

PEABODY ENERGY CORP
Form 11-K
June 25, 2010

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

(Mark One)

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

For the fiscal year ended December 31, 2009

or

**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
PEABODY WESTERN-UMWA 401(K) PLAN**

**Full title of the plan
PEABODY ENERGY CORPORATION
701 Market Street, St. Louis, Missouri 63101-1826**

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

Peabody Western-UMWA 401(k) Plan
Financial Statements and Supplemental Schedule
Years Ended December 31, 2009 and 2008
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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 Peabody Western UMWA 401(k) Plan as of December 31, 2009 and 2008, 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, 2009 and 2008, and the changes in its net assets available for benefits for the years then ended, in conformity with US 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, 2009, is presented for purposes of 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

St. Louis, Missouri

June 25, 2010

Peabody Western-UMWA 401(k) Plan
 Statements of Net Assets Available for Benefits

	December 31,	
	2009	2008
Assets:		
Investments, at fair value:		
Investments in mutual funds	\$ 6,699,827	\$ 5,564,801
Investment in common/collective trust	1,745,505	1,432,608
Interest in Master Trust	627,904	305,639
Participant notes receivable	517,780	572,899
Net assets, at fair value	9,591,016	7,875,947
Adjustment from fair value to contract value for fully benefit-responsive investment contracts	(37,735)	18,729
Net assets available for benefits	\$ 9,553,281	\$ 7,894,676

See accompanying notes.

Peabody Western-UMWA 401(k) Plan
Statements of Changes in Net Assets Available for Benefits

	Years Ended December 31,	
	2009	2008
Additions:		
Interest and dividends	\$ 198,756	\$ 365,854
Net realized and unrealized appreciation (depreciation) of mutual funds	1,360,645	(2,983,606)
Net investment income (loss) in the Master Trust	319,411	(544,449)
Net investment income (loss)	1,878,812	(3,162,201)
Contributions:		
Employee	639,191	665,311
Employer	2,300	3,680
Total contributions	641,491	668,991
Total additions (reductions)	2,520,303	(2,493,210)
Deductions:		
Withdrawals by participants	(860,268)	(902,349)
Administrative expenses	(1,430)	(1,408)
Total deductions	(861,698)	(903,757)
Net increase (decrease) in net assets available for benefits	1,658,605	(3,396,967)
Net assets available for benefits at beginning of year	7,894,676	11,291,643
Net assets available for benefits at end of year	\$ 9,553,281	\$ 7,894,676

See accompanying notes.

Peabody Western-UMWA 401(k) Plan
Notes to Financial Statements
Years Ended December 31, 2009 and 2008

1. Description of the Plan

The following description of the Peabody Western-UMWA 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.

General

The Plan is a defined contribution plan and participation in the Plan is voluntary. Employees of Peabody Western Coal Company, Big Sky Coal Company, and Seneca Coal Company (collectively, the Employers) who are members of the United Mine Workers of America (UMWA) collective bargaining unit covered by the Western Surface Agreement are eligible for participation on the date of their employment. The Employers are indirect, wholly owned subsidiaries of Peabody Energy Corporation (Peabody). The Plan's administrator or sponsor is Peabody Holding Company, LLC (the Plan Administrator or the Plan Sponsor). The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA).

The Plan allows participants to invest in a selection of mutual funds, a common/collective trust and the Peabody Energy Stock Fund, which is a participating investment in the Master Trust. See Note 2 for additional details related to the Master Trust. All investments in the Plan are participant-directed.

Contributions

Each year participants may contribute on a pre-tax basis any whole percentage from 2% to 50% of eligible compensation, as defined in the Plan. Participants may rollover account balances from other qualified defined benefit or defined contribution plans. Additionally, participants may defer the cash equivalent of up to 10 employee benefit days (e.g., personal, floating or graduated days) per calendar year. The Employers make matching contributions to the Plan on behalf of all qualified participants. The amount of matching contributions for each qualified participant is 25% of the cash equivalent of employee benefit days that a participant defers.

