

PEABODY ENERGY CORP

Form 8-K

December 13, 2006



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Item 8.01. Other Events  
SIGNATURE

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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 (the Excel Acquisition ). Peabody funded the acquisition with net proceeds from its registered offering of senior notes and borrowings under its senior unsecured credit facility. Peabody expects to refinance certain borrowings made under its senior unsecured credit facility in connection with the Excel Acquisition through an offering of convertible junior subordinated debentures.

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 an offering 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 statement of operations for the nine months ended September 30, 2006 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 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<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                             | 7,000(a)                 | 3,944,345                |
| Depreciation, depletion and<br>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<br>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>(26,800)</b>          | <b>562,799</b>           |
| Interest expense   | 102,939                         | 7,997                               | (7,997)(c)               | 102,939                  |
| Interest income  | (10,641)                        | (4,261)                             | 123,840(d)<br>4,261(c)   | 123,840<br>(10,641)      |
| <b>INCOME BEFORE INCOME TAXES<br/>AND MINORITY INTERESTS</b> |                                 |                                     |                          |                          |
|  | 426,085                         | 67,480                              | (146,904)                | 346,661                  |
| Income tax provision (benefit)                               | 960                             | 18,695                              | (41,499)(e)              | (21,844)                 |
| Minority interests   | 2,472                           | 4,755                               |                          | 7,227                    |
| <b>NET INCOME</b>  | <b>\$ 422,653</b>               | <b>\$ 44,030</b>                    | <b>\$ (105,405)</b>      | <b>\$ 361,278</b>        |
| <br>   |                                 |                                     |                          |                          |
| Basic earnings per share                                     | \$ 1.62                         | \$ 0.17                             | \$ (0.40)                | \$ 1.38                  |
| Diluted earnings per share                                   | \$ 1.58                         | \$ 0.16                             | \$ (0.39)                | \$ 1.35                  |
| <br>   |                                 |                                     |                          |                          |
| Weighted average shares outstanding<br>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  
 NINE MONTHS ENDED SEPTEMBER 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  | \$ 3,805,838                    | \$ 292,227                          |                          | \$ 4,098,065             |
| Other revenues   | 87,348                          | 2,805                               |                          | 90,153                   |
| <b>Total revenues</b>  | <b>3,893,186</b>                | <b>295,032</b>                      |                          | <b>4,188,218</b>         |
| <b>COSTS AND EXPENSES</b>                                    |                                 |                                     |                          |                          |
| Operating costs and expenses                                 | 3,078,880                       | 183,110                             | 7,000(a)                 | 3,268,990                |
| Depreciation, depletion and<br>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<br>assets                | (94,309)                        | (453)                               |                          | (94,762)                 |
| (Income) loss from equity affiliates                         | (19,132)                        | 129                                 |                          | (19,003)                 |
| <b>OPERATING PROFIT</b>                                      | <b>519,940</b>                  | <b>75,406</b>                       | <b>(21,430)</b>          | <b>573,916</b>           |
| Interest expense   | 79,130                          | 6,703                               | (6,703)(c)               | 79,130                   |
|  |                                 |                                     | 92,874(d)                | 92,874                   |
| Interest income  | (6,026)                         | (1,758)                             | 1,758(c)                 | (6,026)                  |
| <b>INCOME BEFORE INCOME TAXES<br/>AND MINORITY INTERESTS</b> |                                 |                                     |                          |                          |
|  | 446,836                         | 70,461                              | (109,359)                | 407,938                  |
| Income tax provision   | 10,905                          | 21,052                              | (30,550)(e)              | 1,407                    |
| Minority interests   | 10,267                          | 3,874                               |                          | 14,141                   |
| <b>NET INCOME</b>  | <b>\$ 425,664</b>               | <b>\$ 45,535</b>                    | <b>\$ (78,809)</b>       | <b>\$ 392,390</b>        |
| <br>   |                                 |                                     |                          |                          |
| Basic earnings per share                                     | \$ 1.61                         | \$ 0.17                             | \$ (0.30)                | \$ 1.49                  |
| Diluted earnings per share                                   | \$ 1.58                         | \$ 0.17                             | \$ (0.29)                | \$ 1.46                  |
| <br>   |                                 |                                     |                          |                          |
| Weighted average shares outstanding<br>basic                 | 263,631,134                     | 263,631,134                         | 263,631,134              | 263,631,134              |
| Weighted average shares outstanding<br>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<br>Energy<br>Historical | Excel<br>Coal<br>Limited<br>Historical | Pro forma<br>Adjustments<br>(g) | Total               |
|--|---------------------------------|--|---------------------------------|---------------------|
| <b>Assets</b>  |                                 |  |                                 |                     |
| 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              |
| <b>Total current assets</b>                          | <b>1,018,199</b>                | <b>89,454</b>                          | <b>18,094</b>                   | <b>1,125,747</b>    |
| 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                                | (285,779)(f)                    | 526,780             |
| <b>Total assets</b>                                  | <b>\$ 7,228,537</b>             | <b>\$ 816,805</b>                      | <b>\$ 1,306,772</b>             | <b>\$ 9,352,114</b> |
| <b>Liabilities and Stockholders Equity</b>           |                                 |  |                                 |                     |
| <b>Current liabilities</b>                           |                                 |  |                                 |                     |
| Current maturities of long-term debt                 | \$ 77,691                       | \$ 17,122                              | \$ (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             |
| <b>Total current liabilities</b>                     | <b>1,011,389</b>                | <b>152,439</b>                         | <b>(17,122)</b>                 | <b>1,146,706</b>    |
| Long-term debt, less current maturities              | 1,624,912                       | 271,941(h)                             | 1,316,206(h)                    | 3,213,059           |
| 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             |
| <b>Total liabilities</b>                             | <b>4,843,399</b>                | <b>482,184</b>                         | <b>1,622,084</b>                | <b>6,947,667</b>    |
| Minority interests                                   | 15,506                          | 18,298                                 |                                 | 33,804              |
| <b>Stockholders equity</b>                           |                                 |  |                                 |                     |
| Common stock   | 2,667                           | 215,368                                | (215,368)(g)                    | 2,667               |
| Additional paid-in capital                           | 1,562,113                       |  |                                 | 1,562,113           |
| Retained earnings                                    | 956,790                         | 99,944                                 | (99,944)(g)                     | 956,790             |
| Accumulated other comprehensive income (loss)        | (48,245)                        | 1,011                                  |                                 | (47,234)            |

