

PEABODY ENERGY CORP
Form 10-Q/A
March 09, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q/A
(Amendment No. 1)

(Mark One)

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

For the quarterly period ended September 30, 2015

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 ☒ 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 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 ☒

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 ☒

There were 18.5 million shares of the registrant's common stock (par value of \$0.01 per share) outstanding at October 30, 2015.

EXPLANATORY NOTE

Peabody Energy Corporation (“Peabody” or “the Company”) is filing this Amendment No. 1 on Form 10-Q/A (the “Amendment”) to amend its Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2015 (the “Original Form 10-Q”) originally filed on November 9, 2015. The Company is filing this Amendment to address comments received from the Staff (the “Staff”) of the Securities and Exchange Commission (the “SEC”) in connection with the Staff’s review of Peabody’s Registration Statement on Form S-3 filed upon the expiration of the Company’s existing Registration Statement on Form S-3, into which the Original Form 10-Q was incorporated by reference and which was the subject of the Staff’s comments.

In response to the Staff’s comments, the Company has amended its Original Form 10-Q to include additional information contained in Part I, Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations. Specifically, the Company has included in the section entitled “Liquidity and Capital Resources” additional detail regarding (i) certain financial covenants contained in the Company’s 2013 Credit Facility and its compliance with such covenants at September 30, 2015; (ii) sources of earnings and adjustments allowable under the Company’s 2013 Credit Facility to be included with its operating results for purposes of determining financial covenant compliance; and (iii) the impact of non-compliance with the Company’s financial covenants on its business, financial condition and results of operations that were previously disclosed in Part II, Item 1A. Risk Factors of the Original Form 10-Q. The Company has also updated Part II, Item 1A. Risk Factors in the Amendment to clarify the conditions under which non-compliance with its financial covenants is possible.

In addition, the Company is including in this Amendment updated certifications from its Chief Executive Officer and Chief Financial Officer as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002 as Exhibits 31.1, and 31.2, and 32.1 and 32.2, respectively.

Except as described above, this Amendment does not otherwise revise, restate, modify or update any information included in the Original Form 10-Q. Additionally, this Amendment does not reflect events occurring after the period covered by the Original Form 10-Q. Accordingly, this Amendment should be read in conjunction with the Original Form 10-Q and with Peabody’s other filings with the SEC prior to the time of the filing of the Original Form 10-Q.

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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,	
	2015	2014	2015	2014
(Dollars in millions, except per share data)				
Revenues				
Sales	\$1,277.4	\$1,550.5	\$3,922.9	\$4,619.3
Other revenues	141.5	172.4	373.2	488.4
Total revenues	1,418.9	1,722.9	4,296.1	5,107.7
Costs and expenses				
Operating costs and expenses (exclusive of items shown separately below)	1,254.0	1,453.3	3,774.4	4,315.7
Depreciation, depletion and amortization	136.0	163.6	430.6	483.9
Asset retirement obligation expenses	12.3	15.0	40.4	46.5
Selling and administrative expenses	37.8	52.9	128.8	171.6
Restructuring charges	1.8	—	23.0	—
Other operating (income) loss:				
Net gain on disposal of assets	(7.9)	) (13.9)	) (20.2)	) (25.9)
Asset impairment	—	—	900.8	—
Loss from equity affiliates	5.3	15.8	12.3	44.0
Operating (loss) profit	(20.4)	) 36.2	(994.0)	) 71.9
Interest expense	118.5	114.5	344.0	321.4
Loss on early debt extinguishment	—	—	67.8	1.6
Interest income	(1.4)	) (3.7)	) (6.6)	) (11.7)
Loss from continuing operations before income taxes	(137.5)	) (74.6)	) (1,399.2)	) (239.4)
Income tax provision (benefit)	6.9	79.4	(83.2)	) 30.9
Loss from continuing operations, net of income taxes	(144.4)	) (154.0)	) (1,316.0)	) (270.3)
(Loss) income from discontinued operations, net of income taxes	(157.5)	) 5.0	(202.7)	) 6.0
Net loss	(301.9)	) (149.0)	) (1,518.7)	) (264.3)
Less: Net income attributable to noncontrolling interests	2.8	1.6	7.9	8.1
Net loss attributable to common stockholders	\$(304.7)	) \$(150.6)	) \$(1,526.6)	) \$(272.4)
Loss from continuing operations:				
Basic loss per share	\$(8.08)	) \$(8.72)	) \$(73.05)	) \$(15.62)
Diluted loss per share	\$(8.08)	) \$(8.72)	) \$(73.05)	) \$(15.62)
Net loss attributable to common stockholders:				
Basic loss per share	\$(16.73)	) \$(8.44)	) \$(84.23)	) \$(15.29)
Diluted loss per share	\$(16.73)	) \$(8.44)	) \$(84.23)	) \$(15.29)
Dividends declared per share	\$—	\$1.275	\$0.075	\$3.825

