PEABODY ENERGY CORP
Form 10-Q
November 08, 2013

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, 2013
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 269,831,173 shares of the registrant's common stock (par value of $0.01 per share) outstanding at November 1, 2013.

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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,	
	2013	2012	2013	2012
	(Dollars in millions, except per share data)			
Revenues				
Sales	$1,621.4	$1,797.2	$4,787.2	$5,282.0
Other revenues	176.2	261.6	483.7	778.6
Total revenues	1,797.6	2,058.8	5,270.9	6,060.6
Costs and expenses				
Operating costs and expenses (exclusive of items shown separately below)	1,432.1	1,501.3	4,258.7	4,389.1
Depreciation, depletion and amortization	186.4	172.5	542.8	470.7
Asset retirement obligation expenses	13.4	21.1	50.7	53.3
Selling and administrative expenses	55.0	68.7	184.1	202.4
Other operating (income) loss:				
Net gain on disposal or exchange of assets	(4.1)	(0.2)	(49.9)	(7.6)
Asset impairment	—	7.7	21.5	7.7
Loss from equity affiliates	2.6	21.2	35.6	50.5
Operating profit	112.2	266.5	227.4	894.5
Interest expense	111.0	99.4	323.1	308.3
Interest income	(4.2)	(5.1)	(11.2)	(19.7)
Income (loss) from continuing operations before income taxes	5.4	172.2	(84.5)	605.9
Income tax (benefit) provision	(18.6)	49.3	(199.6)	85.5
Income from continuing operations, net of income taxes	24.0	122.9	115.1	520.4
Loss from discontinued operations, net of income taxes	(43.1)	(81.3)	(66.5)	(92.7)
Net (loss) income	(19.1)	41.6	48.6	427.7
Less: Net income (loss) attributable to noncontrolling interests	7.0	(1.3)	7.8	7.4
Net (loss) income attributable to common stockholders	$(26.1)	$42.9	$40.8	$420.3
Income from continuing operations:				
Basic earnings per share	$0.06	$0.46	$0.40	$1.89
Diluted earnings per share	$0.06	$0.46	$0.40	$1.89
Net (loss) income attributable to common stockholders:				
Basic earnings per share	$(0.10)	$0.16	$0.15	$1.55
Diluted earnings per share	$(0.10)	$0.16	$0.15	$1.55
Dividends declared per share	$0.085	$0.085	$0.255	$0.255

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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(Dollars in millions)			
Net (loss) income	$(19.1)	$41.6	$48.6	$427.7
Other comprehensive income (loss), net of income taxes:				
Net change in unrealized holding gains (losses) on available-for-sale securities (net of respective tax provisions (benefits) of $1.8 ($3.0), $1.7 and ($11.2))				
Unrealized holding gains (losses) on available-for-sale securities	2.9	(5.1)	(10.7)	(19.2)
Less: Reclassification for realized losses included in net income	—	—	13.3	—
Net change in unrealized gains (losses) on available-for-sale securities	2.9	(5.1)	2.6	(19.2)
Net unrealized (losses) gains on cash flow hedges (net of respective tax provisions (benefit) of $6.7, $36.8, ($221.3) and $39.7)				
Increase (decrease) in fair value of cash flow hedges	27.3	111.5	(217.7)	302.0
Less: Reclassification for realized gains included in net income	(34.8)	(57.7)	(175.5)	(179.2)
Net unrealized (losses) gains on cash flow hedges	(7.5)	53.8	(393.2)	122.8
Amortization of actuarial loss and prior service cost for postretirement plans and workers' compensation obligations (net of respective tax provisions of $8.3, $8.1, $25.0 and $24.2)	14.2	13.9	42.6	41.6
Foreign currency translation adjustment	4.5	13.8	(68.9)	20.4
Other comprehensive income (loss), net of income taxes	14.1	76.4	(416.9)	165.6
Comprehensive (loss) income	(5.0)	118.0	(368.3)	593.3
Less: Comprehensive income (loss) attributable to noncontrolling interests	7.0	(1.3)	7.8	7.4
Comprehensive (loss) income attributable to common stockholders	$(12.0)	$119.3	$(376.1)	$585.9

See accompanying notes to unaudited condensed consolidated financial statements.