Participants direct the investment of employee and employer matching contributions into various investment options offered by the Plan. All contributions are subject to certain limitations as defined by the Plan and the Internal Revenue Service (IRS).

In the calendar year that a participant is age 50 or older and each year thereafter, he or she is 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 and the IRS, subject to certain limitations.

Peabody Western-UMWA 401(k) Plan
Notes to Financial Statements

Vesting

Participants are vested immediately in their own contributions, employer matching contributions and the actual earnings thereon.

Participant Loans

Participants may borrow up to 50% of their vested account balance subject to minimum and maximum amounts of \$1,000 and \$50,000, respectively. The loan is secured by the balance in the participant's account and bears interest at the prime interest rate as published in *The Wall Street Journal* on the first business day of the month in which the loan was made, plus an additional 1%. Principal and interest are paid ratably through payroll deductions. Only one loan may be outstanding at a time.

Participant Accounts

Each participant's account is credited with the participant's contributions, the employer contributions, and plan earnings. The benefit to which a participant is entitled is the vested balance of the participant's account.

Payment of Benefits

Participants are eligible for distribution of their entire account balance upon death, disability, or termination of employment. Participants may elect to receive their distribution as either a lump-sum payment or as installments in certain circumstances, as defined in the Plan. Participants may also elect to transfer their account balance into an individual retirement account or another qualified plan.

Participants who have attained the age of 59^{1/2} have the right to receive a partial or full distribution of their account balance. Withdrawals in cases of hardship are also permitted, as defined in the Plan.

Plan Termination

The Plan could be terminated through the collective bargaining process, subject to the provisions of ERISA.

Participants' accounts remain fully vested upon termination of the Plan. Currently, the Employers have no intention to terminate the Plan.

Administrative Expenses

All significant administrative expenses of the Plan, including recordkeeping, audit and trustee fees, are paid by the Employers. Participants are required to pay for certain miscellaneous transaction fees.

Peabody Western-UMWA 401(k) 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 method of accounting.

Newly Adopted Accounting Standards and Accounting Standards Not Yet Implemented

In September 2006, the Financial Accounting Standards Board (FASB) issued an accounting standard which establishes a framework for measuring fair value under U.S. generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. The standard applies under accounting pronouncements that require or permit fair value measurements, but the standard does not require any new fair value measurements. The Plan Sponsor adopted the required standard on a prospective basis on January 1, 2008 and it did not have a material impact on the financial statements of the Plan. In October 2008, the FASB issued additional guidance which clarified the application of the standard in an inactive market and demonstrated how the fair value of a financial asset is determined when the market for that financial asset is inactive. This guidance was effective upon issuance, including prior periods for which financial statements had not been issued. The adoption of the standard did not impact the Plan Sponsor's determination of fair value for financial assets.

In April 2009, the FASB issued FASB Staff position 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FSP 157-4). FSP 157-4 amended FASB Statement No. 157 (codified as ASC 820) to provide additional guidance on estimating fair value when the volume and level of activity for an asset or liability have significantly decreased in relation to its normal market activity. FSP 157-4 also provided additional guidance on circumstances that may indicate that a transaction is not orderly and on defining major categories of debt and equity securities to comply with the disclosure requirements of ASC 820. The Plan adopted the guidance in FSP 157-4 for the reporting period ended December 31, 2009. Adoption of FSP 157-4 did not have a material effect on the Plan's net assets available for benefits or its changes in net assets available for benefits.

Peabody Western-UMWA 401(k) Plan
Notes to Financial Statements

In September 2009, the FASB issued Accounting Standards Update 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* (ASU 2009-12). ASU 2009-12 amended ASC 820 to allow entities to use net asset value (NAV) per share (or its equivalent), as a practical expedient, to measure fair value when the investment does not have a readily determinable fair value and the net asset value is calculated in a manner consistent with investment company accounting. The Plan adopted the guidance in ASU 2009-12 for the reporting period ended December 31, 2009 and has utilized the practical expedient to measure the fair value of investments within the scope of this guidance based on the investment's NAV. In addition, as a result of adopting ASU 2009-12, the Plan has provided additional disclosures regarding the nature and risks of investments within the scope of this guidance. Refer to Note 3 for these disclosures. Adoption of ASU 2009-12 did not have a material effect on the Plan's net assets available for benefits or its changes in net assets available for benefits.

In January 2010, the FASB issued accounting guidance that requires new fair value disclosures, including significant transfers in and out of Level 1 and Level 2 fair-value measurements and a description of the reasons for the transfers. In addition, the guidance requires new disclosures regarding activity in Level 3 fair value measurements, including a gross basis reconciliation. The new disclosure requirements will be effective for annual periods beginning January 1, 2010, except for the disclosure of activity within Level 3 fair value measurements, which is effective for fiscal years beginning after December 15, 2010 (January 1, 2011 for the Plan). While the adoption of the guidance will impact the Plan's disclosures, it will not affect its statements of net assets available for benefits and the related statements of changes in net assets available for benefits.

Valuation of Investments

The Plan Sponsor defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 3 for further description of fair value measurements.

Fully Benefit-Responsive Investment Contracts

The Vanguard Retirement Savings Trust invests in fully benefit-responsive investment contracts. These investment contracts are recorded at fair value; however, since these contracts are fully benefit-responsive, an adjustment is reflected in the statements of net assets available for benefits to present these investments at contract value. Contract value is the relevant measurement attributable to fully benefit-responsive investment contracts because contract value is the amount participants would receive if they were to initiate permitted transactions under the terms of the Plan. Contract value represents contributions plus earnings, less participant withdrawals and administrative expenses.

Peabody Western-UMWA 401(k) Plan
Notes to Financial Statements

Securities Transactions

Purchases and sales of securities are recorded on a trade-date basis. Realized gains (losses) are computed based on the average cost of securities sold. Interest income is recorded when earned. Dividend income is recorded on the ex-dividend date. Capital gain distributions are included in dividend income.

Interest in Master Trust

Effective October 29, 2008, the Master Trust Agreement for the Peabody Energy Stock Fund and the Patriot Coal Corporation Stock Fund (the Master Trust) was established to hold investments in the Peabody Energy Stock Fund and the Patriot Coal Stock Fund for this Plan as well as Peabody's two other defined contribution plans. Total investment income (loss) of the Master Trust is allocated to each plan investing in the Master Trust based on the units of each fund held by the plan. The Plan's investment in the Patriot Coal Stock Fund was zero as of December 31, 2009 and 2008, respectively.

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.

Reclassifications

Certain amounts in prior periods have been reclassified to conform with the current year presentation, with no effect on previously reported results.

Payment of Benefits

Benefit distributions are recorded when paid.

3. Fair Value Measurements

The Plan Sponsor 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 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 Plan Sponsor to make assumptions about pricing by market participants.

Peabody Western-UMWA 401(k) Plan
Notes to Financial Statements

A financial instrument's level within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Following is a description of the valuation methodologies used for investments measured at fair value, including the general classification of such investments pursuant to the valuation hierarchy.

Mutual Funds

Plan investments include a wide variety of mutual fund types that can generally be classified as holding primarily equity securities, primarily fixed income securities, or a combination of equity and fixed income securities aimed at certain target retirement dates. Shares of mutual funds are valued at quoted market prices, which represent the net asset value (NAV) of shares held by the Plan at year-end. NAV is based on the value of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of shares outstanding. The NAV for these investments is a quoted price in an active market and is classified within Level 1 of the valuation hierarchy.

Common/Collective Trust

Units in the common/collective trust are valued at NAV at year-end. These investments are classified within Level 2 of the valuation hierarchy as the NAV for these investments is a derived price in an active market. This fund is primarily invested in guaranteed investment contracts and synthetic investment contracts. Participant-directed redemptions have no restrictions; however, the Plan is required to provide a one year redemption notice to liquidate its entire share in the fund. The NAV has been estimated based on the fair value of the underlying investment contracts in the fund as reported by the issuer of the fund. The fair value differs from the contract value. As previously discussed in Note 2, contract value is the relevant measurement attributable to fully benefit-responsive investment contracts because contract value is the amount participants would receive if they were to initiate permitted transactions under the terms of the Plan.

Peabody Energy Stock Fund

The Peabody Energy Stock Fund is valued at its unit closing price (comprised of quoted market price plus uninvested cash position, if any) reported on the active market on which the security is traded and is classified within Level 1 of the valuation hierarchy.

Participant Notes Receivable

Participant loans are valued at cost, which approximates market value, and are classified within Level 3 of the valuation hierarchy.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Peabody Western-UMWA 401(k) Plan
Notes to Financial Statements

The following tables set forth the fair value hierarchy of the investments on the statements of net assets available for benefits.

	December 31, 2009			Total
	Level 1	Level 2	Level 3	
Equity mutual funds	\$ 4,427,561	\$	\$	\$ 4,427,561
Fixed income mutual funds	655,529			655,529
Target retirement mutual funds	1,616,737			1,616,737
Fixed income common/collective trust		1,745,505		1,745,505
Peabody Energy Stock Fund ⁽¹⁾	627,904			627,904
Participant notes receivable			517,780	517,780
Total assets at fair value	\$ 7,327,731	\$ 1,745,505	\$ 517,780	\$ 9,591,016

	December 31, 2008			Total
	Level 1	Level 2	Level 3	
Equity mutual funds	\$ 3,393,597	\$	\$	\$ 3,393,597
Fixed income mutual funds	768,450			768,450
Target retirement mutual funds	1,402,754			1,402,754
Fixed income common/collective trust		1,432,608		1,432,608
Peabody Energy Stock Fund ⁽¹⁾	305,639			305,639
Participant notes receivable			572,899	572,899
Total assets at fair value	\$ 5,870,440	\$ 1,432,608	\$ 572,899	\$ 7,875,947

⁽¹⁾ Interest in
Master Trust

Peabody Western-UMWA 401(k) Plan
Notes to Financial Statements

The table below sets forth a summary of changes in the fair value of the Plan's Level 3 investments.

	Years ended December 31,	
	2009	2008
Beginning of year	\$ 572,899	\$ 630,999
Purchases, sales, issuances and settlements, net	(55,119)	(58,100)
End of year	\$ 517,780	\$ 572,899

4. Investments

The following table presents investment information for the Master Trust:

	Years Ended December 31,	
	2009	2008
Investments, at fair value:		
Peabody Energy Stock Fund	\$ 64,602,794	\$ 31,269,131
Plan's interest in Master Trust	1%	1%
Master Trust net investment income (loss):		
Dividend income	\$ 377,150	\$ 177,780
Net appreciation (depreciation) of common stock	33,994,621	(42,357,524)
Net investment income (loss)	\$ 34,371,771	\$ (42,179,744)

Peabody Western-UMWA 401(k) Plan
Notes to Financial Statements

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

	December 31,	
	2009	2008
Mutual funds:		
Vanguard PRIMECAP Fund	\$ 1,278,306	\$ 993,719
Vanguard Explorer Fund	1,232,418	940,030
Vanguard Windsor II Fund	1,137,123	910,904
Vanguard International Growth Fund	684,866	525,591
Vanguard Total Bond Market Index Fund	655,529	768,450
Vanguard Target Retirement 2015 Fund	528,551	366,011*
Vanguard Target Retirement 2020 Fund	623,311	604,901
Common/collective trust:		
Vanguard Retirement Savings Trust	1,745,505	1,432,608

* This investment did not represent 5% or more of the fair value of the Plan's net assets as of December 31, 2008.

5. Reconciliation of Financial Statements to Form 5500

The following is a reconciliation of net assets available for benefits per the financial statements to the Form 5500:

	December 31,	
	2009	2008
Net assets available for benefits per the financial statements	\$ 9,553,281	\$ 7,894,676
Adjustment from contract value to fair value for fully benefit-responsive contracts	37,735	(18,729)
Net assets available for benefits per the Form 5500	\$ 9,591,016	\$ 7,875,947

Peabody Western-UMWA 401(k) Plan
Notes to Financial Statements

6. Related Party Transactions

The Plan invests in shares of mutual funds and units in a common/collective trust 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 and Patriot stocks, through the Peabody Energy Stock Fund and the Patriot Coal Stock Fund, respectively, which are permitted parties-in-interest transactions. Effective December 31, 2008, the Plan no longer invests in Patriot Stock through the Patriot Coal Stock Fund.

7. Income Tax Status

The Plan received a determination letter from the IRS dated August 6, 2007, stating that the Plan was qualified under Section 401(a) of the Code and, therefore, the related trust was exempt from taxation. The Plan was amended subsequent to the IRS determination 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. Once qualified, the Plan is required to operate in conformity with the Code to maintain its qualification.

8. 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.

Supplemental Schedule
Peabody Western-UMWA 401(k) Plan
Employer ID #86-0766626
Plan #001
Schedule H, Line 4i Schedule of Assets (Held at End of Year)
December 31, 2009

(a)	(b) Identity of Issue	(c) Description of Investment	(d) Cost ⁽¹⁾	(e) Current Value
*	Vanguard PRIMECAP Fund	21,509 shares of mutual fund		\$ 1,278,306
*	Vanguard Explorer Fund	21,508 shares of mutual fund		1,232,418
*	Vanguard Windsor II Fund	48,020 shares of mutual fund		1,137,123
*	Vanguard International Growth Fund	40,310 shares of mutual fund		684,866
*	Vanguard Total Bond Market Index Fund	63,336 shares of mutual fund		655,529
*	Vanguard 500 Index Fund	458 shares of mutual fund		47,073
*	Vanguard International Value Fund	699 shares of mutual fund		21,405
*	Vanguard Extended Market Index Fund	437 shares of mutual fund		14,281
*	Vanguard Emerging Markets Stock Index Fund	271 shares of mutual fund		7,013
*	Vanguard Developed Markets Index Fund	530 shares of mutual fund		5,052
*	Vanguard Prime Money Market Fund ⁽²⁾	24 shares of mutual fund	24	24
*	Vanguard Target Retirement Income Fund	2,220 shares of mutual fund		23,508
*	Vanguard Target Retirement 2005 Fund	15,203 shares of mutual fund		166,930
*	Vanguard Target Retirement 2010 Fund	2,622 shares of mutual fund		53,808
*	Vanguard Target Retirement 2015 Fund	46,733 shares of mutual fund		528,551
*	Vanguard Target Retirement 2020 Fund	31,228 shares of mutual fund		623,311
*	Vanguard Target Retirement 2025 Fund	17,469 shares of mutual fund		197,746
*	Vanguard Target Retirement 2030 Fund	1,183 shares of mutual fund		22,842
*	Vanguard Target Retirement 2035 Fund	4 shares of mutual fund		41
*	Vanguard Retirement Savings Trust	1,707,770 units of common/collective trust		1,745,505
*	Various participants	Participant notes receivable, interest rates from 4.25% to 9.25%, maturities through November 25, 2015		517,780

* Denotes
party-in-interest

(1) Cost is not
presented for
participant
directed
investments

(2) This is a
non-participant
directed fund

SIGNATURE

Peabody Western-UMWA 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.

Peabody Western-UMWA 401(k) Plan

Date: June 25, 2010

By: /s/ SHARON D. FIEHLER
Sharon D. Fiehler
Peabody Energy Corporation
Executive Vice President and
Chief Administrative Officer

EXHIBIT INDEX

The exhibit below is 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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