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PEABODY ENERGY CORP
Form DEF 14A
April 02, 2003

SCHEDULE 14A
(RULE 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION

PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES
EXCHANGE ACT OF 1934 (AMENDMENT NO.)

Filed by the registrant [X]

Filed by a party other than the registrant []

Check the appropriate box:

- [] Preliminary proxy statement [] Confidential, for Use of the
Commission Only (as permitted by
Rule 14a-6(e) (2))
- [X] Definitive proxy statement
- [] Definitive additional materials
- [] Soliciting material pursuant to Rule 14a-12

PEABODY ENERGY CORPORATION

(Name of Registrant as Specified in Its Charter)

[COMPANY NAME]

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of filing fee (Check the appropriate box):

- [X] No fee required.
- [] Fee computed on table below per Exchange Act Rules 14a-6(i) (1) and
0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

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(1) Amount previously paid:

(2) Form, schedule or registration statement no.:

(3) Filing party:

(4) Date filed:

[PEABODY LOGO]

March 31, 2003

Dear Stockholder:

You are cordially invited to attend the 2003 Annual Meeting of Stockholders of Peabody Energy Corporation, which will be held on Tuesday, May 6, 2003, at 10:00 A.M., local time, at the Ritz-Carlton Hotel, 100 Carondelet Plaza, Clayton, Missouri 63105.

During this meeting, stockholders will vote on the election of four Class II Directors for three-year terms. The accompanying Notice of Annual Meeting of Stockholders and Proxy Statement contain complete details on this proposal and other matters. We also will be reporting on Peabody Energy's operations and responding to stockholder questions. If you have questions that you would like to raise at the meeting, we encourage you to submit written questions in advance (by mail or e-mail) to the Corporate Secretary. This will help us respond to your questions during the meeting. If you would like to e-mail your questions, please send them to stockholder.questions@peabodyenergy.com.

Your participation in the affairs of Peabody Energy is important, regardless of the number of shares you hold. To insure your representation at the Annual Meeting, we encourage you to vote over the telephone or Internet or to complete and return the enclosed proxy card as soon as possible. If you attend the Annual Meeting, you may then revoke your proxy and vote in person if you so desire.

Thank you for your continued support of Peabody Energy. We look forward to seeing you on May 6.

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Very truly yours,

/s/ Irl F. Engelhardt
IRL F. ENGELHARDT
Chairman & Chief Executive Officer

PEABODY ENERGY CORPORATION
701 MARKET STREET
ST. LOUIS, MISSOURI 63101-1826

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

Peabody Energy Corporation (the "Company") will hold its Annual Meeting of Stockholders at the Ritz-Carlton Hotel, 100 Carondelet Plaza, Clayton, Missouri, on Tuesday, May 6, 2003, at 10:00 A.M., local time, to:

- Elect four Class II Directors for three-year terms; and
- Transact any other business that may properly come before the Annual Meeting.

The Board of Directors has fixed March 15, 2003, as the record date for determining stockholders who will be entitled to receive notice of and vote at the Annual Meeting or any adjournment. Each share of Common Stock is entitled to one vote. As of the record date, there were 52,423,513 shares of Common Stock outstanding.

If you own shares of the Company's Common Stock as of March 15, 2003, you can vote those shares by completing and mailing the enclosed proxy card or by attending the Annual Meeting and voting in person. Stockholders of record also may submit their proxies electronically or by telephone as follows:

- By visiting the website at [HTTP://WWW.EPROXYVOTE.COM/BTU](http://WWW.EPROXYVOTE.COM/BTU) and following the voting instructions provided; or
- By calling 1-877-PRX-VOTE (1-877-779-8683) in the United States, Canada or Puerto Rico on a touch-tone phone and following the recorded instructions.

An admittance card or other proof of ownership is required to attend the Annual Meeting. Please retain the top portion of your proxy card for this purpose. Also, please indicate your intention to attend the Annual Meeting by checking the appropriate box on the proxy card, or, if voting by the Internet or by telephone, when prompted. If your shares are held by a bank or broker, you will need to ask them for an admission card in the form of a confirmation of beneficial ownership. If you do not receive a confirmation of beneficial ownership or other admittance card from your bank or broker, you must bring proof of share ownership (such as a copy of your brokerage statement) to the Annual Meeting.

