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PEABODY ENERGY CORP
Form 11-K
June 28, 2005

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 11-K

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004
OR

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

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:

BLACK BEAUTY COAL COMPANY 401(k) 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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Report of Independent Registered Public Accounting Firm

The Plan Administrator
Defined Contribution Administrative Committee

We have audited the accompanying statements of net assets available for benefits of Black Beauty Coal Company 401(k) Plan as of December 31, 2004 and 2003, and the related statements of changes in net assets available for benefits for the years then ended. 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 net assets available for benefits of the Plan at December 31, 2004 and 2003, and the changes in its net assets available for benefits for the years then ended, in conformity with U.S. generally accepted accounting principles.

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental schedule of assets (held at end of year) as of December 31, 2004, is presented for purposes of

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additional analysis and is not a required part of the financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

/s/ ERNST & YOUNG LLP

Ernst & Young LLP

St. Louis, Missouri
June 2, 2005

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Black Beauty Coal Company 401(k) Plan

Statements of Net Assets Available for Benefits

| | DECEMBER 31 | |
|---|---------------|---------------|
| | 2004 | 2003 |
| | ----- | ----- |
| ASSETS | | |
| Investments, at fair value: | | |
| Investments in mutual funds | \$ 57,345,585 | \$ 46,685,604 |
| Investment in common/collective trust | 4,142,848 | 2,903,832 |
| Investment in Peabody Energy Stock Fund | 1,903,638 | 133,891 |
| | ----- | ----- |
| Total investments | 63,392,071 | 49,723,327 |
| Receivables: | | |
| Employer contributions | 2,490,281 | -- |
| | ----- | ----- |
| Net assets available for benefits | \$ 65,882,352 | \$ 49,723,327 |
| | ===== | ===== |

See accompanying notes.

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Black Beauty Coal Company 401(k) Plan

Statements of Changes in Net Assets Available for Benefits

| | YEAR ENDED DECEMBER 31 2004 | 2003 |
|--|--------------------------------|---------------|
| | ----- | ----- |
| ADDITIONS | | |
| Interest and dividends | \$ 992,834 | \$ 655,604 |
| Net realized and unrealized appreciation of investments | 5,392,240 | 8,215,536 |
| | ----- | ----- |
| Net investment income | 6,385,074 | 8,871,140 |
| | ----- | ----- |
| Contributions: | | |
| Employee | 5,873,726 | 4,951,620 |
| Employer | 5,971,901 | 2,885,859 |
| Rollover | 112,195 | 302,420 |
| | ----- | ----- |
| Total contributions | 11,957,822 | 8,139,899 |
| | ----- | ----- |
| Total additions | 18,342,896 | 17,011,039 |
| | ----- | ----- |
| DEDUCTIONS | | |
| Withdrawals by participants | (2,183,871) | (1,587,654) |
| | ----- | ----- |
| Net increase in net assets available for benefits | 16,159,025 | 15,423,385 |
| Net assets available for benefits at beginning of year | 49,723,327 | 34,299,942 |
| | ----- | ----- |
| Net assets available for benefits at end of year | \$ 65,882,352 | \$ 49,723,327 |
| | ===== | ===== |

See accompanying notes.

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Years Ended December 31, 2004 and 2003

1. DESCRIPTION OF THE PLAN

The following description of the Black Beauty Coal Company (the "Company") 401(k) Plan (the "Plan") provides only general information. Participants should refer to the plan documents for a more complete description of the Plan's provisions. The Company is an indirect, wholly-owned subsidiary of Peabody Energy Corporation.

GENERAL

The Plan is a defined contribution plan offered by the Company and its divisions, Black Beauty Underground and Black Beauty Mining and its subsidiaries GIBCO Motor Express, LLC and GIBCO Fuels, LLC. Participation in the Plan is voluntary, and all full-time employees who are not covered by a collective bargaining agreement are eligible for participation in the Plan on the date of their employment, or at any time afterward. Prior to March 15, 2004, the Plan covered all full-time employees who had completed one year of service, had attained 21 years of age, and were not covered by a collective bargaining agreement. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA").

The Plan allows participants to invest in a selection of mutual funds, a common/collective trust, and the Peabody Energy Stock Fund. All investments in the Plan are participant-directed.