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, 2015 2014		Nine Months Ended September 30, 2015 2014	
	(Dollars in millions)			
Net loss	\$(301.9	) \$(149.0	) \$(1,518.7	) \$(264.3
Other comprehensive (loss) income, net of income taxes:				
Net change in unrealized gains (losses) on available-for-sale securities (net of respective net tax provision (benefit) of \$0.0, (\$0.2), (\$0.1) and (\$1.0))	0.2	(0.4	) 0.2	(1.7
Net unrealized (losses) gains on cash flow hedges (net of respective net tax (benefit) provision of \$(30.1), (\$104.2), \$49.8 and \$1.9)				
(Decrease) increase in fair value of cash flow hedges	(115.6	) (180.6	) (100.4	) 3.5
Reclassification for realized losses (gains) included in net loss	68.9	3.4	183.9	(1.6
Net unrealized (losses) gains on cash flow hedges	(46.7	) (177.2	) 83.5	1.9
Postretirement plans and workers' compensation obligations (net of respective net tax provision of \$1.8, \$4.0, \$11.2 and \$1.8)				
Prior service cost for the period	—	—	—	(17.4
Amortization of actuarial loss and prior service cost included in net loss	10.8	6.8	26.8	20.4
Postretirement plans and workers' compensation obligations	10.8	6.8	26.8	3.0
Foreign currency translation adjustment	(15.3	) (36.8	) (41.5	) (10.4
Other comprehensive (loss) income, net of income taxes	(51.0	) (207.6	) 69.0	(7.2
Comprehensive loss	(352.9	) (356.6	) (1,449.7	) (271.5
Less: Comprehensive income attributable to noncontrolling interests	2.8	1.6	7.9	8.1
Comprehensive loss attributable to common stockholders	\$(355.7	) \$(358.2	) \$(1,457.6	) \$(279.6
See accompanying notes to unaudited condensed consolidated financial statements.				

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CONDENSED CONSOLIDATED BALANCE SHEETS

	(Unaudited) September 30, 2015	December 31, 2014
	(Amounts in millions, except per share data)	
ASSETS		
Current assets		
Cash and cash equivalents	\$334.3	\$298.0
Accounts receivable, net of allowance for doubtful accounts of \$10.0 at September 30, 2015 and \$5.8 at December 31, 2014	370.0	563.1
Inventories	348.1	406.5
Assets from coal trading activities, net	42.3	57.6
Deferred income taxes	76.5	80.0
Other current assets	382.4	305.8
Total current assets	1,553.6	1,711.0
Property, plant, equipment and mine development, net	9,475.4	10,577.3
Deferred income taxes	1.0	0.7
Investments and other assets	633.4	902.1
Total assets	\$11,663.4	\$13,191.1
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Current portion of long-term debt	\$19.5	\$21.2
Liabilities from coal trading activities, net	28.1	32.7
Accounts payable and accrued expenses	1,468.6	1,809.2
Total current liabilities	1,516.2	1,863.1
Long-term debt, less current portion	6,282.4	5,965.6
Deferred income taxes	101.1	89.1
Asset retirement obligations	738.4	722.3
Accrued postretirement benefit costs	782.1	781.9
Other noncurrent liabilities	932.8	1,042.6
Total liabilities	10,353.0	10,464.6
Stockholders' equity		
Preferred Stock — \$0.01 per share par value; 10.0 shares authorized, no shares issued or outstanding as of September 30, 2015 or December 31, 2014	—	—
Perpetual Preferred Stock — 0.8 shares authorized, no shares issued or outstanding as of September 30, 2015 or December 31, 2014	—	—
Series Common Stock — \$0.01 per share par value; 40.0 shares authorized, no shares issued or outstanding as of September 30, 2015 or December 31, 2014	—	—
Common Stock — \$0.01 per share par value; 53.3 shares authorized; 19.3 shares issued and 18.5 shares outstanding as of September 30, 2015 and 19.0 shares issued and 18.1 shares outstanding as of December 31, 2014	0.2	0.2
Additional paid-in capital	2,406.6	2,386.0
Treasury stock, at cost — 0.8 shares as of September 30, 2015 and 0.9 shares as of December 31, 2014	(371.6)	(467.1)
(Accumulated deficit) retained earnings	(34.0)	1,570.5
Accumulated other comprehensive loss	(695.8)	(764.8)
Peabody Energy Corporation stockholders' equity	1,305.4	2,724.8