YOUR VOTE IS IMPORTANT. WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING, PLEASE CAST YOUR VOTE BY TELEPHONE OR THE INTERNET, OR COMPLETE, DATE AND SIGN THE ENCLOSED PROXY CARD AND RETURN IT IN THE ENVELOPE PROVIDED. IF YOU ATTEND THE MEETING, YOU MAY WITHDRAW YOUR PROXY AND VOTE IN PERSON, IF YOU SO CHOOSE.

/s/ Fredrick D. Palmer
FREDRICK D. PALMER
Executive Vice President --
Legal and External Affairs
and Secretary

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March 31, 2003

TABLE OF CONTENTS

| | PAGE NO. |
|---|----------|
| | ----- |
| NOTICE OF ANNUAL MEETING OF STOCKHOLDERS | |
| QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING AND VOTING... | 1 |
| ELECTION OF DIRECTORS (PROXY ITEM NO. 1)..... | 4 |
| Class II Director Nominees -- Terms Expiring in 2006..... | 4 |
| Class III Directors -- Terms Expiring in 2004..... | 4 |
| Class I Directors -- Terms Expiring in 2005..... | 5 |
| INFORMATION REGARDING BOARD OF DIRECTORS AND COMMITTEES..... | 6 |
| Compensation Committee..... | 6 |
| Executive Committee..... | 7 |
| Nominating and Corporate Governance Committee..... | 7 |
| Audit Committee..... | 7 |
| Report of the Audit Committee..... | 8 |
| Appointment of Independent Auditors and Fees..... | 9 |
| Compensation of Directors..... | 9 |
| OWNERSHIP OF COMPANY SECURITIES..... | 10 |
| Beneficial Owners of More Than Five Percent, Directors and Management..... | 10 |
| Section 16(a) Beneficial Ownership Reporting Compliance... | 11 |
| EXECUTIVE COMPENSATION..... | 11 |
| Summary Compensation Table..... | 11 |
| Option Grants in Last Fiscal Year..... | 12 |
| Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values..... | 12 |
| Long-Term Incentive Plans -- Awards in Last Fiscal Year... | 13 |
| Pension Benefits..... | 13 |
| Employment Agreements..... | 14 |
| Report of the Compensation Committee..... | 14 |
| Compensation Committee Interlocks and Insider Participation..... | 18 |
| RELATED PARTY TRANSACTIONS..... | 18 |
| Transactions With Affiliates of Lehman Brothers..... | 18 |
| Transactions With Management..... | 19 |
| STOCK PERFORMANCE GRAPH..... | 20 |
| ADDITIONAL INFORMATION..... | 20 |
| Information About Stockholder Proposals..... | 20 |
| Costs of Solicitation..... | 21 |
| OTHER BUSINESS..... | 21 |

i

PEABODY ENERGY CORPORATION
 PROXY STATEMENT
 FOR THE
 2003 ANNUAL MEETING OF STOCKHOLDERS

QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING AND VOTING

Q: WHY DID I RECEIVE THIS PROXY STATEMENT?

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A: Because you are a stockholder of Peabody Energy Corporation as of the record date and are entitled to vote at the 2003 Annual Meeting of Stockholders, the Board of Directors is soliciting your proxy to vote at the meeting.

This Proxy Statement summarizes the information you need to know to vote at the Annual Meeting. This Proxy Statement and proxy card were first mailed to stockholders on or about March 31, 2003.

Q: WHAT AM I BEING ASKED TO VOTE ON?

A: You are being asked to vote on the following item:

- Election of four Class II Directors for terms of three years; the nominees are William E. James, Robert B. Karn III, Henry E. Lentz and Dr. Blanche M. Touhill.

Q: WHAT ARE THE VOTING RECOMMENDATIONS OF THE BOARD OF DIRECTORS?

A: THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" EACH OF THE CLASS II DIRECTOR NOMINEES.

Q: WILL ANY OTHER MATTERS BE VOTED ON?

A: We are not aware of any other matters that will be brought before the stockholders for a vote at the Annual Meeting. If any other matter is properly brought before the meeting, your proxy will authorize each of Irl F. Engelhardt, Richard A. Navarre and Fredrick D. Palmer to vote on such matters in their discretion.

Q: HOW DO I VOTE?

