

PEABODY ENERGY CORP

Form 8-K

December 15, 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. Peabody funded the acquisition with net proceeds from its registered offering of senior notes and borrowings under its senior unsecured credit facility. On December 14, 2006, Peabody priced an offering of \$675,000,000 aggregate principal amount of convertible junior subordinated debentures (the Debentures ). The net proceeds of this offering will be used to refinance certain borrowings under Peabody s senior unsecured credit facility. In addition, Peabody granted the underwriters the right to purchase up to an additional \$75,000,000 aggregate principal amount of Debentures solely to cover overallocments.

**Unaudited Pro Forma Combined Financial Statements**

The following unaudited pro forma combined financial statements give effect to Peabody s acquisition of Excel completed on October 25, 2006, the related acquisition financings and the refinancing of borrowings under our senior unsecured credit facility through the issuance of convertible junior subordinated debentures. The unaudited pro forma combined balance sheet as of September 30, 2006 is presented as if the acquisition and the related financings had occurred on that date. The unaudited pro forma combined statements of operations for the nine months ended September 30, 2006 and for the year ended December 31, 2005 assume that the acquisition had occurred at the beginning of each respective fiscal year. The acquisition and the related financings are accounted for using the purchase method of accounting, with the purchase price allocated to the assets acquired and liabilities assumed based on estimated fair values, pending the completion of independent appraisals.

The unaudited pro forma combined financial statements should be read in conjunction with (i) Peabody s historical audited financial statements and Management s Discussion and Analysis of Financial Condition and Results of Operations filed in our Annual Report on Form 10-K for the year ended December 31, 2005, (ii) our historical unaudited financial statements and Management s Discussion and Analysis of Financial Condition and Results of Operations filed in our Quarterly Report on Form 10-Q for the nine months ended September 30, 2006 and (iii) the historical audited financial statements of Excel, previously included in a Current Report on Form 8-K, filed on October 2, 2006.

The unaudited pro forma combined financial statements are for informational purposes only and are not necessarily indicative of the financial position that would have been obtained or the results of operations that would have occurred if the acquisition and the related financings had been consummated on the dates indicated, nor are they necessarily indicative of our financial position or results of operations in the future. The pro forma adjustments, as described in the Notes to Pro Forma Combined Financial Statements, are based upon available information and upon assumptions that Peabody s management believes are reasonable. The actual amounts that Peabody records based on its final assessment of fair values may differ materially from the information presented in these unaudited pro forma combined financial statements.

Due to differing fiscal years between Peabody, which ends its fiscal year on December 31, and Excel, which ends its fiscal year on June 30, calculations were necessary to conform Excel s financial information to the time periods presented.

Information related to Excel included in the unaudited pro forma combined balance sheet as of September 30, 2006 was translated from A\$ to US\$ using a foreign exchange rate of A\$1.00=US\$0.7480, based on the closing rate on September 29, 2006. The unaudited pro forma combined statement of operations for the nine months ended September 30, 2006 was translated from A\$ to US\$ using an exchange rate of A\$1.00=US\$0.7480, based on the average closing rates for the period from January 3, 2006 through September 29, 2006. The unaudited pro forma combined statement of operations for the year ended December 31, 2005 was translated from A\$ to US\$ using an exchange rate of A\$1.00=US\$0.7622, based on the average closing rates for the period from January 4, 2005 through December 30, 2005. Asset retirement obligation expense and depreciation, depletion and amortization were translated from A\$ to US\$ using a historical exchange rate equal to the opening rate on January 4, 2005 of A\$1.00=US\$0.7790 for all periods presented.

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PEABODY ENERGY CORPORATION  
 UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS  
 YEAR ENDED DECEMBER 31, 2005

(Dollars in thousands, except per share data)

	Peabody Energy Historical	Excel Coal Limited Historical	Pro Forma Adjustments	Pro Forma as Adjusted
<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 amortization	316,114	17,864	19,800(b)	353,778
Asset retirement obligation expense	35,901	4,279		40,180
Selling and administrative expenses	189,802	16,914		206,716
Net (gain) loss on disposal or exchange of assets	(101,487)	1		(101,486)
Income from equity affiliates	(30,096)	(3,445)		(33,541)
<b>OPERATING PROFIT</b>	518,383	71,216	(26,800)	562,799
Interest expense	102,939	7,997	(7,997)(c)	102,939
Interest income	(10,641)	(4,261)	121,020(d) 4,261(c)	121,020 (10,641)
<b>INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS</b>				
	426,085	67,480	(144,084)	349,481
Income tax provision (benefit)	960	18,695	(40,285)(e)	(20,630)
Minority interests	2,472	4,755		7,227
<b>NET INCOME</b>	\$ 422,653	\$ 44,030	\$ (103,799)	\$ 362,884
Basic earnings per share	\$ 1.62	\$ 0.17	\$ (0.40)	\$ 1.39
Diluted earnings per share	\$ 1.58	\$ 0.16	\$ (0.39)	\$ 1.35
Weighted average shares outstanding basic	261,519,424	261,519,424	261,519,424	261,519,424
Weighted average shares outstanding diluted	268,013,476	268,013,476	268,013,476	268,013,476