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Noncontrolling interests	5.0	1.7
Total stockholders' equity	1,310.4	2,726.5
Total liabilities and stockholders' equity	\$11,663.4	\$13,191.1
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,		
	2015	2014	
	(Dollars in millions)		
Cash Flows From Operating Activities			
Net loss	\$(1,518.7	) \$(264.3)
Loss (income) from discontinued operations, net of income taxes	202.7	(6.0)
Loss from continuing operations, net of income taxes	(1,316.0	) (270.3)
Adjustments to reconcile loss from continuing operations, net of income taxes to net cash (used in) provided by operating activities:			
Depreciation, depletion and amortization	430.6	483.9	
Noncash interest expense	22.9	17.7	
Deferred income taxes	(53.7	) (44.3)
Noncash share-based compensation	20.0	35.8	
Asset impairment	900.8	—	
Net gain on disposal of assets	(20.2	) (25.9)
Loss from equity affiliates	12.3	44.0	
Gains on previously monetized foreign currency hedge positions	(14.9	) (106.7)
Changes in current assets and liabilities:			
Accounts receivable	190.0	142.0	
Change in receivable from accounts receivable securitization program	(5.0	) (75.0)
Inventories	55.2	20.5	
Net assets from coal trading activities	(17.4	) (14.6)
Other current assets	7.6	4.4	
Accounts payable and accrued expenses	(322.0	) 76.2	
Asset retirement obligations	28.1	28.4	
Accrued postretirement benefit costs	14.2	12.7	
Accrued pension costs	21.1	14.6	
Other, net	(15.6	) 2.4	
Net cash (used in) provided by continuing operations	(62.0	) 345.8	
Net cash used in discontinued operations	(28.6	) (95.7)
Net cash (used in) provided by operating activities	(90.6	) 250.1	
Cash Flows From Investing Activities			
Additions to property, plant, equipment and mine development	(76.9	) (107.5)
Changes in accrued expenses related to capital expenditures	(14.5	) (22.8)
Federal coal lease expenditures	(89.8	) (89.4)
Proceeds from disposal of assets, net of notes receivable	39.6	152.5	
Purchases of debt and equity securities	(22.6	) (6.0)
Proceeds from sales and maturities of debt and equity securities	33.6	7.7	
Contributions to joint ventures	(349.8	) (410.4)
Distributions from joint ventures	339.8	408.5	
Advances to related parties	(3.6	) (19.7)
Other, net	(2.1	) (2.5)
Net cash used in investing activities	(146.3	) (89.6)
Cash Flows From Financing Activities			
Proceeds from long-term debt	975.7	1.1	
Repayments of long-term debt	(666.0) (15.6)

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Payment of deferred financing costs	(28.7) (10.1)
Dividends paid	(1.4) (69.2)
Restricted cash for distributions to noncontrolling interests	—	(42.5)
Other, net	(6.4	) (1.7)
Net cash provided by (used in) financing activities	273.2	(138.0)
Net change in cash and cash equivalents	36.3	22.5	
Cash and cash equivalents at beginning of period	298.0	444.0	
Cash and cash equivalents at end of period	\$334.3	\$466.5	
See accompanying notes to unaudited condensed consolidated financial statements.			

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PEABODY ENERGY CORPORATION

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

	Peabody Energy Corporation Stockholders' Equity						
	Common Stock	Additional Paid-in Capital	Treasury Stock	(Accumulated Deficit) Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total Stockholders' Equity
	(Dollars in millions)						
December 31, 2014	\$0.2	\$2,386.0	\$(467.1)	\$ 1,570.5	\$ (764.8)	\$ 1.7	\$ 2,726.5
Net (loss) income	—	—	—	(1,526.6)	—	7.9	(1,518.7)
Net change in unrealized gains on available-for-sale securities (net of \$0.1 net tax benefit)	—	—	—	—	0.2	—	0.2
Net unrealized gains on cash flow hedges (net of \$49.8 net tax provision)	—	—	—	—	83.5	—	83.5
Postretirement plans and workers' compensation obligations (net of \$11.2 net tax provision)	—	—	—	—	26.8	—	26.8
Foreign currency translation adjustment	—	—	—	—	(41.5)	—	(41.5)
Dividends paid	—	—	—	(1.4)	—	—	(1.4)
Share-based compensation for equity-classified awards	—	18.6	—	—	—	—	18.6
Employee stock purchases	—	3.4	—	—	—	—	3.4
Repurchase of employee common stock relinquished for tax withholding	—	—	(2.0)	—	—	—	(2.0)
Defined contribution plan share contribution	—	(1.4)	97.5	(76.5)	—	—	19.6
Consolidation of noncontrolling interests	—	—	—	—	—	1.6	1.6
Distributions to noncontrolling interests	—	—	—	—	—	(6.2)	(6.2)
September 30, 2015	\$0.2	\$2,406.6	\$(371.6)	\$ (34.0)	\$ (695.8)	\$ 5.0	\$ 1,310.4
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 and any outside shareholder interests are 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 the 2015 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 Annual Report on Form 10-K for the year ended December 31, 2014. 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, 2014 has been derived from the Company's audited consolidated balance sheet at that date. The Company's results of operations for the three and nine months ended September 30, 2015 are not necessarily indicative of the results that may be expected for future quarters or for the year ending December 31, 2015.