A: If you are a stockholder of record or hold stock through the Peabody Holding Company, Inc. Employee Retirement Account (or other 401(k) plans sponsored by the Company's subsidiaries), you may vote using any of the following methods:

- Via the Internet, by going to the website <http://www.eproxyvote.com/btu> and following the instructions for Internet voting on your proxy card;
- If you reside in the United States, Canada or Puerto Rico, by dialing 1-877-PRX-VOTE (1-877-779-8683) and following the instructions for telephone voting on your proxy card;
- By completing and mailing your proxy card; or
- By casting your vote in person at the Annual Meeting.

If you return your signed proxy card or vote by Internet or telephone, your shares will be voted as you indicate. If you return your proxy card but do not indicate your voting preferences, the proxies will vote your shares FOR the election of the Class II Director nominees named in this Proxy Statement.

If your shares are held in a brokerage account in your broker's name (also known as "street name"), you should follow the voting directions provided by your broker or nominee. You may complete and mail a voting instruction card to your broker or nominee or, if your broker allows, submit voting instructions by Internet or telephone. If you provide specific voting instructions by mail, telephone or Internet, your broker or nominee will vote your shares as you have directed. Please note that shares in the Peabody

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1

Energy Corporation Employee Stock Purchase Plan are held in street name by A. G. Edwards, the plan administrator.

Ballots will be passed out during the Annual Meeting to anyone who wants to vote in person at the meeting. If you hold your shares in street name, you must request a confirmation of beneficial ownership from your broker to vote in person at the meeting.

Q: CAN I CHANGE MY VOTE?

A: Yes. If you are a stockholder of record, you can change your vote or revoke your proxy any time before the Annual Meeting by:

- Submitting a valid, later-dated proxy;
- Notifying the Company's Secretary in writing that you have revoked your proxy; or
- Completing a written ballot at the Annual Meeting.

Q: IS MY VOTE CONFIDENTIAL?

A: Yes. All proxies, ballots and vote tabulations that identify how individual stockholders voted will be kept confidential and not be disclosed to the Company's directors, officers or employees, except in limited circumstances, including (i) when disclosure is mandated by law; (ii) during any contested solicitation of proxies; or (iii) when written comments by a stockholder appear on a proxy card or other voting material.

Q: WHAT WILL HAPPEN IF I DO NOT VOTE MY SHARES?

A: If your shares are held in street name, your broker may vote your shares on those proposals where it has discretion to vote. Brokers and banks are allowed to vote shares held on behalf of beneficial owners who do not provide voting instructions at least ten days before the Annual Meeting, provided such votes relate to matters deemed "routine" by the New York Stock Exchange. The election of directors specified in the Notice of Annual Meeting and this Proxy Statement is considered "routine" under New York Stock Exchange rules.

On non-routine matters, brokers and other nominees cannot vote without instructions from the beneficial owner, resulting in so-called "broker non-votes." Broker non-votes have no effect on the outcome of any matters specified in the Notice of Annual Meeting of Stockholders and this Proxy Statement.

Q: HOW WILL MY COMPANY STOCK IN THE PEABODY HOLDING COMPANY, INC. EMPLOYEE RETIREMENT ACCOUNT OR OTHER 401(K) PLANS SPONSORED BY THE COMPANY'S SUBSIDIARIES BE VOTED?

A: The plan trustee, Vanguard Fiduciary Trust Company, will vote your shares in accordance with your instructions if you send in a completed proxy card or vote by telephone or the Internet. The plan trustee will vote allocated shares of Company Common Stock for which it has not received direction, as well as shares not allocated to individual participant accounts, in the same proportion as directed shares are voted.

Q: HOW MANY SHARES MUST BE PRESENT TO HOLD THE ANNUAL MEETING?

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A: Holders of a majority of the shares of outstanding Common Stock as of the record date must be represented in person or by proxy at the Annual Meeting in order to conduct business. This is called a quorum. If you vote, your shares will be part of the quorum. Abstentions, "withhold" votes and broker non-votes also will be counted in determining whether a quorum exists, but will not be counted as votes cast.

Q: WHAT VOTE IS REQUIRED TO APPROVE THE PROPOSAL?

A: In the election of directors, the four nominees receiving the highest number of "FOR" votes will be elected.