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PEABODY ENERGY CORPORATION  
 UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS  
 NINE MONTHS ENDED SEPTEMBER 30, 2006

(Dollars in thousands, except per share data)

	Peabody Energy Historical	Excel Coal Limited Historical	Pro Forma Adjustments	Pro Forma as Adjusted
<b>REVENUES</b>				
Sales	\$ 3,805,838	\$ 292,227		\$ 4,098,065
Other revenues	87,348	2,805		90,153
Total revenues	3,893,186	295,032		4,188,218
<b>COSTS AND EXPENSES</b>				
Operating costs and expenses	3,078,880	183,110	7,000(a)	3,268,990
Depreciation, depletion and amortization	263,103	17,503	14,430(b)	295,036
Asset retirement obligation expense	25,911	1,933		27,844
Selling and administrative expenses	118,793	17,404		136,197
Net gain on disposal or exchange of assets	(94,309)	(453)		(94,762)
(Income) loss from equity affiliates	(19,132)	129		(19,003)
<b>OPERATING PROFIT</b>	519,940	75,406	(21,430)	573,916
Interest expense	79,130	6,703	(6,703)(c)	79,130
Interest income	(6,026)	(1,758)	90,758(d) 1,758(c)	90,758 (6,026)
<b>INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS</b>				
	446,836	70,461	(107,243)	410,054
Income tax provision	10,905	21,052	(29,593)(e)	2,364
Minority interests	10,267	3,874		14,141
<b>NET INCOME</b>	\$ 425,664	\$ 45,535	\$ (77,650)	\$ 393,549
Basic earnings per share	\$ 1.61	\$ 0.17	\$ (0.29)	\$ 1.49
Diluted earnings per share	\$ 1.58	\$ 0.17	\$ (0.29)	\$ 1.46
Weighted average shares outstanding basic	263,631,134	263,631,134	263,631,134	263,631,134
Weighted average shares outstanding diluted	269,320,801	269,320,801	269,320,801	269,320,801

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

	Peabody Energy Historical	Excel Coal Limited Historical	Pro forma Adjustments	Total
<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	(276,841)(f)	535,718
<b>Total assets</b>	<b>\$ 7,228,537</b>	<b>\$ 816,805</b>	<b>\$ 1,315,710</b>	<b>\$ 9,361,052</b>
<b>Liabilities and Stockholders Equity</b>				
<b>Current liabilities</b>				
Current maturities of long-term debt	\$ 77,691	\$ 17,122(h)	\$ (17,122)(h)	\$ 77,691
Liabilities from coal trading activities	80,695			80,695
Accounts payable and accrued expenses	853,003	135,317		988,320
<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)	1,325,144(h)	3,221,997
Deferred income taxes	254,387	24,220		278,607
Asset retirement obligations	407,365	7,171		414,536
Workers compensation obligations	240,312			240,312
Accrued postretirement benefit costs	975,413	3,357		978,770
Other noncurrent liabilities	329,621	23,056	323,000(g)	675,677
<b>Total liabilities</b>	<b>4,843,399</b>	<b>482,184</b>	<b>1,631,022</b>	<b>6,956,605</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	\$ 1,315,710	\$ 9,361,052

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**NOTES TO PRO FORMA COMBINED FINANCIAL STATEMENTS**

- (a) To adjust operating costs and expenses based on our estimated fair value adjustment to coal inventory.
- (b) To adjust depreciation, depletion and amortization based on the portion of the acquisition cost allocated to long-lived assets.
- (c) To reverse historical interest expense incurred by Excel, as well as historical interest income earned by Excel.
- (d) Represents pro forma interest expense, including the amortization of debt issuance costs where applicable, resulting from our new capital structure (dollars in thousands):

