

PEABODY ENERGY CORP
Form 10-K
February 27, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2011

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

Commission File Number 1-16463

Peabody Energy Corporation

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or
organization)

701 Market Street, St. Louis, Missouri
(Address of principal executive offices)
(314) 342-3400

Registrant's telephone number, including area code

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class

Common Stock, par value \$0.01 per share

Preferred Share Purchase Rights

Securities Registered Pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 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 No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer () Accelerated filer () Non-accelerated filer () Smaller reporting company ()

(Do not check if a 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 ()

Aggregate market value of the voting stock held by non-affiliates (shareholders who are not directors or executive officers) of the Registrant, calculated using the closing price on June 30, 2011: Common Stock, par value \$0.01 per share, \$15.9 billion.

Number of shares outstanding of each of the Registrant’s classes of Common Stock, as of February 17, 2012: Common Stock, par value \$0.01 per share, 272,259,729 shares outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company’s Proxy Statement to be filed with the Securities and Exchange Commission in connection with the Company’s 2012 Annual Meeting of Shareholders (the Company’s 2012 Proxy Statement) are incorporated by reference into Part III hereof. Other documents incorporated by reference in this report are listed in the Exhibit Index of this Form 10-K.

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CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS

This report includes statements of our expectations, intentions, plans and beliefs that constitute “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 and are intended to come within the safe harbor protection provided by those sections. These statements relate to future events or our future financial performance, including, without limitation, the section captioned “Outlook” in Management’s Discussion and Analysis of Financial Condition and Results of Operations. We use words such as “anticipate,” “believe,” “expect,” “may,” “project,” “should,” “estimate,” or “plan” or other similar words to forward-looking statements.

Without limiting the foregoing, all statements relating to our future operating results, anticipated capital expenditures, future cash flows and borrowings, and sources of funding are forward-looking statements and speak only as of the date of this report. These forward-looking statements are based on numerous assumptions that we believe are reasonable, but are subject to a wide range of uncertainties and business risks and actual results may differ materially from those discussed in these statements. Among the factors that could cause actual results to differ materially are:

- global demand for coal, including the seaborne thermal and metallurgical coal markets;
- price volatility, particularly in higher-margin products and in our trading and brokerage businesses;
- impact of alternative energy sources, including natural gas and renewables;
- impact of weather and natural disasters on demand, production and transportation;
- reductions and/or deferrals of purchases by major customers and ability to renew sales contracts;
- credit and performance risks associated with customers, suppliers, contract miners, co-shippers, and trading, banks and other financial counterparties;
- geologic, equipment, permitting and operational risks related to mining;
- transportation availability, performance and costs;
- availability, timing of delivery and costs of key supplies, capital equipment or commodities such as diesel fuel, steel, explosives and tires;
- integration of the newly acquired Macarthur Coal Limited (Macarthur) operations;
- successful implementation of business strategies;
- negotiation of labor contracts, employee relations and workforce availability;
- changes in postretirement benefit and pension obligations and their related funding requirements;
- replacement and development of coal reserves;
- availability, access to and the related cost of capital and financial markets;
- effects of changes in interest rates and currency exchange rates (primarily the Australian dollar);
- effects of acquisitions or divestitures;
- economic strength and political stability of countries in which we have operations or serve customers;
- legislation, regulations and court decisions or other government actions, including new environmental and mine safety requirements, changes in income tax regulations or other regulatory taxes;
- litigation, including claims not yet asserted;
- terrorist attacks or threats;
- impacts of pandemic illnesses; and
- other factors, including those discussed in Legal Proceedings, set forth in Item 3 of this report and Risk Factors, set forth in Item 1A of this report.

When considering these forward-looking statements, you should keep in mind the cautionary statements in this document and in our other Securities and Exchange Commission (SEC) filings. These forward-looking statements speak only as of the date on which such statements were made, and we undertake no obligation to update these statements except as required by the federal securities laws.

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Note: The words “we,” “our,” “Peabody” or “the Company” as used in this report, refer to Peabody Energy Corporation or its applicable subsidiary or subsidiaries. Unless otherwise noted herein, disclosures in this Annual Report on Form 10-K relate only to our continuing operations.

PART I

Item 1. Business.

History and Development of Business

Peabody Energy Corporation is the world’s largest private-sector coal company. We own interests in 30 coal mining operations, including a majority interest in 29 coal operations located in the United States (U.S.) and Australia and a 50% equity interest in the Middlemount Mine in Australia. We also own an equity interest in a joint venture mining operation in Venezuela. In addition to our mining operations, we market, broker and trade coal through our Trading and Brokerage segment.

We were incorporated in Delaware in 1998 and became a public company in 2001. Our history in the coal mining business dates back to 1883. Over the past decade, we have made strategic acquisitions and divestitures to position our company to serve the highest demand coal markets. Acquisitions and divestitures of note include the following.

In 2006, we expanded our presence in Australia with the acquisition of Excel Coal Limited.

In 2007, we spun off Patriot Coal Corporation (Patriot) through a dividend of all outstanding shares, which included mines in West Virginia and Kentucky.