Pursuant to the authorization provided at a special meeting of the Company's stockholders held on September 16, 2015, the Company completed a 1-for-15 reverse stock split of the shares of the Company's common stock on September 30, 2015 (the Reverse Stock Split). As a result of the Reverse Stock Split, every 15 shares of issued and outstanding common stock were combined into one issued and outstanding share of Common Stock, without any change in the par value per share. No fractional shares were issued as a result of the Reverse Stock Split and any fractional shares that would otherwise have resulted from the Reverse Stock Split were paid in cash. The Reverse Stock Split reduced the number of shares of common stock outstanding from approximately 278 million shares to approximately 19 million shares. The number of authorized shares of common stock was also decreased from 800 million shares to 53.3 million shares. The Company's common stock began trading on a reverse stock split-adjusted basis on the New York Stock Exchange on October 1, 2015. All share and per share data included in this report has been retroactively restated to reflect the Reverse Stock Split. Since the par value of the common stock remained at \$0.01 per share, the value for "Common stock" recorded to the Company's condensed consolidated balance sheets has been retroactively reduced to reflect the par value of restated outstanding shares, with a corresponding increase to "Additional paid-in capital."

The Company has classified items within discontinued operations in the unaudited condensed consolidated financial statements for disposals (by sale or otherwise) that have occurred prior to January 1, 2015 when the operations and cash flows of a disposed component of the Company were eliminated from the ongoing operations of the Company as a result of the disposal and the Company no longer had any significant continuing involvement in the operation of that component.

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

Newly Adopted Accounting Standards

Discontinued Operations. In April 2014, the Financial Accounting Standards Board (FASB) issued accounting guidance that raised the threshold for disposals to qualify as discontinued operations to a disposal of a component or group of components that is disposed of or is classified as held for sale and represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. Such a strategic shift may include the disposal of (1) a major geographical area of operations, (2) a major line of business, (3) a major equity method investment or (4) other major parts of an entity. Provided that the major strategic shift criterion is met, the new guidance does allow entities to have significant continuing involvement and continuing cash flows with the discontinued operation, unlike prior U.S. GAAP. The new standard also requires additional disclosures for discontinued operations and new

disclosures for individually material disposal transactions that do not meet the definition of a discontinued operation. The new guidance became effective prospectively for disposals that occur in interim and annual periods beginning on or after December 31, 2014 (January 1, 2015 for the Company). The adoption of the guidance beginning January 1, 2015 had no material effect on the Company's results of operations, financial condition, cash flows or financial statement presentation at that time. The ultimate impact on the Company's financial statements will depend on any prospective disposal activity.

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PEABODY ENERGY CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

Accounting Standards Not Yet Implemented

Revenue Recognition. In May 2014, the FASB issued a comprehensive revenue recognition standard that will supersede nearly all existing revenue recognition guidance under U.S. GAAP. The new standard provides a single principles-based, five-step model to be applied to all contracts with customers, which steps are to (1) identify the contract(s) with the customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract and (5) recognize revenue when each performance obligation is satisfied. More specifically, revenue will be recognized when promised goods or services are transferred to the customer in an amount that reflects the consideration expected in exchange for those goods or services. The standard also requires entities to disclose sufficient qualitative and quantitative information to enable financial statement users to understand the nature, amount, timing and uncertainty of revenues and cash flows arising from contracts with customers.

Under the originally issued standard, the new guidance will be effective for interim and annual periods beginning after December 15, 2016 (January 1, 2017 for the Company). On July 9, 2015, the FASB decided to delay the effective date of the new revenue recognition standard by one year with early adoption permitted, but not before the original effective date. The standard allows for either a full retrospective adoption or a modified retrospective adoption. The Company is in the process of evaluating the impact that the adoption of this guidance will have on its results of operations, financial condition, cash flows and financial statement presentation.

Going Concern. In August 2014, the FASB issued disclosure guidance that requires management to evaluate, at each annual and interim reporting period, whether substantial doubt exists about an entity's ability to continue as a going concern and, if applicable, to provide related disclosures. As outlined by that guidance, substantial doubt about an entity's ability to continue as a going concern exists when relevant conditions and events, considered in the aggregate, indicate that it is probable that an entity will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued (or are available to be issued). The new guidance will be effective for annual reporting periods ending after December 15, 2016 (the year ending December 31, 2016 for the Company) and interim periods thereafter, with early adoption permitted.

Deferred Financing Costs. On April 7, 2015, the FASB issued accounting guidance that requires deferred financing costs to be presented as a direct reduction from the related debt liability in the financial statements rather than as a separately recognized asset, as is the current requirement under U.S. GAAP. Under the new guidance, amortization of such costs will continue to be reported as interest expense. In August 2015, an update was issued that clarified that debt issuance costs associated with line-of-credit arrangements may continue to be reported as an asset. The new guidance will be effective for interim and annual periods beginning after December 15, 2015 (January 1, 2016 for the Company) and must be adopted on a retrospective basis. While the Company does not anticipate an impact to its results of operations, financial condition or cash flows in connection with the adoption of the guidance, there will be an impact on the presentation of the Company's condensed consolidated balance sheets. More specifically, the Company's condensed consolidated balance sheets as of September 30, 2015 and December 31, 2014 includes \$75.9 million and \$64.7 million, respectively, of deferred financing cost assets (excluding \$20.9 million and \$14.0 million, respectively, related to line-of-credit arrangements) that would, under the new guidance, be presented as a direct reduction to liabilities.

