PEABODY ENERGY CORP
Form 10-Q
November 06, 2009

Table of Contents

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 September 30, 2009

or

o **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 o

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 o

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. (Check one):

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

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

There were 267,835,698 shares of common stock with a par value of $0.01 per share outstanding at October 30, 2009.

INDEX

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

PEABODY ENERGY CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(Dollars in millions, except per share data)			
Revenues				
Sales	$ 1,537.0	$ 1,744.2	$ 4,023.5	$ 4,328.1
Other revenues	130.0	145.4	434.7	339.0
Total revenues	1,667.0	1,889.6	4,458.2	4,667.1
Costs and Expenses				
Operating costs and expenses	1,261.4	1,232.9	3,310.2	3,256.4
Depreciation, depletion and amortization	108.0	101.7	305.5	284.4
Asset retirement obligation expense	12.8	15.5	31.8	31.2
Selling and administrative expenses	55.3	44.2	148.8	138.2
Other operating (income) loss:				
Net gain on disposal or exchange of assets	(2.8)	(4.8)	(16.2)	(67.8)
(Income) loss from equity affiliates	12.0	3.5	22.7	(2.9)
Operating profit	220.3	496.6	655.4	1,027.6
Interest expense	52.3	54.4	151.6	171.6
Interest income	(2.2)	(3.5)	(6.2)	(7.0)
Income from continuing operations before income taxes	170.2	445.7	510.0	863.0
Income tax provision	57.0	62.5	165.6	155.4
Income from continuing operations, net of income taxes	113.2	383.2	344.4	707.6
Income (loss) from discontinued operations, net of income taxes	(2.4)	(11.4)	23.6	(42.1)
Net income	110.8	371.8	368.0	665.5
Less: Net income attributable to noncontrolling interests	4.0	2.3	12.0	5.7
Net income attributable to common stockholders	$ 106.8	$ 369.5	$ 356.0	$ 659.8

Income From Continuing Operations

Basic earnings per share	$ 0.41	$ 1.40	$ 1.24	$ 2.59
Diluted earnings per share	$ 0.41	$ 1.39	$ 1.23	$ 2.57
Net Income Attributable to Common Stockholders				
Basic earnings per share	$ 0.40	$ 1.36	$ 1.33	$ 2.43
Diluted earnings per share	$ 0.40	$ 1.35	$ 1.32	$ 2.42
Dividends declared per share	$ 0.06	$ 0.06	$ 0.18	$ 0.18

See accompanying notes to unaudited condensed consolidated financial statements.

1

Table of Contents

PEABODY ENERGY CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

	(Unaudited) September 30, 2009	December 31, 2008
	(Amounts in millions, except share and per share data)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 790.8	$ 449.7
Accounts receivable, net of allowance for doubtful accounts of $17.7 at September 30, 2009 and $24.8 at December 31, 2008	339.8	382.2
Inventories	357.2	276.2
Assets from coal trading activities, net	360.4	662.8
Deferred income taxes	12.5	1.7
Other current assets	228.4	198.7
Total current assets	2,089.1	1,971.3
Property, plant, equipment and mine development		
Land and coal interests	7,505.4	7,349.4
Buildings and improvements	887.7	858.1
Machinery and equipment	1,315.1	1,245.1
Less: accumulated depreciation, depletion and amortization	(2,480.0)	(2,155.3)
Property, plant, equipment and mine development, net	7,228.2	7,297.3
Investments and other assets	542.2	427.0
Total assets	$ 9,859.5	$ 9,695.6
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Current maturities of long-term debt	$ 13.7	$ 17.0
Liabilities from coal trading activities, net	121.3	304.2
Accounts payable and accrued expenses	1,188.4	1,535.0
Total current liabilities	1,323.4	1,856.2
Long-term debt, less current maturities	2,763.2	2,776.6
Deferred income taxes	344.9	20.8
Asset retirement obligations	431.2	418.7
Accrued postretirement benefit costs	767.3	766.0
Other noncurrent liabilities	444.8	737.8
Total liabilities	6,074.8	6,576.1
Stockholders equity		

