

PEABODY ENERGY CORP

Form 11-K

March 30, 2007

**Table of Contents**

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 11-K**

þ **ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**

**For the fiscal year ended December 31, 2006**

**OR**

o **TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number 1-16463**

Full title of the plan and the address of the plan, if different from that of  
the issuer named below:

**Peabody Energy Corporation Employee Stock Purchase Plan**

Name of issuer of the securities held pursuant to the plan and the address of  
its principal executive office:

**Peabody Energy Corporation**

**701 Market Street, St. Louis, Missouri**

**63101-1826**

(Address of principal executive offices)

(Zip Code)

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TABLE OF CONTENTS

	PAGE
<u>Report of Independent Registered Public Accounting Firm</u>	2
Financial Statements:	
<u>Statements of Financial Condition</u>	3
<u>Statements of Income and Changes in Plan Equity</u>	4
<u>Notes to Financial Statements</u>	5
<u>Signatures</u>	9
<u>Exhibit Index</u>	10
Exhibit 23 Consent of Independent Registered Public Accounting Firm <u>Consent of Ernst &amp; Young LLP</u>	

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**Table of Contents**

Report of Independent Registered Public Accounting Firm

We have audited the accompanying statements of financial condition of Peabody Energy Corporation Employee Stock Purchase Plan as of December 31, 2006 and 2005, and the related statements of income and changes in plan equity for each of the three years in the period ended December 31, 2006. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Plan's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial condition of the Plan at December 31, 2006 and 2005, and the changes in its income and changes in plan equity for each of the three years in the period ended

December 31, 2006, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

St. Louis, Missouri

March 20, 2007

Table of Contents

**PEABODY ENERGY CORPORATION EMPLOYEE STOCK PURCHASE PLAN  
STATEMENTS OF FINANCIAL CONDITION**

	<b>December 31,</b>	
	<b>2006</b>	<b>2005</b>
<b>ASSETS</b>		
Participant deposits due from Peabody Energy Corporation	<b>\$ 3,096,488</b>	\$ 1,772,199
<b>LIABILITIES</b>		
Stock purchase payable	<b>3,096,488</b>	1,772,199
<b>PLAN EQUITY</b>	<b>\$</b>	<b>\$</b>

See accompanying notes to financial statements.

**Table of Contents**

**PEABODY ENERGY CORPORATION EMPLOYEE STOCK PURCHASE PLAN  
STATEMENTS OF INCOME AND CHANGES IN PLAN EQUITY**

	<b>Year Ended December 31,</b>		
	<b>2006</b>	<b>2005</b>	<b>2004</b>
<b>ADDITIONS TO NET ASSETS:</b>			
Participant contributions	<b>\$ 5,842,312</b>	\$ 3,431,751	\$ 2,553,361
<b>DEDUCTIONS FROM NET ASSETS:</b>			
Contributions held for future stock purchases	<b>(3,096,488)</b>	(1,772,199)	(1,349,168)
Contributions used for stock purchases	<b>(2,745,824)</b>	(1,659,552)	(1,204,193)
 <b>NET CHANGE IN PLAN EQUITY</b>			
 <b>PLAN EQUITY:</b>			
Beginning of period			
 End of period	 \$	 \$	 \$

See accompanying notes to financial statements.

**Table of Contents**

**PEABODY ENERGY CORPORATION EMPLOYEE STOCK PURCHASE PLAN  
NOTES TO FINANCIAL STATEMENTS  
Years Ended December 31, 2006 and 2005**

**1. Description of the Plan**

The following description of the Peabody Energy Corporation Employee Stock Purchase Plan (the Plan), sponsored by Peabody Energy Corporation (the Company), provides only general information. Participants should refer to the plan documents for a more complete description of the Plan's provisions.

**General**

The Plan is an employee stock purchase plan, established on May 22, 2001, that enables eligible employees of the Company and certain of its subsidiaries to purchase Peabody Energy Corporation common stock at a discount from fair market value. The purchase price is equal to 85% of the lower of the fair market value of the common stock on the first or last day of an offering period, as defined in the Plan. Fair market value is the closing price on each of the applicable dates as quoted on the New York Stock Exchange. Each plan year begins on January 1 and contains two serial offering periods of six-month duration. Subsequent six-month offering periods automatically commence unless otherwise specified by the Plan administrator. Purchased shares of common stock are issued by the Company to participant brokerage accounts maintained outside of the Plan by the Plan custodian.

There were 6.0 million shares of the Company's common stock authorized for sale under the Plan, and as of December 31, 2006, 1.9 million common shares of this allotment had been sold, leaving 4.1 million common shares available for sale in the future. Common stock sold under the Plan may be newly issued or sold from treasury stock.

**Administration of the Plan**

The Plan is administered by a committee appointed by the Peabody Energy Corporation Board of Directors. Allecon Stock Associates, LLC serves as the recordkeeper and A.G. Edwards & Sons, Inc. serves as the custodian for the Plan. Administrative expenses of the Plan are paid by the Company.

**Eligibility**

Employees of the Company or participating subsidiaries of the Company are eligible to participate in the Plan if:  
their customary employment is more than 20 hours per week and they are employed more than five months per year; and

they own less than 5% of the total combined voting power of all outstanding stock of all classes of securities of the Company.

Participation begins on the first day of the offering period.