2

Q: WHAT DOES IT MEAN IF I RECEIVE MORE THAN ONE PROXY CARD?

A: It means that your shares are held in more than one account at the transfer agent and/or with banks or brokers. Please vote all of your shares.

Q: WHO CAN ATTEND THE ANNUAL MEETING?

A: All Peabody Energy Corporation stockholders as of March 15, 2003 may attend the Annual Meeting.

Q: WHAT DO I NEED TO DO TO ATTEND THE ANNUAL MEETING?

A: If you are a stockholder of record or a participant in the Peabody Holding Company, Inc. Employee Retirement Account (or other 401(k) plans sponsored by the Company's subsidiaries), your admission card is attached to your proxy card or voting instruction form. You will need to bring this admission card with you to the Annual Meeting.

If you own shares in street name, you will need to ask your bank or broker for an admission card in the form of a confirmation of beneficial ownership. You will need to bring a confirmation of beneficial ownership with you to vote at the Annual Meeting. If you do not receive your confirmation of beneficial ownership in time, bring your most recent brokerage statement with you to the Annual Meeting. We can use that to verify your ownership of Common Stock and admit you to the meeting; however, you will not be able to vote your shares at the meeting without a confirmation of beneficial ownership.

Q: WHERE CAN I FIND THE VOTING RESULTS OF THE ANNUAL MEETING?

A: We plan to announce preliminary voting results at the Annual Meeting and to publish final results in our Quarterly Report on SEC Form 10-Q for the Quarter Ended June 30, 2003.

3

ELECTION OF DIRECTORS (PROXY ITEM NO. 1)

In accordance with the terms of the Company's certificate of incorporation, the Board of Directors is divided into three classes, with each class serving a staggered three-year term. At this year's Annual Meeting, the terms of current Class II Directors will expire. The terms of Class III Directors and Class I Directors will expire at the Annual Meetings to be held in 2004 and 2005, respectively.

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The Board of Directors has nominated the following individuals for election as Class II Directors with terms expiring in 2006: William E. James, Robert B. Karn III, Henry E. Lentz and Dr. Blanche M. Touhill. Each of the nominees currently is serving as a director of the Company. All nominees have consented to serve for the new term. Should any one or more of the nominees become unavailable for election, your proxy authorizes us to vote for such other persons, if any, as the Board of Directors may recommend.

CLASS II DIRECTOR NOMINEES -- TERMS EXPIRING IN 2006

WILLIAM E. JAMES, age 57, has been a director of the Company since 2001. Since July 2000, Mr. James has been Founding Partner of RockPort Capital Partners LLC, a venture fund specializing in energy and environmental technology and advanced materials. He is also Chairman of RockPort Group, an international oil trading and banking company. Prior to joining RockPort, Mr. James co-founded and served as Chairman and Chief Executive Officer of Citizens Power LLC, a leading power marketer. He also co-founded the non-profit Citizens Energy Corporation and served as the Chairman and Chief Executive Officer of Citizens Corporation, its for-profit subsidiary, from 1987 to 1996.

ROBERT B. KARN III, age 61, has been a director of the Company since January 2003. Mr. Karn is a financial consultant and former managing partner in financial and economic consulting with Arthur Andersen LLP in St. Louis. Before retiring from Arthur Andersen in 1998, Mr. Karn served in a variety of accounting, audit and financial roles over a 33-year career, including Managing Partner in charge of the global coal mining practice from 1981 through 1998. He is a Certified Public Accountant and Panel Arbitrator with the American Arbitration Association. Mr. Karn is also a director and chairman of the audit committee of Natural Resource Partners, a coal-oriented master limited partnership that is listed on the New York Stock Exchange.

HENRY E. LENTZ, age 58, has been a director of the Company since 1998. Mr. Lentz is a consultant to Lehman Brothers Inc., an investment banking firm. He joined Lehman Brothers in 1971 and became a Managing Director in 1976. He left the firm in 1988 to become Vice Chairman of Wasserstein Perella Group, Inc. In 1993, he returned to Lehman Brothers as a Managing Director and served as head of the firm's worldwide energy practice. In 1996, he joined Lehman Brothers' Merchant Banking Group as a Principal and in January 2003 became a consultant to the Merchant Banking Group. Mr. Lentz is also a director of Rowan Companies, Inc., Consort Holdings plc and Antero Resources, Inc.