Preferred Stock $0.01 per share par value; 10,000,000 shares authorized, no shares issued or outstanding as of September 30, 2009 or December 31, 2008		
Series A Junior Participating Preferred Stock 1,500,000 shares authorized, no shares issued or outstanding as of September 30, 2009 or December 31, 2008		
Perpetual Preferred Stock 750,000 shares authorized, no shares issued or outstanding as of September 30, 2009 or December 31, 2008		
Series Common Stock $0.01 per share par value; 40,000,000 shares authorized, no shares issued or outstanding as of September 30, 2009 or December 31, 2008		
Common Stock $0.01 per share par value; 800,000,000 shares authorized, 276,370,726 shares issued and 267,728,748 shares outstanding as of September 30, 2009 and 275,211,240 shares issued and 266,644,979 shares outstanding as of December 31, 2008	2.8	2.8
Additional paid-in capital	2,054.4	2,020.2
Retained earnings	2,110.3	1,802.4
Accumulated other comprehensive loss	(65.9)	(388.5)
Treasury shares, at cost: 8,641,978 shares as of September 30, 2009 and 8,566,261 shares as of December 31, 2008	(321.0)	(318.8)
Peabody Energy Corporation s stockholders equity	3,780.6	3,118.1
Noncontrolling interests	4.1	1.4
Total stockholders equity	3,784.7	3,119.5
Total liabilities and stockholders equity	$ 9,859.5	$ 9,695.6

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

PEABODY ENERGY CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30,	
	2009	2008
	(Dollars in millions)	
Cash Flows From Operating Activities		
Net income	$ 368.0	$ 665.5
(Income) loss from discontinued operations, net of income taxes	(23.6)	42.1
Income from continuing operations, net of income taxes	344.4	707.6
Adjustments to reconcile income from continuing operations, net of income taxes to net cash provided by operating activities:		
Depreciation, depletion and amortization	305.5	284.4
Deferred income taxes	99.6	(25.7)
Share-based compensation	28.0	26.1
Amortization of debt discount and debt issuance costs	5.8	5.7
Net gain on disposal or exchange of assets	(16.2)	(67.8)
(Income) loss from equity affiliates	22.7	(2.9)
Revenue recovery on coal supply agreement		(56.9)
Dividends received from equity affiliates		19.9
Changes in current assets and liabilities:		
Accounts receivable, including securitization	43.5	(149.1)
Inventories	(81.0)	(10.7)
Net assets from coal trading activities	68.8	(163.1)
Other current assets	15.3	5.0
Accounts payable and accrued expenses	(146.5)	236.8
Asset retirement obligations	23.2	22.9
Workers compensation obligations	2.0	2.5
Accrued postretirement benefit costs	5.1	(1.2)
Contributions to pension plans	(37.7)	(20.2)
Distributions to noncontrolling interests	(9.3)	(1.6)
Other, net	(9.0)	(13.2)
Net cash provided by continuing operations	664.2	798.5
Net cash used in discontinued operations	(6.2)	(106.0)
Net cash provided by operating activities	658.0	692.5
Cash Flows From Investing Activities		
Additions to property, plant, equipment and mine development	(143.9)	(172.5)
Acquisition of noncontrolling interests (Millennium Mine)		(106.9)
Investment in Prairie State Energy Campus	(41.6)	(28.5)
Federal coal lease expenditures	(123.6)	(178.5)
Proceeds from disposal of assets, net of notes receivable	47.5	36.3
Additions to advance mining royalties	(4.9)	(4.1)
Investments in equity affiliates and joint ventures	(10.0)	(2.7)

Net cash used in continuing operations	(276.5)	(456.9)
Net cash used in discontinued operations		(1.6)
Net cash used in investing activities	(276.5)	(458.5)
Cash Flows From Financing Activities		
Change in revolving line of credit		(97.7)
Payments of long-term debt	(11.4)	(27.6)
Common stock repurchase		(58.3)
Dividends paid	(48.1)	(48.9)
Excess tax benefit related to stock options exercised		27.5
Proceeds from stock options exercised	1.1	13.7
Change in bank overdraft facility	12.9	10.8
Proceeds from employee stock purchases	5.1	5.2
Net cash used in financing activities	(40.4)	(175.3)
Net change in cash and cash equivalents	341.1	58.7
Cash and cash equivalents at beginning of period	449.7	45.3
Cash and cash equivalents at end of period	$ 790.8	$ 104.0

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

PEABODY ENERGY CORPORATION
UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY

	Peabody Energy Corporation s Stockholders Equity						
		Additional			Accumulated		Total
					Other		
		Paid-in		Retained	Comprehensive	Noncontrolling	Stockholders
	Common Stock	Capital	Treasury Stock	Earnings	Loss	Interests	Equity
	(Dollars in millions)						
December 31, 2008	$ 2.8	$ 2,020.2	$ (318.8)	$ 1,802.4	$ (388.5)	$ 1.4	$ 3,119.5
Comprehensive income:							
Net income				356.0		12.0	368.0
Increase in fair value of cash flow hedges (net of $210.5 tax provision)					321.2		321.2
Postretirement plans and workers compensation obligations (net of $0.9 tax provision)					1.4		1.4
Comprehensive income				356.0	322.6	12.0	690.6
Dividends paid				(48.1)			(48.1)
Employee stock purchases		5.1					5.1
Share-based compensation		28.0					28.0
Stock options exercised		1.1					1.1
Shares relinquished			(2.2)				(2.2)
Distributions to noncontrolling interests						(9.3)	(9.3)
September 30, 2009	$ 2.8	$ 2,054.4	$ (321.0)	$ 2,110.3	$ (65.9)	$ 4.1	$ 3,784.7

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

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. All intercompany transactions, profits and balances have been eliminated in consolidation.

