net	(9.3)	(12.5)
Net cash provided by continuing operations	157.1	365.9
Net cash used in discontinued operations	(81.8)	(34.5)
Net cash provided by operating activities	75.3	331.4
Cash Flows From Investing Activities		
Additions to property, plant, equipment and mine development	(64.7)	(166.5)
Changes in accrued expenses related to capital expenditures	(17.5)	(102.6)
Proceeds from disposal of assets, net of notes receivable	139.2	123.9
Purchases of debt securities	(4.2)	(9.7)
Proceeds from sales and maturities of debt securities	5.0	17.0
Proceeds from the maturity of short-term investments	—	4.8
Contributions to joint ventures	(271.3)	(323.8)
Distributions from joint ventures	269.0	372.1
Advances to related parties	(12.3)	(35.7)
Repayments of loans from related parties	2.2	18.2
Other, net	(2.0)	(3.6)
Net cash provided by (used in) continuing operations	43.4	(105.9)
Net cash provided by (used in) discontinued operations	5.0	(0.3)
Net cash provided by (used in) investing activities	48.4	(106.2)
Cash Flows From Financing Activities		

Repayments of long-term debt	(10.4)	(215.6)
Payment of debt issuance costs	(10.1)	—
Dividends paid	(46.1)	(45.9)
Other, net	(2.7)	(4.6)
Net cash used in financing activities	(69.3)	(266.1)
Net change in cash and cash equivalents	54.4	(40.9)
Cash and cash equivalents at beginning of period	444.0	558.8
Cash and cash equivalents at end of period	$498.4	$517.9

See accompanying notes to unaudited condensed consolidated financial statements.

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PEABODY ENERGY CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Peabody Energy Corporation Stockholders' Equity						
	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total Stockholders' Equity
	(Dollars in millions)						
December 31, 2013	$2.8	$2,340.0	$(464.7)	$2,449.8	$(419.2)	$39.2	$3,947.9
Net (loss) income	—	—	—	(121.8)	—	6.5	(115.3)
Net change in unrealized holding losses on available-for-sale securities (net of $0.8 tax benefit)	—	—	—	—	(1.3)	—	(1.3)
Net unrealized gains on cash flow hedges (net of $106.1 tax provision)	—	—	—	—	179.1	—	179.1
Postretirement plans and workers' compensation obligations (net of $2.2 tax benefit)	—	—	—	—	(3.8)	—	(3.8)
Foreign currency translation adjustment	—	—	—	—	26.4	—	26.4
Dividends paid	—	—	—	(46.1)	—	—	(46.1)
Share-based compensation	0.1	23.9	—	—	—	—	24.0
Write-off of excess tax benefits related to share-based compensation	—	(5.3)	—	—	—	—	(5.3)
Stock options exercised		0.5	—	—	—	—	0.5
Employee stock purchases	—	2.6	—	—	—	—	2.6
Repurchase of employee common stock relinquished for tax withholding	—	—	(2.2)	—	—	—	(2.2)
Distributions to noncontrolling interests	—	—	—	—	—	(2.1)	(2.1)
June 30, 2014	$2.9	$2,361.7	$(466.9)	$2,281.9	$(218.8)	$43.6	$4,004.4

See accompanying notes to unaudited condensed consolidated financial statements.

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PEABODY ENERGY CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1) Basis of Presentation

The condensed consolidated financial statements include the accounts of Peabody Energy Corporation (the Company) and its affiliates. Interests in subsidiaries controlled by the Company are consolidated and any outside shareholder interests are reflected as noncontrolling interests, except when the Company has an undivided interest in an unincorporated joint venture. In those cases, the Company includes its proportionate share in the assets, liabilities, revenues and expenses of the jointly controlled entities within each applicable line item of the unaudited condensed consolidated financial statements. All intercompany transactions, profits and balances have been eliminated in consolidation. Certain prior year amounts have been reclassified to conform with the 2014 presentation.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements and should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013. In the opinion of management, these financial statements reflect all normal, recurring adjustments necessary for a fair presentation. Balance sheet information presented herein as of December 31, 2013 has been derived from the Company’s audited consolidated balance sheet at that date. The Company's results of operations for the three and six months ended June 30, 2014 are not necessarily indicative of the results that may be expected for future quarters or for the year ending December 31, 2014.