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PEABODY ENERGY CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

	(Unaudited) September 30, 2013	December 31, 2012
	(In millions, except per share data)	
ASSETS		
Current assets		
Cash and cash equivalents	$551.3	$558.8
Accounts receivable, net of allowance for doubtful accounts of $4.2 at September 30, 2013 and $13.7 at December 31, 2012	701.7	737.8
Inventories	563.2	548.4
Assets from coal trading activities, net	43.0	52.4
Deferred income taxes	69.5	56.4
Other current assets	359.1	621.7
Total current assets	2,287.8	2,575.5
Property, plant, equipment and mine development		
Land and coal interests	11,051.4	10,947.7
Buildings and improvements	1,904.8	1,784.5
Machinery and equipment	2,617.2	2,699.0
Less: accumulated depreciation, depletion and amortization	(4,125.1)	(3,629.5)
Property, plant, equipment and mine development, net	11,448.3	11,801.7
Investments and other assets	1,154.8	1,431.8
Total assets	$14,890.9	$15,809.0
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Current maturities of long-term debt	$34.2	$47.8
Liabilities from coal trading activities, net	10.0	19.4
Accounts payable and accrued expenses	1,615.3	1,606.9
Total current liabilities	1,659.5	1,674.1
Long-term debt, less current maturities	5,973.3	6,205.1
Deferred income taxes	237.0	577.3
Asset retirement obligations	717.3	687.5
Accrued postretirement benefit costs	954.0	960.7
Other noncurrent liabilities	814.9	765.5
Total liabilities	10,356.0	10,870.2
Stockholders' equity		
Preferred Stock — $0.01 per share par value; 10.0 shares authorized; no shares issued or outstanding as of September 30, 2013 or December 31, 2012	—	—
Perpetual Preferred Stock — 0.8 shares authorized, no shares issued or outstanding as of September 30, 2013 or December 31, 2012	—	—
Series Common Stock — $0.01 per share par value; 40.0 shares authorized, no shares issued or outstanding as of September 30, 2013 or December 31, 2012	—	—
Common Stock — $0.01 per share par value; 800.0 shares authorized, 283.6 shares issued and 269.8 shares outstanding as of September 30, 2013 and 282.3 shares issued and 268.6 shares outstanding as of December 31, 2012	2.8	2.8
Additional paid-in capital	2,328.0	2,286.3

Treasury stock, at cost: 13.8 shares as of September 30, 2013 and 13.7 shares as of December 31, 2012	(464.5)	(461.6)
Retained earnings	3,038.4	3,066.4
Accumulated other comprehensive (loss) income	(405.9)	11.0
Peabody Energy Corporation’s stockholders’ equity	4,498.8	4,904.9
Noncontrolling interests	36.1	33.9
Total stockholders’ equity	4,534.9	4,938.8
Total liabilities and stockholders’ equity	$14,890.9	$15,809.0

See accompanying notes to unaudited condensed consolidated financial statements.

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PEABODY ENERGY CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30,	
	2013	2012
	(Dollars in millions)	
Cash Flows From Operating Activities		
Net income	$48.6	$427.7
Loss from discontinued operations, net of income taxes	66.5	92.7
Income from continuing operations, net of income taxes	115.1	520.4
Adjustments to reconcile income from continuing operations, net of income taxes to net cash provided by operating activities:		
Depreciation, depletion and amortization	542.8	470.7
Noncash interest expense	27.5	15.7
Deferred income taxes	(261.3)	(162.6)
Share-based compensation	39.5	34.9
Asset impairment	21.5	7.7
Net gain on disposal or exchange of assets	(49.9)	(7.6)
Loss from equity affiliates	35.6	50.5
Changes in current assets and liabilities:		
Accounts receivable	54.7	259.0
Change in receivable from accounts receivable securitization program	40.9	(50.0)
Inventories	(15.0)	(117.4)
Net assets from coal trading activities	(41.2)	145.6
Other current assets	11.0	42.7
Accounts payable and accrued expenses	(21.9)	84.6
Asset retirement obligations	35.0	39.8
Accrued postretirement benefit costs	10.0	27.7
Accrued pension costs	37.1	24.7
Other, net	(3.8)	(12.7)
Net cash provided by continuing operations	577.6	1,373.7
Net cash used in discontinued operations	(33.6)	(82.2)
Net cash provided by operating activities	544.0	1,291.5
Cash Flows From Investing Activities		
Additions to property, plant, equipment and mine development	(228.7)	(732.1)
Changes in accrued expenses related to capital expenditures	(102.6)	—
Federal coal lease expenditures	(89.5)	(247.9)
Investment in Prairie State Energy Campus	—	(9.4)
Proceeds from disposal of assets, net of notes receivable	133.3	93.5
Purchases of debt securities	(9.9)	(23.8)
Proceeds from sales and maturities of debt securities	17.7	39.0
Proceeds from the maturity of short-term investments	4.8	—
Contributions to joint ventures	(539.8)	(531.2)
Distributions from joint ventures	576.6	527.7
Advances to related parties	(39.5)	(743.4)
Repayments of loans from related parties	22.7	720.2
Other, net	(4.2)	(3.2)
Net cash used in continuing operations	(259.1)	(910.6)
Net cash used in discontinued operations	(1.0)	(11.2)