CONTRIBUTIONS

Each year, participants may contribute any whole percentage from 1% to 60% of pre-tax base compensation, as defined in the Plan. Participants may also contribute distributions from other qualified defined benefit or defined contribution plans.

In the calendar year that a participant is age 50 or older and each year thereafter, certain participants meeting additional specific criteria are permitted to make catch-up contributions to the Plan. These participants are able to contribute amounts in excess of the maximum otherwise permitted by the Plan, subject to certain limitations.

The Company makes matching contributions equal to 90% of the first 6% of eligible compensation that a participant contributes to the Plan. Prior to July 1, 2003, the Company made matching contributions equal to 85% of the first 6% of eligible compensation that a participant contributed to the Plan.

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Black Beauty Coal Company 401(k) Plan

Notes to Financial Statements (continued)

1. DESCRIPTION OF THE PLAN (CONTINUED)

Participants direct the investment of employee and employer matching contributions into various investment options offered by the Plan. All

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contributions are subject to certain limitations as defined by the Plan and the Internal Revenue Service ("IRS").

In 2004, the Plan participants became eligible for a performance contribution as established by the Board of Directors of Peabody Energy Corporation. The Board of Directors establishes desired minimum and maximum performance targets that require the Company to pay a performance contribution into the account of each active, eligible employee between 0% and 4% of the employee's base compensation as of the end of the fiscal year, based upon Peabody Energy Corporation's level of achievement of the approved target. If the minimum performance targets set by the Board of Directors for a fiscal year are not met, the Board of Directors may authorize the Company to contribute a discretionary amount to the Plan. If the maximum performance targets set by the Board of Directors for a fiscal year are exceeded, the Board of Directors, at its discretion, may authorize the Company to contribute up to an additional 2% of base compensation to the Plan.

At December 31, 2004, a receivable for \$2.5 million was recorded for a performance contribution of 4% of eligible employees' salaries related to the 2004 plan year.

PARTICIPANT ACCOUNTS

Each participant's account is credited with the participant's contributions, the Company's contributions, and plan earnings. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.

PAYMENT OF BENEFITS

On termination of service, a participant generally may elect to receive either a lump-sum amount equal to the value of the participant's interest in their account, or monthly, quarterly, annual, or semiannual installments. In the event of the participant's death, the beneficiary is eligible for a lump sum payment. Withdrawals in cases of hardship, as defined in the Plan, are also permitted.

VESTING

Employer and employee contributions are vested 100% at the time of contribution.

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Black Beauty Coal Company 401(k) Plan

Notes to Financial Statements (continued)

1. DESCRIPTION OF THE PLAN (CONTINUED)

PLAN TERMINATION

The Plan is voluntary on the part of the Company. The Company may terminate the Plan in whole or in part subject to the provisions of ERISA. Upon termination or complete discontinuance of all contributions to the Plan, participants' accounts remain fully vested. Currently, the Company has no intention to terminate the Plan.

ADMINISTRATIVE EXPENSES

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All significant administrative expenses of the Plan are paid by the Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The financial statements of the Plan are prepared under the accrual method of accounting.

USE OF ESTIMATES

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

VALUATION OF INVESTMENTS AND INCOME RECOGNITION

The Plan's investments are stated at fair value. Shares of mutual funds are valued at quoted market prices which represent the net asset value of shares held by the Plan at year-end. Units in the common/collective trust are valued at net asset value at year-end. The stock fund is valued at year-end unit closing price (comprised of the year-end market price plus any uninvested cash position).

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded when earned. Dividends are recorded on the ex-dividend date. Capital gain distributions are included in dividend income.

PAYMENT OF BENEFITS

Benefits are recorded when paid.

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Black Beauty Coal Company 401(k) Plan

Notes to Financial Statements (continued)

3. RELATED PARTY TRANSACTIONS

The Plan invests in shares of mutual funds managed by an affiliate of its trustee, Vanguard Fiduciary Trust Company, a party-in-interest with respect to the Plan. These transactions are covered by an exemption from the "prohibited transaction" provisions of ERISA and the Internal Revenue Code of 1986 ("the Code"), as amended. The Plan also invests in Peabody Energy Corporation stock, through the Peabody Energy Stock Fund, which is a permitted party-in-interest transaction.