**Table of Contents**

**PEABODY ENERGY CORPORATION EMPLOYEE STOCK PURCHASE PLAN  
NOTES TO FINANCIAL STATEMENTS**

**Participant Accounts**

A separate account is maintained by the custodian for each Plan participant. Each participant account reflects the quantity and pricing of common share purchases and sales, dividends reinvested, and investment gains and losses. Assets held in participant accounts are neither assets of the Plan nor the Company.

**Contributions**

The Plan allows participants to elect an after-tax contribution rate of 1% to 15% of the participant's eligible compensation, which includes straight-time wages or base salary. Bonuses, incentive compensation, overtime, commissions and shift premiums paid to a participant are not included in eligible compensation. Plan participants may modify their contribution rate once during each offering period. Contributions are made through payroll deductions and are held by the Company until the common stock is purchased. Employees may not purchase more than \$25,000 worth of common stock through the Plan in any calendar year, and contributions in excess of this amount are refunded to the participant. No interest is paid on contributions made during an offering period, and the Company does not make contributions to the Plan.

Participant contributions are used to purchase shares of the Company's common stock at the termination of an offering period. Purchases are made in whole and fractional shares. A participant may discontinue their contributions to, or withdraw from, the Plan prior to 15 days before the end of an offering period. If contributions are discontinued, the participant may request a refund of all contributions made during the offering period or use these contributions deducted during the current offering period to purchase common stock. Any common stock previously purchased during an offering period remains in the participant's account even if the participant discontinues contributions or withdraws from the Plan during the current offering period. Common stock purchases are made automatically, unless a participant withdrawal is executed.

**Sale of Common Stock**

Common stock purchased under the Plan is subject to a restriction period of 18 months from the date the common stock is purchased. Common stock may not be sold, pledged or transferred during this restriction period.

**Dividends**

Dividends paid on common stock held in participant accounts are automatically reinvested in additional shares or fractional shares of the Company's common stock. Common shares purchased with dividends are priced at 100% of the fair market value of the common stock on the date dividends are paid. There is no time requirement for holding common stock purchased with dividends.



**Table of Contents**

**PEABODY ENERGY CORPORATION EMPLOYEE STOCK PURCHASE PLAN  
NOTES TO FINANCIAL STATEMENTS**

**2. Summary of Significant Accounting Policies**

**Basis of Presentation**

The financial statements of the Plan are prepared using the accrual basis of accounting. On January 23, 2006, the Company announced a two-for-one stock split on all shares of its common stock payable to shareholders of record at the close of business on February 7, 2006. The additional common stock was distributed on February 22, 2006. The Company had a similar two-for-one common stock split on March 30, 2005. All common stock amounts in these notes to the financial statements reflect the common stock splits.

**Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires the Plan administrator and the Company to make estimates that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from these estimates.

**3. Participant Deposits Due from the Company and Stock Purchase Payable**

As of December 31, 2006 and 2005, the Plan had an obligation to purchase the Company's common stock on behalf of the participants in an amount equal to the participant contributions held on deposit by the Company. The liability is reflected in the accompanying Statements of Financial Condition as Stock purchase payable. Amounts contributed by Plan participants during the offering period from July 1, 2006 to December 31, 2006 and July 1, 2005 to December 31, 2005 are reflected as Participant deposits due from Peabody Energy Corporation at December 31, 2006 and 2005, respectively. All common stock purchased was deposited directly into the participants' accounts.

**4. Tax Status**

The Plan, and the rights of participants to make purchases thereunder, is intended to qualify as an employee stock purchase plan under Section 423 of the U.S. Internal Revenue Code of 1986, as amended (the Code). The Plan is not intended to be a qualified pension, profit-sharing or stock bonus plan under Section 401(a) of the Code, nor is it subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended. Pursuant to Section 423 of the Code, no income, other than dividends on stock held in participant accounts, will be taxable to a participant until disposition of the stock purchased under the Plan. Upon the disposition of the stock, the participant will generally be subject to tax and the amount and character of the tax will depend upon the holding period and disposition price. Dividends received on stock held in the participant's account are taxable to the participant as ordinary income. The Plan does not provide for income taxes.

**Table of Contents**

**PEABODY ENERGY CORPORATION EMPLOYEE STOCK PURCHASE PLAN  
NOTES TO FINANCIAL STATEMENTS**

**5. Plan Amendments and Termination**

The Company may amend or terminate the Plan at any time. However, no amendment can adversely affect participant rights under the Plan in the current offering period. The Plan will continue in effect until the earlier of the date the Company terminates the Plan or the date all of the shares of common stock subject to the Plan, as amended from time to time, are purchased. Although it has not expressed any intent to do so, if the Company terminates the Plan, it will terminate in its entirety, and no further purchase rights will be granted or exercised and no further payroll contributions will be collected. In the event of a termination of the Plan, all contributions held by the Plan would be refunded to the Plan participants at the time of termination. Any action taken by the Company with respect to the Plan will be by resolution of the Peabody Energy Corporation Board of Directors.

**Table of Contents**

**SIGNATURES**

*Peabody Energy Corporation Employee Stock Purchase Plan*. Pursuant to the requirements of the Securities Exchange Act of 1934, the Plan administrator has duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

Peabody Energy Corporation  
Employee Stock Purchase Plan

Date: March 30, 2007

By: /s/ SHARON D. FIEHLER  
Sharon D. Fiehler  
Peabody Energy Corporation  
Executive Vice President of  
Human Resources and Administration

9

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**Table of Contents**

**EXHIBIT INDEX**

The exhibits below are numbered in accordance with the Exhibit Table of Item 601 of Regulation S-K.

Exhibit

No.	Description of Exhibit
23	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm

10