Net cash used in investing activities	(260.1)	(921.8)
Cash Flows From Financing Activities		
Repayments of long-term debt	(1,384.0)	(305.7)
Proceeds from long-term debt	1,188.0	—
Common stock repurchase	—	(99.9)
Acquisition of MCG Coal Holdings Pty Ltd noncontrolling interests	—	(49.8)
Dividends paid	(68.8)	(69.1)
Payment of debt issuance costs	(22.8)	—
Repurchase of employee common stock relinquished for tax withholding	(2.9)	(8.3)
Excess tax benefits related to share-based compensation	—	3.6
Other, net	(0.9)	8.4
Net cash used in financing activities	(291.4)	(520.8)
Net change in cash and cash equivalents	(7.5)	(151.1)
Cash and cash equivalents at beginning of period	558.8	799.1
Cash and cash equivalents at end of period	$551.3	$648.0

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 Income (Loss)	Noncontrolling Interests	Total Stockholders' Equity
	(Dollars in millions)						
December 31, 2012	$2.8	$2,286.3	$(461.6)	$3,066.4	$ 11.0	$ 33.9	$ 4,938.8
Net income	—	—	—	40.8	—	7.8	48.6
Net change in unrealized holding gains on available-for-sale securities (net of $1.7 tax provision)	—	—	—	—	2.6	—	2.6
Net unrealized losses on cash flow hedges (net of $221.3 tax benefit)	—	—	—	—	(393.2)	—	(393.2)
Postretirement plans and workers' compensation obligations (net of $25.0 tax provision)	—	—	—	—	42.6	—	42.6
Foreign currency translation adjustment	—	—	—	—	(68.9)	—	(68.9)
Dividends paid	—	—	—	(68.8)	—	—	(68.8)
Share-based compensation	—	39.5	—	—	—	—	39.5
Write off of excess tax benefits related to share-based compensation	—	(4.4)	—	—	—	—	(4.4)
Stock options exercised	—	0.3	—	—	—	—	0.3
Employee stock purchases	—	6.3	—	—	—	—	6.3
Repurchase of employee common stock relinquished for tax withholding	—	—	(2.9)	—	—	—	(2.9)
Distributions to noncontrolling interests	—	—	—	—	—	(5.6)	(5.6)
September 30, 2013	$2.8	$2,328.0	$(464.5)	$3,038.4	$ (405.9)	$ 36.1	$ 4,534.9

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 with any outside shareholder interests 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 2013 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 2012 Annual Report on Form 10-K. 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, 2012 has been derived from the Company’s audited consolidated balance sheet at that date. The results of operations for the three and nine months ended September 30, 2013 are not necessarily indicative of the results that may be expected for future quarters or for the year ending December 31, 2013.

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. Currently effective U.S. GAAP does not provide explicit guidance on the topic. The new presentation guidance will become effective for interim and annual periods beginning after December 15, 2013 (January 1, 2014 for the Company). While the adoption of this guidance may impact the presentation of unrecognized tax benefits in the Company's consolidated balance sheet, it will not affect the Company's results of operations, financial condition or cash flows.

Balance Sheet Offsetting

In December 2011, the FASB issued accounting guidance, which was further clarified in January 2013, requiring additional information intended to help reconcile existing differences in balance sheet offsetting requirements under U.S. GAAP and International Financial Reporting Standards. While this standard leaves existing guidance surrounding the offsetting of financial assets and liabilities unchanged, it requires several additional disclosures, including gross and net information about instruments and transactions eligible for offset in the balance sheet and instruments and transactions subject to a master netting arrangement or a similar agreement. The guidance applies to the Company's derivatives, which include both non-coal trading derivative financial instruments held for risk management purposes and derivative contracts associated with the Company's trading and brokerage activities. The guidance became effective for the Company for interim and annual reporting periods beginning on or after January 1, 2013. While the adoption of this guidance impacted the Company's disclosures, it did not affect the Company's results of operations, financial condition or cash flows.

Non-Coal Trading Derivatives. The Company's non-coal trading derivative financial instruments are transacted in over-the-counter (OTC) markets with financial institutions under International Swaps and Derivatives Association (ISDA) Master Agreements. Those agreements contain symmetrical default provisions which allow for the net settlement of amounts owed by either counterparty in the event of default or contract termination. The Company offsets its non-coal trading asset and liability derivative positions on a counterparty-by-counterparty basis in the condensed consolidated balance sheets, with the fair values of those respective derivatives reflected in “Other current assets,” “Investments and other assets,” “Accounts payable and accrued expenses” and “Other noncurrent liabilities." Though the symmetrical default provisions associated with the Company's non-coal trading derivatives exist at the overall counterparty level across its foreign currency, diesel fuel and explosives hedging strategy derivative contract portfolios, it is the Company's accounting policy to apply counterparty offsetting separately within those derivative contract portfolios for presentation in the condensed consolidated balance sheets because that application is more consistent with the fact that the Company generally net settles its non-coal trading derivatives with each counterparty by derivative contract portfolio on a routine basis.