(3) Asset Impairment

The following costs are reflected in "Asset impairment" in the unaudited condensed consolidated statement of operations for the nine months ended September 30, 2015:

Australian Metallurgical	Australian Thermal	Corporate and Other	Consolidated
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Mining Mining
(Dollars in millions)

Asset impairment charges:

Long-lived assets	\$527.0	\$8.2	\$182.2	\$717.4
Equity method investments	—	—	183.4	183.4
Total	\$527.0	\$8.2	\$365.6	\$900.8

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PEABODY ENERGY CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

Australian Metallurgical and Thermal Mining

The Company generally does not view short-term declines in metallurgical and thermal coal prices in the markets in which it sells its products as an indicator of impairment. However, due to the severity of the decline in seaborne metallurgical and thermal coal pricing observed during the first half of 2015 and other adverse market conditions noted during that period that drove an unfavorable change in the expected timing of eventual seaborne market rebalancing, the Company concluded that indicators of impairment existed surrounding its Australian mining platform as of June 30, 2015. Accordingly, the Company reviewed its Australian mining assets for recoverability at that date. Based on that review, the Company determined that the carrying values of three of its active mines that produce metallurgical coal were not recoverable and correspondingly recognized an aggregate impairment charge of \$230.5 million to write those assets down from their carrying value to their estimated fair value in the second quarter. Also during the second quarter of 2015, the Company reviewed its portfolio of mining tenements and surface lands to identify non-strategic assets that could be monetized. In connection with that review, certain of such assets were deemed to meet held-for-sale accounting criteria or were otherwise deemed more likely to generate cash flows through divestiture rather than development, with the long-term plans for certain adjacent assets also consequently affected. Accordingly, the Company recognized an aggregate impairment charge of \$304.7 million to write down the targeted divestiture assets and abandoned assets from their carrying value to their estimated fair value.

Corporate and Other

Long-lived Assets. In connection with a similar review of the Company's asset portfolio conducted during the second quarter of 2015 to identify non-strategic domestic assets that could be monetized, the Company identified non-strategic, non-coal-supplying assets as held-for-sale rather than held-for-use as of June 30, 2015. Accordingly, the Company recognized an impairment charge of \$182.2 million to write the assets down from their carrying value to estimated fair value.

Equity Method Investments. Due to the impairment indicators noted above surrounding the Company's Australian platform, the Company similarly reviewed its total investment in Middlemount Coal Pty Ltd. (Middlemount), which owns the Middlemount Mine in Queensland, Australia, as of June 30, 2015. As a result of that review, the Company determined that the carrying value of its equity investment in Middlemount was other-than-temporarily impaired and recorded a charge of \$46.6 million to write-off the investment.

The Company, along with the other equity interest holder, also periodically makes loans to Middlemount pursuant to the related shareholders' agreement for purposes of funding capital expenditures and working capital requirements. Prior to an impairment adjustment, the aggregate carrying value of such loans totaled \$299.3 million. Of that amount, a total of \$65.5 million (the Priority Loans) had seniority over the remainder (the Subordinated Loans) as of June 30, 2015. The Subordinated Loans are provided on an equal and shared basis with the other equity interest holder, and the Company's and the other equity interest holder's claims under the Subordinated Loans are on equal footing. The Company also reviewed the loans for impairment and recorded a charge of \$136.8 million to write down the carrying value of the Subordinated Loans.

The fair value estimates made during the Company's impairment assessments were determined in accordance with the methods outlined in Note 1. "Summary of Significant Accounting Policies" to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014, except in certain instances where indicative bids were received related to non-strategic assets being marketed for divestiture. In those instances, the indicative bids were also considered in estimating fair value.

The Company believes the impairment charges recorded during the nine months ended September 30, 2015 adequately address the realization risks disclosed in Note 3. "Asset Realization" to its Quarterly Report on Form 10-Q for the period ended March 31, 2015.

(4) Discontinued Operations

Discontinued operations include certain former Australian Thermal Mining and Midwestern U.S. Mining segment assets that have ceased production and other previously divested legacy operations.

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Summarized Results of Discontinued Operations

Results from discontinued operations were as follows during the three and nine months ended September 30, 2015 and 2014:

	Three Months Ended September 30, 2015		2014		Nine Months Ended September 30, 2015		2014	
	(Dollars in millions)							
(Loss) income from discontinued operations before income taxes	\$(157.5	)	\$7.6		\$(202.7	)	\$8.6	
Income tax provision	—		2.6		—		2.6	
(Loss) income from discontinued operations, net of income taxes	\$(157.5	)	\$5.0		\$(202.7	)	\$6.0	

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, 2015	December 31, 2014
	(Dollars in millions)	
Assets:		
Other current assets	\$0.3	\$0.3
Investments and other assets	15.9	16.3
Total assets classified as discontinued operations	\$16.2	\$16.6
Liabilities:		
Accounts payable and accrued expenses	\$78.2	\$12.5
Other noncurrent liabilities	218.0	109.8
Total liabilities classified as discontinued operations	\$296.2	\$122.3

Patriot-Related Matters. Refer to Note 19. "Matters Related to the Patriot Bankruptcy" for information surrounding charges recorded during the three and nine months ended September 30, 2015 associated with the bankruptcy of Patriot Coal Corporation and certain of its wholly-owned subsidiaries (Patriot).