The Company classifies items within discontinued operations in the unaudited condensed consolidated financial statements when the operations and cash flows of a particular component of the Company have been (or will be) eliminated from the ongoing operations of the Company as a result of a disposal (by sale or otherwise) and the Company will no longer have any significant continuing involvement in the operation of that component.

(2) Newly Adopted Accounting Standards and Accounting Standards Not Yet Implemented

Presentation of Unrecognized Tax Benefits

In July 2013, the Financial Accounting Standards Board (FASB) issued accounting guidance requiring entities to present unrecognized tax benefits as a reduction to any related deferred tax assets for net operating losses, similar tax losses or tax credit carryforwards if such settlement is required or expected in the event an uncertain tax position is disallowed. Previously effective U.S. GAAP did not provide explicit guidance on the topic. The new presentation guidance became effective for interim and annual periods beginning after December 15, 2013 (January 1, 2014 for the Company). The adoption of the guidance, which the Company applied prospectively beginning January 1, 2014, had no material effect on the Company's results of operations, financial condition, cash flows or financial statement presentation.

Discontinued Operations

In April 2014, the FASB issued accounting guidance that raised the threshold for disposals to qualify as discontinued operations to a disposal of a component or group of components that is disposed of or is classified as held for sale and represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. Such a strategic shift may include the disposal of (1) a major geographical area of operations, (2) a major line of business, (3) a major equity method investment or (4) other major parts of an entity. Provided that the major strategic shift criterion is met, the new guidance does allow entities to have significant continuing involvement and continuing cash flows with the discontinued operation, unlike current U.S. GAAP. The new standard also requires additional disclosures for discontinued operations and new disclosures for individually material disposal transactions that do not meet the definition of a discontinued operation. The new guidance will apply prospectively to disposals that occur in interim and annual periods beginning on or after December 31, 2014 (January 1, 2015 for the Company), with early adoption permitted for disposals or new classifications of assets as held for sale that have not been reported in previously issued financial statements. The impact to the Company will be dependent on any disposal activity that occurs subsequent to the adoption date.

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Revenue Recognition

In May 2014, the FASB issued a comprehensive revenue recognition standard that will supersede nearly all existing revenue recognition guidance under U.S. GAAP. The new standard provides a single principles-based, five-step model to be applied to all contracts with customers, which steps are to (1) identify the contract(s) with the customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract and (5) recognize revenue when each performance obligation is satisfied. More specifically, revenue will be recognized when promised goods or services are transferred to the customer in an amount that reflects the consideration expected in exchange for those goods or services. The standard also requires entities to disclose sufficient qualitative and quantitative information to enable financial statement users to understand the nature, amount, timing and uncertainty of revenues and cash flows arising from contracts with customers. The new guidance will be effective for interim and annual periods beginning after December 15, 2016 (January 1, 2017 for the Company) and the standard allows for either a full retrospective adoption or a modified retrospective adoption. The Company has just begun the process of evaluating the impact that the adoption of this guidance will have on its results of operations, financial condition, cash flows and financial statement presentation.

(3) Asset Realization

The Company's mining and exploration assets and mining-related investments may be adversely affected by numerous uncertain factors that may cause the Company to be unable to recover all or a portion of the carrying value of those assets. As a result of various unfavorable conditions, including but not limited to sustained trends of weakness in U.S. and international seaborne coal market pricing and certain asset-specific factors, the Company recognized aggregate impairment charges of $528.3 million and $910.9 million during the years ended December 31, 2013 and 2012, respectively. For additional information surrounding those charges, refer to Note 2. "Asset Impairment and Mine Closures Costs" to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

The Company generally does not view short-term declines subsequent to previous impairment assessments in thermal and metallurgical coal prices in the markets in which it sells its products as an indicator of impairment, such as the decline in benchmark pricing for seaborne metallurgical and thermal coal that occurred during the six months ended June 30, 2014. However, the Company generally does view a sustained trend of adverse changes in coal market pricing (for example, over periods exceeding one year) as an indicator of potential impairment and, because of the volatile and cyclical nature of U.S. and international seaborne coal markets, it is reasonably possible that such prices may not improve or decrease further in the near term, which may result in the need for future adjustments to the carrying value of the Company's long-lived mining assets and mining-related investments. The Company's assets whose recoverability and values are most sensitive to near-term pricing include mines in Australia with comparatively shorter remaining lives and mining-related investments, which assets had an aggregate carrying value of $227.4 million as of June 30, 2014. The Company conducted a review of those assets for recoverability as of June 30, 2014 and determined that no impairment charge was necessary as of that date.