In 2011, we acquired Macarthur, an independent coal company in Australia, which included two operating mines, a 50% equity-affiliate joint venture arrangement and several development projects, along with coal reserves of approximately 213 million tons (approximately 142 million tons on an attributable basis).

In 2011, we continued advancing multiple organic growth projects in Australia and the U.S. that involved future mines, as well as the expansion and extension of existing mines. In 2012 and the near term, our plans for our mining operations include further investments in organic growth projects. In the U.S., development work is expected to begin on our new Gateway North Mine in Illinois and the new Twentymile Sage Creek portal that will serve as an extension of our Twentymile Mine in Colorado. In Australia, we will continue advancing multiple projects that are expected to increase our seaborne coal volumes over the next few years. We also plan to convert our Wilpinjong and Millennium mines in Australia from contract mining to owner-operated mines. In addition, the integration of Macarthur into our Australian operations will continue as we seek to realize synergies through blending, sales and marketing, administrative costs, purchasing, infrastructure and capital project development. We also plan to accelerate development of the new Codrilla Mine, a legacy Macarthur project, which is expected to produce first coal in late 2013.

Other future plans include the continued expansion of our global trading and brokerage platform, which will include the additional sourcing of coal of third-parties from offtake arrangements and joint venture arrangements. We will also continue to explore opportunities to expand our presence in the Asia-Pacific region, such as through partnerships with other companies to utilize our mining experience for joint mine development.

Our core strategies to achieve growth are:

- 1) Executing the basics of best-in-class safety, operations and marketing;
- 2) Capitalizing on organic growth opportunities; and
- 3) Expanding in high-growth global markets.

We are also participating in new generation and Btu Conversion technologies designed to expand the uses of coal technologies, including carbon capture and storage.

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Segments

Our operations consist of four principal segments: our three mining segments and our Trading and Brokerage segment. Our three mining segments are Western U.S. Mining, Midwestern U.S. Mining and Australian Mining. Our fifth segment, Corporate and Other, includes mining and export/transportation joint ventures, energy-related commercial activities as well as the management of our coal reserve and real estate holdings.

Our Western U.S. Mining operations consist of our Powder River Basin, Southwest and Colorado mines. The mines in that segment are characterized by predominantly surface mining extraction processes and coal with a lower sulfur content and Btu. In addition, the customer transportation costs are generally higher due to longer shipping distances.

Our Midwestern U.S. Mining operations include our mines in Illinois and Indiana, which are characterized by a mix of surface and underground mining extraction processes and coal with a higher sulfur content and Btu. In addition, the customer transportation costs are generally lower due to shorter shipping distances. The principal business of our U.S. mining operations is the sale of thermal (steam) coal, sold primarily to electric utilities in the U.S. with a portion sold into the seaborne markets.

Our Australian Mining operations consist of our mines in Queensland and New South Wales, Australia. The mines in that segment are characterized by both surface and underground extraction processes, mining various qualities of metallurgical (low-sulfur, high Btu coal) and thermal coal. The metallurgical coal qualities include hard coking coal, semi-hard coking coal, semi-soft coal and pulverized coal injection (PCI) coal. PCI coal is generally used by steel producers as a replacement for coke made from coking coal. Our recent acquisition of Macarthur increased our proven and probable reserves, which included low volatile PCI (LV PCI) coal, coking coal and thermal coal. Our Australian Mining operations are primarily export focused with customers spread across several countries, while a portion of our coal is sold to Australian steel producers and power generators. Generally, revenues from individual countries vary year by year based on the demand for electricity, the demand for steel, the strength of the global economy and several other factors including those specific to each country.

Financial information regarding our operating segments is contained in Note 25 to our consolidated financial statements.

Mining Segments

The maps that follow display our mine locations as of December 31, 2011, excluding mines held for sale. Also noted are the primary ports utilized in the U.S. and in Australia for our coal exports and our corporate headquarters.

U.S. Mining Operations

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Australian Mining Operations

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The table below presents information regarding each of our 30 mines (excluding mines held for sale), including mine location, type of mine, mining method, coal type, transportation method and tons sold in 2011. The mines are sorted by tons sold within each mining segment.

Mine	Location	Mine Type	Mining Method	Coal Type	Transport Method	2011 Tons Sold (In millions)
Western U.S. Mining						
North Antelope Rochelle	Wright, WY	S	DL, T/S	T	R	109.0
Caballo	Gillette, WY	S	D, T/S	T	R	24.2
Rawhide	Gillette, WY	S	D, T/S	T	R	15.0
El Segundo	Grants, NM	S	T/S	T	R	8.0
Kayenta	Kayenta, AZ	S	DL, T/S	T	R	7.9
Twentymile	Oak Creek, CO	U	LW	T	R, T	7.5
Lee Ranch	Grants, NM	S	DL, T/S	T	R	2.0
Midwestern U.S. Mining						
Bear Run	Carlisle, IN	S	DL, D, T/S	T	T, R	6.5
Gateway	Coulterville, IL	U	CM	T	T, R, R/B	3.5
Francisco Underground	Francisco, IN	U	CM	T	R	3.0
Somerville Central	Oakland City, IN	S	DL, D, T/S	T	R, T/R, T/B	2.8
Willow Lake	Equality, IL	U	CM	T	T/B	2.2
Cottage Grove						