Wilkie Creek Mine. In December 2013, the Company ceased production and started reclamation of the Wilkie Creek Mine in Queensland, Australia. On June 30, 2014, Queensland Bulk Handling Pty Ltd (QBH) commenced litigation against Peabody (Wilkie Creek) Pty Limited, the indirect wholly-owned subsidiary of the Company that owns the Wilkie Creek Mine, alleging breach of a Coal Port Services Agreement (CPSA) between the parties. Included in "(Loss) income from discontinued operations, net of income taxes" for the nine months ended September 30, 2015 is a \$7.6 million charge related to that litigation. Refer to Note 18. "Commitments and Contingencies" for additional information surrounding the QBH matter.

In June 2015, the Company entered into an agreement to sell the Wilkie Creek Mine in exchange for potential cash proceeds of up to \$20 million and the assumption of certain liabilities, including asset retirement obligations. That agreement was subsequently terminated in October 2015 in conjunction with entering into a new agreement with similar terms. The closing of the sale remains subject to certain conditions.

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(5) Investments

Investments in available-for-sale securities at September 30, 2015 were as follows:

Available-for-sale securities	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(Dollars in millions)				
Noncurrent:				
Federal government securities	\$31.3	\$0.2	\$—	\$31.5
U.S. corporate bonds	19.4	0.1	(0.1)	19.4
Total	\$50.7	\$0.3	\$(0.1)	\$50.9

Investments in available-for-sale securities at December 31, 2014 were as follows:

Available-for-sale securities	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(Dollars in millions)				
Current:				
U.S. corporate bonds	\$11.2	\$—	\$—	\$11.2
Noncurrent:				
Marketable equity securities	6.2	—	—	6.2
Federal government securities	32.0	—	—	32.0
U.S. corporate bonds	12.4	—	—	12.4
Total	\$61.8	\$—	\$—	\$61.8

The Company classifies its investments as short-term if, at the time of purchase, remaining maturities are greater than three months and up to one year. Such investments are included in "Other current assets" in the condensed consolidated balance sheets. Investments with remaining maturities of greater than one year are classified as long-term and are included in "Investments and other assets" in the condensed consolidated balance sheets. The Company's previous investments in marketable equity securities consisted of an investment in Winsway Enterprises Holdings Limited. That investment was disposed of during the nine months ended September 30, 2015, resulting in an immaterial gain compared to the adjusted cost basis of the securities.

Contractual maturities for available-for-sale investments in debt securities at September 30, 2015 were as shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Contractual maturities for available-for-sale debt securities	Cost	Fair Value
(Dollars in millions)		
Due in one to five years	\$50.7	\$50.9

(6) Inventories

Inventories as of September 30, 2015 and December 31, 2014 consisted of the following:

	September 30, 2015	December 31, 2014
(Dollars in millions)		
Materials and supplies	\$121.2	\$143.6
Raw coal	68.3	115.0
Saleable coal	158.6	147.9
Total	\$348.1	\$406.5

Materials and supplies inventories presented above have been shown net of reserves of \$4.8 million and \$4.6 million as of September 30, 2015 and December 31, 2014, respectively.

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(7) Derivatives and Fair Value Measurements

Risk Management — Non-Coal Trading Activities

The Company is exposed to several risks in the normal course of business, including (1) foreign currency exchange rate risk for non-U.S. dollar expenditures and balances, (2) price risk on commodities produced by and utilized in the Company's mining operations and (3) interest rate risk that has been partially mitigated by fixed rates on long-term debt. The Company manages a portion of its commodity price risk related to the sale of coal (excluding coal trading activities) using long-term coal supply agreements (those with terms longer than one year), rather than using derivative instruments. Derivative financial instruments are, or have been, used to manage the Company's risk exposure to prices of certain commodities used in production, foreign currency exchange rates and, from time to time, interest rates (collectively referred to as "Corporate Hedging"). These risks are actively monitored for compliance with the Company's risk management policies.

Foreign Currency Hedges. The Company is exposed to foreign currency exchange rate risk, primarily on Australian dollar expenditures made in its Australian mining platform. This risk has historically been managed using forward contracts and options designated as cash flow hedges, with the objective of reducing the variability of cash flows associated with forecasted foreign currency expenditures. The Company intends to allow a substantial portion of its positions to settle without adding further positions of a comparable notional amount, but may, from time to time, continue to use forward contracts and options to hedge its foreign currency exchange rate risk.