(4) Discontinued Operations

Discontinued operations include former Australian Mining and Midwestern U.S. Mining segment assets that have ceased production and other previously divested operations.

Summarized Results of Discontinued Operations

Results from discontinued operations were as follows during the three and six months ended June 30, 2014 and 2013:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013

	(Dollars in millions)			
Income (loss) from discontinued operations before income taxes	$1.2	$(16.1)	$1.1	$(32.7)
Income tax provision (benefit)	0.4	(1.8)	0.1	(9.3)
Income (loss) from discontinued operations, net of income taxes	$0.8	$(14.3)	$1.0	$(23.4)

There were no significant revenues from discontinued operations during the three and six months ended June 30, 2014. Total revenues associated with discontinued operations amounted to $35.6 million and $67.7 million during the three and six months ended June 30, 2013, respectively.

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Assets and Liabilities of Discontinued Operations

The carrying amounts of assets and liabilities classified as discontinued operations included in the Company's condensed consolidated balance sheets were as follows:

	June 30, 2014	December 31, 2013
	(Dollars in millions)	
Assets:		
Other current assets	$2.4	$38.6
Investments and other assets	20.8	47.4
Total assets classified as discontinued operations	$23.2	$86.0
Liabilities:		
Accounts payable and accrued expenses	$42.3	$127.8
Other noncurrent liabilities	86.7	90.2
Total liabilities classified as discontinued operations	$129.0	$218.0

Settlement Agreement with Patriot and the UMWA. Pursuant to the definitive settlement agreement reached in 2013 with Patriot Coal Corporation and certain of its wholly owned subsidiaries (Patriot) and the United Mine Workers of America (UMWA) on behalf of itself, its represented Patriot employees and its represented Patriot retirees, the Company remitted a payment of $70 million to Patriot in January 2014. Refer to Note 18. "Commitments and Contingencies" for additional details surrounding that settlement agreement.

Wilkie Creek Mine. In December 2013, the Company ceased production and commenced the reclamation of the Wilkie Creek Mine in Queensland, Australia and correspondingly accrued for potential port and rail take-or-pay contractual liabilities and certain other exit costs at that time. The following table summarizes the changes in those liabilities for the six months ended June 30, 2014:

	Accrued Take-or-Pay Liabilities	Other Exit Costs	Total
	(Dollars in millions)		
Liability balance at December 31, 2013	$33.9	$2.7	$36.6
Change in estimate	—	(0.2)	(0.2)
Cash payments	(6.3)	(2.4)	(8.7)
Foreign currency remeasurement expense	1.6	—	1.6
Liability balance at June 30, 2014	$29.2	$0.1	$29.3

In addition to the closure-related liabilities detailed above, the Company's unaudited condensed consolidated balance sheet at June 30, 2014 included $48.0 million of asset retirement obligations related to Wilkie Creek.

In May 2014, the Company entered into an agreement to sell the Wilkie Creek Mine in exchange for approximately $70 million in cash and the assumption of port and rail obligations and asset retirement obligations, with the closing of the sale subject to certain conditions.

PEABODY ENERGY CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

(5) Investments

Investments in available-for-sale securities at June 30, 2014 were as follows:

Available-for-sale securities	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in millions)			
Current:				
U.S. corporate bonds	$8.9	$—	$—	$8.9
Noncurrent:				
Marketable equity securities	10.9	—	(0.9)	10.0
Federal government securities	29.3	—	—	29.3
U.S. corporate bonds	15.4	0.1	—	15.5
Total	$64.5	$0.1	$(0.9)	$63.7

Investments in available-for-sale securities at December 31, 2013 were as follows:

Available-for-sale securities	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(Dollars in millions)		
Current:				
Federal government securities	$2.8	$—	$—	$2.8
U.S. corporate bonds	2.4	—	—	2.4
Noncurrent:				
Marketable equity securities	10.9	1.3	—	12.2
Federal government securities	28.8	—	(0.1)	28.7
U.S. corporate bonds	20.8	0.1	—	20.9
Total	$65.7	$1.4	$(0.1)	$67.0