The accompanying condensed consolidated financial statements as of September 30, 2009 and for the three and nine months ended September 30, 2009 and 2008, and the notes thereto, are unaudited. However, in the opinion of management, these financial statements reflect all normal, recurring adjustments necessary for a fair presentation of the results of the periods presented. The balance sheet information as of December 31, 2008 has been derived from the Company s audited consolidated balance sheet as provided in the Company s Current Report on Form 8-K filed with the Securities and Exchange Commission (SEC) on August 6, 2009. The results of operations for the nine months ended September 30, 2009 are not necessarily indicative of the results to be expected for future quarters or for the year ending December 31, 2009.

The Company classifies items within discontinued operations in the unaudited condensed consolidated statements of operations when the operations and cash flows of a particular component (defined as operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity) of the Company have been (or will be) eliminated from the ongoing operations of the Company as a result of a disposal transaction, and the Company will no longer have any significant continuing involvement in the operations of that component. See Note 4 for additional details related to discontinued operations.

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

Newly Adopted Accounting Standards

In May 2009, the Financial Accounting Standards Board (FASB) issued an accounting standard that was effective upon issuance that establishes accounting and disclosure guidance for subsequent events, which are events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The Company evaluated subsequent events after the balance sheet date of September 30, 2009 through the filing of this report with the SEC on November 6, 2009.

In April 2009, the FASB issued an accounting standard which requires disclosures of the fair value of all financial instruments for which it is practicable to estimate that value, whether recognized or not on a company s balance sheet, in interim reporting periods and in financial statements for annual reporting periods. A related standard was also issued in April 2009 which requires entities to disclose the methods and significant assumptions used to estimate the fair value of financial instruments and describe changes in methods and significant assumptions, in both interim and annual financial statements. The Company adopted the standards on June 30, 2009. See Note 15 for further information.

In April 2009, the FASB issued an accounting standard which provides additional guidance for estimating fair value when the volume and level of activity for the asset or liability have significantly decreased. The standard also includes guidance on identifying circumstances that indicate a transaction is not orderly and requires that a reporting entity: (1) disclose in interim and annual periods the inputs and valuation technique(s) used to measure fair value and a discussion of changes in valuation techniques and related inputs, if any, during the period, and (2) define the major category for any equity securities and debt securities to be based on the major security types (nature and risk of the security). The Company adopted the standard on June 30, 2009. While adoption of the standard had an impact on the Company s disclosures, it did not affect the Company s results of operations or financial condition.

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

In June 2008, the FASB issued an accounting standard which addresses whether instruments granted in share-based payment awards that entitle their holders to receive nonforfeitable dividends or dividend equivalents before vesting should be considered participating securities and need to be included in the earnings allocation in computing earnings per share (EPS) under the two-class method. The two-class method is an earnings allocation formula that determines EPS for each class of common stock and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings. In accordance with the standard, the Company s unvested restricted stock awards are considered participating securities because they entitle holders to receive nonforfeitable dividends during the vesting term. In applying the two-class method, undistributed earnings are allocated between common shares and unvested restricted stock awards. The standard became effective for the Company on January 1, 2009 where the two-class method of computing basic and diluted EPS was applied for all periods presented. See Note 12 for additional information.

In March 2008, the FASB issued an accounting standard which expands the disclosure requirements for derivative instruments and hedging activities. The standard specifically requires entities to provide enhanced disclosures addressing the following: (1) how and why an entity uses derivative instruments, (2) how derivative instruments and related hedged items are accounted for under the Derivatives and Hedging topic of the FASB Accounting Standards Codification (ASC), and (3) how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. The standard was effective for the Company for the fiscal year beginning January 1, 2009. While the standard had an impact on the Company s disclosures, it did not affect the Company s results of operations or financial condition. These additional disclosures are included in Note 15.