Diesel Fuel Hedges. The Company is exposed to commodity price risk associated with diesel fuel utilized in production in the U.S. and Australia. This risk is managed using derivatives, such as swaps or options, and to a lesser extent using cost pass-through contracts. The Company generally designates the swap contracts as cash flow hedges, with the objective of reducing the variability of cash flows associated with forecasted diesel fuel purchases.

Notional Amounts and Fair Value. The following summarizes the Company's foreign currency and commodity positions at September 30, 2015:

	Notional Amount by Year of Maturity			
	Total	2015	2016	2017
Foreign Currency				
A\$:US\$ hedge contracts (A\$ millions)	\$1,839.0	\$309.0	\$1,007.0	\$523.0
Commodity Contracts				
Diesel fuel hedge contracts (million gallons)	180.3	31.5	89.5	59.3
	Instrument Classification by			
	Cash Flow Hedge	Fair Value Hedge	Economic Hedge	Fair Value of Net Liability (Dollars in millions)
Foreign Currency				
A\$:US\$ hedge contracts (A\$ millions)	\$1,839.0	\$—	\$—	\$(293.5)
Commodity Contracts				
Diesel fuel hedge contracts (million gallons)	180.3	—	—	(106.7)

Based on the net fair value of the Company's non-coal trading commodity contract hedge positions held in "Accumulated other comprehensive loss" at September 30, 2015, the Company expects to reclassify net unrealized losses associated with the Company's diesel fuel hedge programs of approximately \$68 million from comprehensive income into earnings over the next 12 months. Based on the net fair value of the Company's foreign currency hedge contract portfolio, the net loss expected to be reclassified from comprehensive income to earnings over the next 12 months associated with that hedge program is approximately \$204 million. As these realized and unrealized gains and

losses are associated with derivative instruments that represent hedges of forecasted transactions, the amounts reclassified to earnings are expected to partially offset the effect of any changes in the hedged exposure related to the underlying transactions, when realized.

Hedge Ineffectiveness. A measure of ineffectiveness is inherent in hedging future diesel fuel purchases with derivative positions based on refined petroleum products as a result of location and/or product differences.

Transportation surcharges, which may vary over time, for purchased diesel fuel in certain regions can also result in ineffectiveness, though such surcharges have historically changed infrequently and comprise a small portion of the total cost of delivered diesel.

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The Company's derivative positions for the hedging of forecasted foreign currency expenditures contain a small measure of ineffectiveness due to timing differences between the hedge settlement and the purchase transaction, which could differ by less than a day and up to a maximum of 30 days.

The tables below show the classification and amounts of pre-tax gains and losses related to the Company's Corporate Hedging derivatives during the three and nine months ended September 30, 2015 and 2014:

Financial Instrument	Income Statement Classification Losses - Realized	Three Months Ended September 30, 2015			
		Gain	Loss	Loss	Loss
		recognized	recognized in	reclassified	reclassified
		in income on	other	from other	from other
		non-designated	comprehensive	comprehensive	comprehensive
		derivatives	income on	income into	income into
			derivatives	income	income
			(effective	(effective	(ineffective
			portion)	portion) ⁽¹⁾	portion)
		(Dollars in millions)			
Commodity swap contracts	Operating costs and expenses	\$—	\$ (63.1)	\$ (31.9)	\$ (0.5)
Foreign currency forward contracts	Operating costs and expenses	—	(118.2)	(84.5)	—
Total		\$—	\$ (181.3)	\$ (116.4)	\$ (0.5)

⁽¹⁾ Includes the reclassification from "Accumulated other comprehensive loss" into earnings of \$0.1 million of previously unrecognized gains on foreign currency cash flow hedge contracts monetized in the fourth quarter of 2012.

Financial Instrument	Income Statement Classification (Losses) - Realized	Three Months Ended September 30, 2014			
		Gain recognized in income on non-designated derivatives	Loss recognized in other comprehensive income on derivatives (effective portion)	(Loss) gain reclassified from other comprehensive income into income (effective portion) ⁽¹⁾	Loss reclassified from other comprehensive income into income (ineffective portion)
		(Dollars in millions)			
Commodity swap contracts	Operating costs and expenses	\$—	\$ (47.3)	\$ (1.0)	\$ (1.8)
Foreign currency forward contracts	Operating costs and expenses	—	(227.7)	9.6	—
Total		\$—	\$ (275.0)	\$ 8.6	\$ (1.8)

⁽¹⁾ Includes the reclassification from "Accumulated other comprehensive loss" into earnings of \$31.9 million of previously unrecognized gains on foreign currency cash flow hedge contracts monetized in the fourth quarter of 2012.

Financial Instrument	Income Statement Classification Gains (Losses) - Realized	Nine Months Ended September 30, 2015			
		Gain	Loss	Loss	Gain
		recognized in	recognized in	reclassified	reclassified
		income on	other	from other	from other
		non-designated	comprehensive	comprehensive	comprehensive
		derivatives	income on	income into	income into
			derivatives	income	income
			(effective	(effective	(ineffective
			portion)	portion) ⁽¹⁾	portion)
		(Dollars in millions)			
Commodity swap contracts	Operating costs and expenses	\$—	\$ (27.3)	\$ (89.0)	\$ 1.3
Foreign currency forward contracts	Operating costs and expenses	—	(137.2)	(238.9)	—
Total		\$—	\$ (164.5)	\$ (327.9)	\$ 1.3

⁽¹⁾ Includes the reclassification from "Accumulated other comprehensive loss" into earnings of \$14.9 million of previously unrecognized gains on foreign currency cash flow hedge contracts monetized in the fourth quarter of 2012.