The Company's short-term investments are defined as those investments with remaining maturities, at the time of purchase, of greater than three months and up to one year and are included in "Other current assets" in the condensed consolidated balance sheets. Long-term investments are defined as those investments with remaining maturities of greater than one year and are included in "Investments and other assets" in the condensed consolidated balance sheets. The Company's investments in marketable equity securities consist of an investment in Winsway Coking Coal Holdings Limited (Winsway). Those equity securities are included in "Investments and other assets" in the condensed consolidated balance sheets.

Contractual maturities for available-for-sale investments in debt securities at June 30, 2014 were as shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Contractual maturities for available-for-sale debt securities	Cost	Fair Value
	(Dollars in millions)	
Due in one year or less	$8.9	$8.9
Due in one to five years	44.7	44.8
Total	$53.6	$53.7

Proceeds from sales and maturities of debt securities shown in the tables above amounted to $4.6 million and $4.1 million for the three months ended June 30, 2014 and 2013, respectively, and $5.0 million and $17.0 million for the six months ended June 30, 2014 and 2013, respectively. The Company realized net gains of less than $0.1 million during the three and six months ended June 30, 2014 and 2013 associated with those sales and maturities using the specific identification method. Purchases of debt securities shown in the tables above amounted to $2.2 million and $5.1 million for the three months ended June 30, 2014, and 2013, respectively, and $4.2 million and $9.7 million for the six months ended June 30, 2014 and 2013, respectively.

The Company also recognized proceeds of $4.8 million from the maturity of time deposits denominated in Chinese Renminbi during the three and six months ended June 30, 2013. The Company did not have any held-to-maturity investments as of June 30, 2014 or December 31, 2013.

At each reporting date, the Company performs separate evaluations of debt and equity securities to determine if any unrealized losses are other-than-temporary. After evaluating the length of time market value has been less than cost and the financial conditions and near-term prospects of Winsway, the Company deemed the unrealized loss incurred during the three and six months ended June 30, 2014 associated with its investment in Winsway equity securities to be temporary and the change during the period to be generally consistent with the trend of equity securities across the coal mining industry. The Company has the ability to hold the securities until recovery and has no current intention to divest the securities. Accordingly, the Company did not recognize other-than-temporary losses on its investments during the three and six months ended June 30, 2014. The Company recognized an other-than-temporary asset impairment charge of $21.5 million during the three and six months ended June 30, 2013, which was triggered by a second quarter 2013 downgrade of Winsway's credit rating and the duration and severity of the market losses incurred at that time, thereby resetting the cost basis of the Company's investment.

(6) Inventories

Inventories as of June 30, 2014 and December 31, 2013 consisted of the following:

	June 30, 2014	December 31, 2013
	(Dollars in millions)	
Materials and supplies	$166.3	$166.8
Raw coal	141.5	122.6
Saleable coal	240.6	217.3
Total	$548.4	$506.7

Materials and supplies inventories presented above have been shown net of reserves of $4.7 million and $7.4 million as of June 30, 2014 and December 31, 2013, respectively.

(7) Derivatives and Fair Value Measurements

Risk Management — Non-Coal Trading Activities

The Company is exposed to various types of risk in the normal course of business, including foreign currency exchange rate risk for non-U.S. dollar expenditures and balances, price risk on commodities utilized in the Company's mining operations and interest rate risk on long-term debt. The Company manages commodity price risk (excluding coal trading activities) related to the sale of coal, in part, through the use of long-term coal supply agreements (those with terms longer than one year), rather than through the use of derivative instruments. In order to manage its exposure related to price risk on certain commodities used in production, as well as for foreign currency exchange rate and interest rate risk, the Company utilizes derivative financial instruments. These risks are actively monitored in an effort to ensure compliance with the risk management policies of the Company.

Foreign Currency Hedges. The Company is exposed to foreign currency exchange rate risk, primarily on Australian dollar expenditures made in its Australian Mining segment. This risk is managed through the use of forward contracts and options that the Company designates as cash flow hedges, with the objective of reducing the variability of cash flows associated with forecasted foreign currency expenditures.