In May 2008, the FASB issued an accounting standard which clarifies that convertible debt instruments that may be settled in cash upon conversion, including partial cash settlement, are not considered debt instruments within the scope of the Debt topic of the FASB ASC. The standard also specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the issuer s nonconvertible debt borrowing rate when recognizing interest cost in subsequent periods. The standard was effective for the Company for the fiscal year beginning January 1, 2009. Prior period balances in this report have been adjusted to conform with these provisions.

In December 2007, the FASB issued an accounting standard which establishes accounting and reporting guidance for noncontrolling interests in partially-owned consolidated subsidiaries and the loss of control of subsidiaries. The standard requires noncontrolling interests (minority interests) to be reported as a separate component of equity. In addition, the standard requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. The standard was effective for the Company for the fiscal year beginning January 1, 2009. Prior period balances in this report have been adjusted to conform with these provisions.

In December 2007, the FASB issued an accounting standard which changes the principles and requirements for the recognition and measurement of identifiable assets acquired, liabilities assumed and any noncontrolling interest of an acquiree in the financial statements of an acquirer. This standard also provides for the recognition and measurement of goodwill acquired in a business combination and related disclosure. This standard applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning January 1, 2009. In April 2009, the FASB issued additional guidance on this topic, which amends and clarifies the initial recognition and measurement, subsequent measurement and accounting and related disclosures arising from contingencies in a business combination. Under this guidance, assets acquired and liabilities assumed in a business combination that arise from contingencies should be recognized at fair value on the acquisition date if fair value can be determined during the measurement period. If fair value cannot be determined, companies should typically account for the acquired contingencies using existing guidance. This standard is effective for business combinations with an acquisition date that is on or after the beginning of the first annual reporting period beginning January 1, 2009.

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

Accounting Standards Not Yet Implemented

In August 2009, the FASB issued accounting guidance that clarified the fair value measurement of liabilities in circumstances in which a quoted price in an active market for the identical liability is not available. In those circumstances, an entity is required to measure fair value utilizing one or more of the following techniques: (1) a valuation technique that uses the quoted market price of an identical liability or similar liabilities when traded as assets; or (2) another valuation technique that is consistent with the principles of ASC Topic 820, such as a present value technique or market approach. The guidance also clarified that when estimating the fair value liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of a liability. Additionally, the guidance clarified that both a quoted price in an active market for the identical liability at the measurement date and the quoted price for the identical liability when traded as an asset in an active market when no adjustments to the quoted price of the asset are required are Level 1 fair value measurements. The guidance is effective for the first reporting period, including interim periods, after issuance, which is the fourth quarter of 2009 for the Company. The Company is currently evaluating the effect, if any, the guidance will have on its results of operations and financial condition.

In June 2009, the FASB issued accounting guidance which modifies how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The guidance clarifies that the determination of whether a company is required to consolidate an entity is based on, among other things, an entity s purpose and design and a company s ability to direct the activities of the entity that most significantly impact the entity s economic performance. The guidance requires an ongoing reassessment of whether a company is the primary beneficiary of a variable interest entity. It also requires additional disclosures about a company s involvement in variable interest entities and any significant changes in risk exposure due to that involvement. The guidance is applicable for annual periods beginning after November 15, 2009 (January 1, 2010 for the Company). The Company is currently evaluating the effect, if any, the guidance will have on its results of operations and financial condition.

In June 2009, the FASB issued an accounting standard that seeks to improve the relevance, representational faithfulness and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance and cash flows; and a transferor s continuing involvement, if any, in transferred financial assets. The standard is effective for annual periods beginning after November 15, 2009 (January 1, 2010 for the Company). The Company is currently evaluating the effect, if any, the standard will have on its results of operations, financial condition, or cash flows.

In December 2008, the FASB issued an accounting standard to provide for additional transparency on an employer s disclosures about plan assets of a defined benefit pension or other postretirement plan, including the concentrations of risk in those plans. The effective date of the standard is for fiscal years and interim periods beginning after December 15, 2009 (January 1, 2010 for the Company). While the adoption of this standard will have an impact on the Company s disclosures, it will not affect the Company s results of operations or financial condition.

(3) Acquisition of Noncontrolling Interests

In the third quarter of 2008, the Company expanded its Australia coal presence by purchasing the remaining 15.4% share of the Millennium Mine in Queensland, Australia from the former noncontrolling shareholders for $106.9 million. The purchase price in excess of the noncontrolling interest book value was preliminarily allocated to land and coal interests in the amount of $55.1 million and deferred taxes in the amount of $47.4 million. During the third quarter of 2009, a purchase price allocation adjustment was recorded, which reallocated $3.5 million to deferred taxes and reduced land and coal interests by the same a