4. INVESTMENTS

The Plan's investments, including those purchased, sold or held during the year, appreciated in fair value as determined by quoted market prices as follows:

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| | 2004 ----- | 2003 ----- |
|---------------------------|---------------|---------------|
| Mutual funds | \$4,871,909 | \$8,192,188 |
| Peabody Energy Stock Fund | 520,331 | 23,348 |
| | ----- | ----- |
| | \$5,392,240 | \$8,215,536 |
| | ===== | ===== |

Investments representing 5% or more of the fair value of the Plan's net assets at December 31 were as follows:

| | 2004 ----- | 2003 ----- |
|---|---------------|---------------|
| Mutual funds: | | |
| Fidelity Magellan Fund | \$ 19,784,801 | \$ 18,792,078 |
| Vanguard LifeStrategy Moderate Growth Fund | 10,721,760 | 8,907,114 |
| Vanguard PRIMECAP Fund | 13,423,473 | 10,090,062 |
| Common/collective trust: | | |
| Vanguard Retirement Savings Trust | 4,142,848 | 2,903,832 |

5. INCOME TAX STATUS

The underlying nonstandardized prototype plan received an opinion letter from the IRS dated August 22, 2001, stating that the written form of the underlying prototype document is qualified under Section 401(a) of the Code, and that any employer adopting this form of the plan will be considered to have a plan qualified under Section 401(a) of

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Black Beauty Coal Company 401(k) Plan

Notes to Financial Statements (continued)

5. INCOME TAX STATUS (CONTINUED)

the Code. Therefore, the related trust is exempt from taxation. Once qualified, the Plan is required to operate in conformity with the Code to maintain its qualification. The Plan was amended subsequent to the IRS opinion letter. The Plan's administrator believes the Plan is being operated in compliance with the applicable requirements of the Code and, therefore, believes the Plan, as amended, is qualified and the related trust is tax-exempt. The Plan's sponsor has indicated that it will take the necessary steps, if any, to maintain the Plan's qualified status.

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6. RISKS AND UNCERTAINTIES

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the statements of net assets available for benefits.

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Supplemental Schedule

Black Beauty Coal Company 401(k) Plan

Employer ID #35-1799736
Plan #001

Schedule H, Line 4i - Schedule of Assets (Held at End of Year)

December 31, 2004

| IDENTITY OF ISSUE | DESCRIPTION OF INVESTMENT TYPE | CURRENT VALUE |
|---|---|---------------|
| Fidelity Magellan Fund* | 190,623 shares of mutual fund | \$ 19,784,801 |
| Vanguard 500 Index Fund* | 28,504 shares of mutual fund | 3,182,170 |
| Vanguard Explorer Fund* | 13,215 shares of mutual fund | 985,406 |
| Vanguard Extend Mkt Index Fund* | 23,437 shares of mutual fund | 734,995 |
| Vanguard Int'l Growth Fund* | 133,208 shares of mutual fund | 2,512,307 |
| Vanguard LifeStrategy Conserv Growth* | 14,068 shares of mutual fund | 214,674 |
| Vanguard LifeStrategy Growth Fund* | 29,120 shares of mutual fund | 583,572 |
| Vanguard LifeStrategy Income Fund* | 32,269 shares of mutual fund | 436,600 |
| Vanguard LifeStrategy Moderate Growth Fund* | 598,647 shares of mutual fund | 10,721,760 |
| Vanguard PRIMECAP Fund* | 215,465 shares of mutual fund | 13,423,473 |
| Vanguard Total Bond Mkt Index* | 263,082 shares of mutual fund | 2,701,853 |
| Vanguard Windsor Fund* | 37,308 shares of mutual fund | 674,150 |
| Vanguard Windsor II Fund* | 45,227 shares of mutual fund | 1,389,824 |
| Vanguard Retirement Savings Trust* | 4,142,848 shares of common/ collective trust | 4,142,848 |
| Peabody Energy Stock Fund* | 56,254 units of stock fund | 1,903,638 |
| | | \$ 63,392,071 |
| | | ===== |

* Parties-in-interest.

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SIGNATURES

Black Beauty Coal Company 401(k) 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.

Black Beauty Coal Company
401(k) Plan

Date: June 27, 2005

By: /s/ SHARON D. FIEHLER

Sharon D. Fiehler
Peabody Energy Corporation
Executive Vice President,
Human Resources & Administration

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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 |

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