Coal Trading Derivatives. The Company's coal trading assets and liabilities include financial instruments, such as swaps, futures and options, cleared through various commodities exchanges, which involve the daily net settlement of closed positions. The Company is required to post cash collateral, known as variation margin, on exchange-cleared positions that are in a net liability position and entitled to receive variation margin when in a net asset position. The Company also transacts in coal trading financial swaps and options through OTC markets with financial institutions and other non-financial trading entities under ISDA Master Agreements, which contain symmetrical default provisions. Certain of the Company's coal trading agreements with OTC counterparties also contain credit support provisions that may periodically require the Company to post, or entitle the Company to receive, variation margin. Physical coal and freight-related purchase and sale contracts included in the Company's coal trading assets and liabilities are executed pursuant to master purchase and sale agreements that also contain symmetrical default provisions and allow for the netting and setoff of receivables and payables that arise during the same time period. The Company offsets its coal trading asset and liability derivative positions, and variation margin related to those positions, on a counterparty-by-counterparty basis in the condensed consolidated balance sheets, with the fair values of those respective derivatives reflected in “Assets from coal trading activities, net” and “Liabilities from coal trading activities, net."

Refer to Note 6. "Derivatives and Fair Value Measurements" and Note 7. "Coal Trading" herein for the additional quantitative disclosures related to this guidance.

Accumulated Other Comprehensive Income

In June 2011, the FASB issued accounting guidance, which was finalized in February 2013, that introduced new disclosure requirements requesting that entities provide additional information about reclassification adjustments out of accumulated other comprehensive income, including changes in accumulated other comprehensive income balances by component and significant reclassification items. The new disclosure requirements became effective for interim and annual reporting periods beginning after December 15, 2012 (January 1, 2013 for the Company). While the adoption of this guidance impacted the Company's disclosures, it did not affect the Company's results of operations, financial condition or cash flows. Refer to Note 12. "Accumulated Other Comprehensive (Loss) Income" herein for the additional disclosures related to this guidance.

(3) Discontinued Operations

Discontinued operations include certain non-strategic former Australian Mining segment assets held for sale which the Company has committed to divest, former Midwestern U.S. Mining segment assets that have ceased production and other previously divested operations.

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PEABODY ENERGY CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

Summarized Results of Discontinued Operations

Results from discontinued operations were as follows during the three and nine months ended September 30, 2013 and 2012:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(Dollars in millions)			
Total revenues	$38.6	$41.5	$106.3	$171.5
Loss from discontinued operations before income taxes	$(62.1)	$(127.6)	$(94.8)	$(146.6)
Income tax benefit	19.0	46.3	28.3	53.9
Loss from discontinued operations, net of income taxes	$(43.1)	$(81.3)	$(66.5)	$(92.7)

Asset Impairment and Mine Closure Costs Related to Discontinued Operations

Wilkie Creek Mine. Results from discontinued operations for the three and nine months ended September 30, 2013 reflect a before- and after-tax impairment charge of $45.2 million and $32.4 million, respectively, related to the Company's held-for-sale Wilkie Creek Mine in Queensland, Australia for which an active sale process in ongoing. The Company estimated the fair value of those assets using a market approach based on new market information received during the third quarter that would be considered unobservable Level 3 inputs under the fair value hierarchy.

Air Quality Mine. Results from discontinued operations for the three and nine months ended September 30, 2012 reflect before- and after-tax charges of $116.7 million and $75.0 million, respectively, including a before- and after-tax impairment charge of $108.9 million and $68.8 million, respectively, recognized in connection with the shutdown of the Air Quality Mine in Indiana. Refer to Note 3 to the Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2012 for additional details surrounding that mine closure.

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:

	September 30, 2013	December 31, 2012
	(Dollars in millions)	
Assets:		
Other current assets	$42.1	$37.5
Investments and other assets	97.3	140.8
Total assets classified as discontinued operations	$139.4	$178.3
Liabilities:		
Accounts payable and accrued expenses	$35.3	$33.3
Other noncurrent liabilities	40.5	27.1
Total liabilities classified as discontinued operations	$75.8	$60.4

(4) Investments

Investments in available-for-sale securities at September 30, 2013 were as follows:

Available-for-sale securities	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses