

PEABODY ENERGY CORP

Form FWP

December 15, 2006

**ISSUER FREE WRITING PROSPECTUS
SUPPLEMENTING PRELIMINARY PROSPECTUS SUPPLEMENT DATED DECEMBER 13, 2006**

**Filed pursuant to Rule 433
Registration Number: 333-136108**

New Issue Summary, December 14, 2006

| | |
|----------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Issuer: | Peabody Energy Corporation (NYSE symbol: BTU) |
| Securities: | 4.75% convertible junior subordinated debentures due 2066 |
| Aggregate Principal Amount: | \$675,000,000 (plus up to an additional \$75,000,000 principal amount pursuant to the option we have granted to the underwriters to cover overallocments) |
| Principal Amount per Debenture: | \$1,000 |
| Coupon Rate: | 4.75%, subject to deferral |
| Interest Payment Dates: | June 15 and December 15 of each year, beginning June 15, 2007 |
| Interest Deferral Feature: | Optional and mandatory deferral features described in the preliminary prospectus supplement |
| Ranking: | Junior to all existing and future senior and subordinated debt, except for any future debt that by its terms ranks equal or junior |
| Legal Format: | SEC-registered |
| CUSIP/ISIN: | 704549 AG 9/US704549AG98 |
| Ratings⁽¹⁾: | Moody s: Ba2 Standard & Poor s: B Fitch: BB- |
| Trade Date: | December 14, 2006 |
| Settlement Date: (T+4): | December 20, 2006 |
| Final Maturity Date: | December 15, 2066 |
| Scheduled Maturity Date: | The issuer will use commercially reasonable efforts to raise sufficient net proceeds from the issuance of qualifying capital securities to repay the principal amount and accrued and unpaid interest on December 15, 2041 |
| Holders Conversion Rights: | In whole or in part, at any time on or prior to December 15, 2036 upon the satisfaction of one or more of the conditions described in the preliminary prospectus supplement |

In whole or in part, at any time after December 15, 2036 to
(and including) December 15, 2041, irrespective of the
conditions applicable prior to December 15, 2036

None after December 15, 2041

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|---------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Conversion Consideration: | <p>For conversion either following a notice of redemption or upon a non-stock change of control, cash equal to the principal amount, cash equal to any deferred interest and, if the conversion value is greater than the principal amount, the net shares</p> <p>For conversion other than following a notice of redemption or upon a non-stock change of control, perpetual preferred stock with a liquidation preference equal to principal amount, accumulated dividends equal to any deferred interest and, if the conversion value is greater than the principal amount, the net shares</p> |
| Net Shares: | The net shares shall equal the sum of the daily share amounts for each of the 20 consecutive trading days during the conversion reference period (as described in the preliminary prospectus supplement) |
| Preferred Stock Dividend Rate: | 3.0875% (65% of the coupon rate), subject to reset following any remarketing |
| Conversion Rate: | 16.1421 shares of common stock per \$1,000 principal amount of convertible debentures, or an initial conversion price of approximately \$61.95 per share |
| Conversion Premium: | 40% (based on a reference price of \$44.25 per common share) |
| Conversion Make-Whole: | Upon the occurrence of a non-stock change of control on or prior to December 20, 2036, the conversion rate may be increased by a number of additional shares determined based on the price paid per share of common stock in the transaction constituting a non-stock change of control and the effective date of such transaction, according to the following table: |

| Effective Date | Stock Price | | | | | | | | | | |
|-------------------|-------------|---------|---------|---------|---------|---------|----------|----------|----------|----------|----------|
| | \$44.25 | \$50.00 | \$61.95 | \$70.00 | \$80.00 | \$90.00 | \$100.00 | \$150.00 | \$200.00 | \$250.00 | \$300.00 |
| December 20, 2006 | 6.4567 | 5.3046 | 3.7514 | 3.0841 | 2.4995 | 2.0869 | 1.7842 | 1.0135 | 0.6903 | 0.5082 | 0.3898 |
| December 15, 2007 | 6.4567 | 5.0169 | 3.4396 | 2.7747 | 2.2044 | 1.8121 | 1.5315 | 0.8524 | 0.5813 | 0.4298 | 0.3311 |
| December 15, 2008 | 6.4567 | 4.6806 | 3.0657 | 2.4003 | 1.8461 | 1.4792 | 1.2272 | 0.6639 | 0.4544 | 0.3377 | 0.2613 |
| December 15, 2009 | 6.4567 | 4.3532 | 2.6590 | 1.9771 | 1.4323 | 1.0938 | 0.8770 | 0.4565 | 0.3154 | 0.2358 | 0.1832 |
| | 6.4567 | 4.1037 | 2.2414 | 1.4958 | 0.9368 | 0.6315 | 0.4667 | 0.2344 | 0.1649 | 0.1239 | 0.0966 |

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| December 15, 2010 | | | | | | | | | | | |
| December 15, 2011 | 6.4567 | 4.0340 | 1.9783 | 0.9928 | 0.0443 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 |
| December 15, 2012 | 6.4567 | 4.0195 | 1.9700 | 0.9883 | 0.0441 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 |
| December 15, 2013 | 6.4567 | 4.0074 | 1.9627 | 0.9843 | 0.0439 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 |
| December 15, 2014 | 6.4567 | 3.9967 | 1.9557 | 0.9803 | 0.0437 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 |
| December 15, 2015 | 6.4567 | 3.9896 | 1.9504 | 0.9772 | 0.0436 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 |
| December 15, 2016 | 6.4567 | 3.9853 | 1.9448 | 0.9730 | 0.0433 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 |
| December 15, 2021 | 6.4567 | 4.0519 | 1.9726 | 0.9859 | 0.0439 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 |
| December 15, 2026 | 6.4567 | 4.1903 | 2.0336 | 1.0147 | 0.0451 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 |
| December 15, 2031 | 6.4567 | 4.3221 | 2.0831 | 1.0360 | 0.0459 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 |
| December 20, 2036 | 6.4567 | 4.4722 | 2.1236 | 1.0508 | 0.0464 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 |

Notwithstanding the foregoing, in no event will the total number of common shares issuable upon conversion exceed 22.5988 per \$1,000 principal amount

Call Feature:

None prior to December 20, 2011

Between December 20, 2011 and December 19, 2036, in whole or in part, at the par redemption price, if for at least 20 trading days within the 30 consecutive trading days immediately prior to the call notice date, the closing sale price of the issuer's common stock has exceeded 130% of the then prevailing conversion price

On or after December 20, 2036, in whole or in part, at the par redemption price, irrespective of the above condition

Par Redemption Price:

100% of the principal amount, plus accrued and unpaid interest

Initial Price to Public:

100% of the principal amount of the securities, plus accrued interest, if any, from December 20, 2006

Issuer Proceeds before Expenses:

\$658,912,500

Joint Bookrunners:

Lehman Brothers Inc., Morgan Stanley & Co. Incorporated and Citigroup Global Markets Inc.

(1) An explanation of the significance of ratings may be obtained from the rating agencies. Generally, rating agencies base their ratings on such material and information, and such of their own investigations, studies and assumptions, as they deem appropriate. The rating of the convertible debentures should be evaluated independently from similar ratings of other securities. A credit rating of a security is not a recommendation to buy, sell or hold securities and may be subject to review, revision, suspension, reduction or withdrawal at any time by the assigning rating agency.

The issuer has filed a registration statement (including a prospectus) with the SEC for the offering to which this communication relates. Before you invest, you should read the prospectus in that registration statement and other documents the issuer has filed with the SEC for more complete information about the issuer and this offering. You may get these documents for free by visiting EDGAR on the SEC Web site at www.sec.gov. Alternatively, the issuer, any underwriter or any dealer participating in the offering will arrange to send you the prospectus if you request it by calling toll-free 1-866-718-1649 or 1-888-603-5847 (institutional investors) or 1-800-584-6837 (retail investors).

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