Year Ended

Nine Months  
Ended

	December 31, 2005	September 30, 2006
Revolving credit facility (1)	1,126	1,408
Term loan facility (2)	30,711	27,689
7 7/8% Senior notes (3)	20,150	15,113
7 3/8% Senior notes (4)	48,718	36,538
6 7/8% Senior notes (5)	47,746	36,012
5 7/8% Senior notes (6)	14,879	10,894
Subordinated note (7)	6,656	4,445
Convertible junior subordinated debentures (8)	32,639	24,479
Surety bond expense (9)	11,095	6,043
Other long-term debt (10)	10,239	7,267
Total pro forma interest expense	223,959	169,888
Less historical interest expense	102,939	79,130
Net adjustment to interest expense	121,020	90,758

(1) Reflects pro forma amortization of debt issuance costs. Borrowings outstanding under this facility were limited to \$312.0 million at September 30, 2006, which is assumed to be replaced by the convertible junior subordinated debentures.

(2) Reflects pro forma interest expense on our term loan facility at an assumed LIBOR plus 1% interest rate of 6.3%.

- (3) Reflects pro forma interest expense on the 2026 senior notes at an interest rate of 7.88%.
- (4) Reflects pro forma interest expense on the 2016 senior notes at an interest rate of 7.38%.
- (5) Reflects historical interest expense on our 6 7/8% senior notes.
- (6) Reflects historical interest expense on our 5 7/8% senior notes.
- (7) Reflects historical interest expense on our 5% subordinated note.
- (8) Reflects pro forma interest expense on our convertible junior subordinated debentures at an interest rate of 4.75%. The underwriters have been granted the right to purchase up to an additional \$75 million aggregate principal

amount of convertible junior subordinated debentures to cover overallotments, which would result in proceeds, net of issuance costs, of up to \$73.2 million. Assuming the full purchase right is exercised, interest expense would increase by \$3.6 million for the additional convertible junior subordinated debentures based on a 4.75% interest rate. Peabody intends to utilize the net proceeds to further pay down the term loan facility, which would result in a reduction to interest expense of \$4.6 million, based on a 6.3% interest rate.

- (9) Reflects historical fees for surety bonds outstanding.
- (10) Reflects historical letter of credit fees, interest on

capital leases,  
the effect of  
interest rate  
swaps and  
interest on  
Excel debt  
assumed in the  
acquisition.

(e) To record  
income tax  
expense  
(benefit) on the  
pro forma  
adjustments to  
results of  
operations using  
an assumed  
Australian  
effective tax  
rate of 28%.

(f) The  
September 30,  
2006 historical  
Peabody  
balance sheet  
includes an  
investment of  
\$307.8 million  
for a 19.99%  
interest in  
Excel. The pro  
forma  
adjustment  
reversed this  
investment and  
assumes  
capitalization of  
\$20.2 million of  
debt issue costs  
incurred in  
connection with  
the convertible  
junior  
subordinated  
debentures and  
\$10.8 million of  
debt issue costs  
incurred related  
to Peabody s

issuance of  
\$900 million  
aggregate  
principal  
amount of  
senior notes in  
October 2006.

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(g) To record the purchase transaction and allocate the \$1,525 million purchase price (and \$49 million of transaction costs) to the assets acquired and the liabilities assumed based on the estimated fair values of each item as follows (dollars in thousands):

	Estimated Fair Value
Current assets	\$ 96,454
Property, plant, equipment and mine development, net	2,015,405
Goodwill	99,457
Investments and other assets	186,946
Current liabilities	(135,317)
Long-term debt, including current maturities	(289,063)
Asset retirement obligations	(11,530)
Accrued postretirement benefit costs	(3,357)
Other noncurrent liabilities	(365,917)
Minority interest	(18,298)
Accumulated other comprehensive income	(1,011)
<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  
\$675 million  
aggregate  
principal  
amount of  
convertible  
junior  
subordinated  
debentures,  
subject to the  
right of  
underwriters to  
purchase up to  
an additional  
\$75 million  
aggregate  
principal  
amount to cover  
overallotments,

and utilize the proceeds to repay the outstanding balance under the revolving credit facility and additional amounts related to the term loan facility. A summary of these transactions are as follows:

Term loan facility	\$ 510.0
Senior notes issued	896.9
Convertible junior subordinated debentures	675.0
Excel debt assumed	289.0
	2,370.9
Repayment of debt under revolving credit facility and term loan facility	(773.8)
Additional debt to acquire Excel	\$ 1,597.1

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**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

**PEABODY ENERGY CORPORATION**

Date: December 15, 2006

/s/ RICHARD A. NAVARRE

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

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