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|  |              |            |              |              |
|--|--------------|------------|--------------|--------------|
| Treasury stock                             | (103,693)    |            |              | (103,693)    |
| Total stockholders' equity                 | 2,369,632    | 316,323    | (315,312)    | 2,370,643    |
| Total liabilities and stockholders' equity | \$ 7,228,537 | \$ 816,805 | \$ 1,306,772 | \$ 9,352,114 |

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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<br>31,<br>2005 | September<br>30,<br>2006 |
|--|-------------------------|--------------------------|
| Revolving credit facility (1)                  | 1,126                   | 1,408                    |
| Term loan facility (2)                         | 47,917                  | 40,594                   |
| 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) | 25,321                  | 18,991                   |
| Surety bond expense (9)                        | 11,095                  | 6,043                    |
| Other long-term debt (10)                      | 3,172                   | 1,966                    |
| <br>   |                         |                          |
| Total pro forma interest expense               | 226,779                 | 172,004                  |
| Less historical interest expense               | 102,939                 | 79,130                   |
| <br>   |                         |                          |
| Net adjustment to interest expense             | 123,840                 | 92,874                   |

(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. To the extent debt outstanding under the revolving credit facility is not repaid with proceeds from the convertible junior subordinated

debentures,  
interest expense  
would increase  
by  
approximately  
\$4.0 million.

- (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 assumed rate of 5.0%. For each percentage point by which the average interest rate on the convertible junior subordinated debentures deviates from 5.0%, this adjustment would change by approximately \$1.0 million per \$100 million of convertible junior subordinated debentures.

- (9) Reflects historical fees for surety bonds outstanding.
- (10) Reflects historical letter of credit fees, interest on capital leases and the effect of interest rate swaps.
- (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  
\$11.2 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<br>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)                 |
| <b>Total</b>   | <b>\$ 1,573,769</b>     |

(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  
\$500 million of  
convertible  
junior  
subordinated  
debentures and  
utilize the  
proceeds to  
repay the  
outstanding  
balance under  
the Revolving  
Credit Facility,  
and additional  
amounts related  
to the Term  
Loan Facility  
and Excel's  
outstanding

debt. A  
summary of  
these  
transactions are  
as follows:

|   |            |
|---|------------|
| Delayed draw term loan  | \$ 510.0   |
| Senior notes issued   | 896.9      |
| Convertible junior subordinated debentures  | 500.0      |
| Excel debt assumed  | 289.0      |
|   | 2,195.9    |
| Repayment of debt under revolving credit facility, term loan and assumed Excel debt | (607.8)    |
| Additional debt to acquire Excel  | \$ 1,588.1 |



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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 13, 2006

/s/ RICHARD A. NAVARRE

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

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