Diesel Fuel and Explosives Hedges. The Company is exposed to commodity price risk associated with diesel fuel and explosives utilized in production in the U.S. and Australia. This risk is managed through the use of derivatives, primarily swaps, and to a lesser extent through the use of cost pass-through contracts. The Company generally designates the swap contracts as cash flow hedges, with the objective of reducing the variability of cash flows associated with forecasted diesel fuel and explosives purchases.

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Interest Rate Swaps. The Company is exposed to interest rate risk on its fixed rate and variable rate long-term debt. From time to time, the Company manages the interest rate risk associated with the fair value of its fixed rate borrowings using fixed-to-floating interest rate swaps to effectively convert a portion of the underlying cash flows on the debt into variable rate cash flows. The Company designates these swaps as fair value hedges, with the objective of hedging against adverse changes in the fair value of the fixed rate debt that results from market interest rate changes. In addition, from time to time, interest rate risk associated with the Company’s variable rate borrowings is managed using floating-to-fixed interest rate swaps. The Company designates these swaps as cash flow hedges, with the objective of reducing the variability of cash flows associated with market interest rate changes. As of June 30, 2014, the Company had no interest rate swaps in place.

Notional Amounts and Fair Value. The following summarizes the Company’s foreign currency and commodity positions at June 30, 2014:

	Notional Amount by Year of Maturity				
	Total	2014	2015	2016	2017
Foreign Currency					
A$:US$ hedge contracts (A$ millions)	$4,082.1	$935.0	$1,645.1	$997.0	$505.0
Commodity Contracts					
Diesel fuel hedge contracts (million gallons)	208.5	52.2	85.5	53.3	17.5
U.S. explosives hedge contracts (million MMBtu)	0.3	0.3	—	—	—

	Instrument Classification by			
	Cash Flow Hedge	Fair Value Hedge	Economic Hedge	Fair Value Net Asset (Liability) (Dollars in millions)
Foreign Currency				
A$:US$ hedge contracts (A$ millions)	$4,082.1	$—	$—	$(109.6)
Commodity Contracts				
Diesel fuel hedge contracts (million gallons)	208.5	—	—	16.0
U.S. explosives hedge contracts (million MMBtu)	0.3	—	—	(0.2)

Based on the net fair value of the Company’s non-coal trading commodity contract hedge positions held in “Accumulated other comprehensive loss” at June 30, 2014, the Company expects to reclassify an unrealized net gain associated with the Company's diesel fuel hedge programs of approximately $9 million and an unrealized net loss associated with the Company's explosives hedge programs of approximately $0.2 million from comprehensive income into earnings over the next 12 months. Based on net unrealized losses associated with the Company's foreign currency hedge contract portfolio and realized gains related to foreign currency cash flow hedge contracts monetized in the fourth quarter of 2012 held in "Accumulated other comprehensive loss" at June 30, 2014, the net gain expected to be reclassified from comprehensive income to earnings over the next twelve months associated with that hedge program is approximately $15 million. As these realized and unrealized gains and losses are associated with derivative instruments that represent hedges of forecasted transactions, the amounts reclassified to earnings are expected to partially offset the effect of the realized underlying transactions.

Hedge Ineffectiveness. The Company assesses, both at inception and at least quarterly thereafter, whether the derivatives used in hedging activities are highly effective at offsetting the changes in the anticipated cash flows of the hedged item. The effective portion of the change in the fair value is recorded in “Accumulated other comprehensive loss” until the hedged transaction impacts reported earnings, at which time any gain or loss is reclassified to earnings. To the extent that periodic changes in the fair value of derivatives deemed highly effective exceeds such changes in the hedged item, the ineffective portion of the periodic non-cash changes are recorded in earnings in the period of the change. If the hedge ceases to qualify for hedge accounting, the Company prospectively recognizes changes in the fair value of the instrument in earnings in the period of the change.

A measure of ineffectiveness is inherent in hedging future diesel fuel purchases with derivative positions based on refined petroleum products as a result of location and/or product differences. Transportation surcharges, which may vary over time, for purchased diesel fuel in certain regions can also result in ineffectiveness, though such surcharges have historically changed infrequently and comprise a small portion of the total cost of delivered diesel.

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