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Financial Instrument	Income Statement Classification Gains (Losses) - Realized	Nine Months Ended September 30, 2014			
		Gain recognized in income on non-designated derivatives	(Loss) gain recognized in other comprehensive income on derivatives (effective portion)	Loss reclassified from other comprehensive income into income (effective portion) ⁽¹⁾	Loss reclassified from other comprehensive income into income (ineffective portion)
		(Dollars in millions)			
Commodity swap contracts	Operating costs and expenses	\$—	\$ (38.1)	\$ (3.3)	\$ (1.0)
Foreign currency forward contracts	Operating costs and expenses	—	48.7	(2.9)	—
Total		\$—	\$ 10.6	\$ (6.2)	\$ (1.0)

⁽¹⁾ Includes the reclassification from "Accumulated other comprehensive loss" into earnings of \$106.7 million of previously unrecognized gains on foreign currency cash flow hedge contracts monetized in the fourth quarter of 2012.

Cash Flow Presentation. The Company classifies the cash effects of its Corporate Hedging derivatives within the "Cash Flows From Operating Activities" section of the unaudited condensed consolidated statements of cash flows.

Offsetting and Balance Sheet Presentation

The Company's Corporate Hedging 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 Corporate Hedging 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 Corporate Hedging derivatives exist at the overall counterparty level across its foreign currency and diesel fuel hedging strategy derivative contract portfolios, the Company's accounting policy is 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 Corporate Hedging derivatives with each counterparty by derivative contract portfolio on a routine basis. The classification and amount of Corporate Hedging derivative financial instruments presented on a gross and net basis as of September 30, 2015 and December 31, 2014 are presented in the tables that follow.

Financial Instrument	Fair Value of Liabilities Presented in the Condensed Consolidated Balance Sheet as of September 30, 2015 ⁽¹⁾
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	(Dollars in millions)
Current Liabilities:	
Commodity swap contracts	\$68.4
Foreign currency forward contracts	203.7
Total	\$272.1
Noncurrent Liabilities:	
Commodity swap contracts	\$38.3
Foreign currency forward contracts	89.8
Total	\$128.1

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Financial Instrument	Fair Value of Liabilities Presented in the Condensed Consolidated Balance Sheet as of December 31, 2014 ⁽¹⁾ (Dollars in millions)
Current Liabilities:	
Commodity swap contracts	\$100.1
Foreign currency forward contracts	241.0
Total	\$341.1
Noncurrent Liabilities:	
Commodity swap contracts	\$67.0
Foreign currency forward contracts	169.0
Total	\$236.0

(1) All commodity swap contracts and foreign currency forward contracts were in a liability position as of September 30, 2015 and December 31, 2014.

The Company's Corporate Hedging derivative financial instruments are generally considered Swap Obligations, as that term is defined in the Company's secured credit agreement dated September 24, 2013 (as amended, the 2013 Credit Facility). Accordingly, such instruments, when in a liability position, are first lien obligations secured by the collateral and all of the property that is subject to liens under the 2013 Credit Facility. Refer to Note 12. "Long-term Debt" for additional information surrounding that collateral.

See Note 8. "Coal Trading" for information on balance sheet offsetting related to the Company's coal trading activities. Fair Value Measurements

The Company uses a three-level fair value hierarchy that categorizes assets and liabilities measured at fair value based on the observability of the inputs utilized in the valuation. These levels include: Level 1 - inputs are quoted prices in active markets for the identical assets or liabilities; Level 2 - inputs are other than quoted prices included in Level 1 that are directly or indirectly observable through market-corroborated inputs; and Level 3 - inputs are unobservable, or observable but cannot be market-corroborated, requiring the Company to make assumptions about pricing by market participants.

Financial Instruments Measured on a Recurring Basis. The following tables set forth the hierarchy of the Company's net financial asset (liability) positions for which fair value is measured on a recurring basis:

	September 30, 2015			Total
	Level 1	Level 2	Level 3	
	(Dollars in millions)			
Investments in debt and equity securities	\$20.2	\$30.7	\$—	\$50.9
Commodity swap contracts	—	—	(106.7)	(106.7)
Foreign currency contracts	—	—	(293.5)	(293.5)
Total net financial assets (liabilities)	\$20.2	\$30.7	\$(400.2)	\$(349.3)
	December 31, 2014			

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	Level 1 (Dollars in millions)	Level 2	Level 3	Total
Investments in debt and equity securities	\$26.1	\$35.7	\$—	\$61.8
Commodity swap contracts	—	(167.1) —	