BLANCHE M. TOUHILL, PhD, age 71, has been a director of the Company since 2001. Dr. Touhill is Chancellor Emeritus and Professor Emeritus at the University of Missouri -- St. Louis. She previously served as Chancellor and Professor of History and Education at the University of Missouri -- St. Louis from 1991 through 2002. Prior to her appointment as Chancellor, Dr. Touhill held the positions of Vice Chancellor for Academic Affairs and Interim Chancellor at the University of Missouri -- St. Louis. Dr. Touhill also has served on the Board of Directors of Delta Dental. She holds bachelor's and doctoral degrees in history and a master's degree in geography from St. Louis University.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE "FOR" EACH OF THE CLASS II DIRECTOR NOMINEES NAMED ABOVE.

CLASS III DIRECTORS -- TERMS EXPIRING IN 2004

BERNARD J. DUROC-DANNER, PhD, age 49, has been a director of the Company since 2001. He is Chairman, President and Chief Executive Officer of Weatherford International, Inc., one of the world's largest oilfield services companies, a position he has held since 1998. From 1991 to 1998, Mr. Duroc-Danner served

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as President and Chief Executive Officer of EVI, Inc., an oilfield service and equipment provider that merged with Weatherford Enterra, Inc. in 1998. Previously, Mr. Duroc-Danner held positions at Arthur D. Little and Mobil Oil, Inc. Mr. Duroc-Danner holds a PhD in Economics from The Wharton School of the University of Pennsylvania. He is also Chairman of the Board and a director of Grant Prideco, Inc., and he serves as a director of Parker Drilling Company, Cal-Dive International, Inc., Dresser, Inc. and Universal Compression Holdings, Inc.

IRL F. ENGELHARDT, age 56, has been a director of the Company since 1998. He is Chairman and Chief Executive Officer of the Company, a position he has held since 1998. He served as Chief Executive Officer of a predecessor of the Company from 1990 to 1998. He also served as Chairman of a predecessor of the Company from 1993 to 1998 and as President from 1990 to 1995. Since joining a predecessor of the Company in 1979, he has held various officer level positions in the executive, sales, business development and administrative areas, including Chairman of Peabody Resources Ltd. (Australia) and Chairman of Citizens Power LLC. Mr. Engelhardt also served as Co-Chief Executive Officer and executive director of The Energy Group from February 1997 to May 1998, Chairman of Cornerstone Construction & Materials, Inc. from September 1994 to May 1995 and Chairman of Suburban Propane Company from May 1995 to February 1996. He also served as a director and Group Vice President of Hanson Industries from 1995 to 1996. Mr. Engelhardt is Co-Chairman of the Coal Based Generation Stakeholders Group and Co-Chairman of the National Mining Association's Sustainable Development and Health Care Reforms Committees. He has previously served as Chairman of the National Mining Association, the Coal Industry Advisory Board of the International Energy Agency, and the Center for Energy and Economic Development, as well as Co-Chairman of the Coal Utilization Research Council. He is also a director of U.S. Bank, N.A.

WILLIAM C. RUSNACK, age 58, has been a director of the Company since January 2002. Mr. Rusnack is Former President and Chief Executive Officer of Premcor Inc., one of the largest independent oil refiners in the United States. He served as President and Chief Executive Officer of Premcor from 1998 to February 2002. Prior to joining Premcor, Mr. Rusnack was President of ARCO Products Company, the refining and marketing division of Atlantic Richfield Company. During a 31-year career at ARCO, he was also President of ARCO Transportation Company and Vice President of Corporate Planning. He is also a director of Sempra Energy and Flowserve Corporation.

ALAN H. WASHKOWITZ, age 62, has been a director of the Company since 1998. He is also a Managing Director of Lehman Brothers Inc. and head of the firm's Merchant Banking Group, responsible for oversight of Lehman Brothers Merchant Banking Partners II L.P. Mr. Washkowitz joined Kuhn Loeb & Co. in 1968 and became a general partner of Lehman Brothers in 1978 when it acquired Kuhn Loeb & Co. Prior to joining the Merchant Banking Group, he headed Lehman Brothers' Financial Restructuring Group. He is also a director of CP Kelco Inc., L-3 Communications Corporation and K&F Industries, Inc.

CLASS I DIRECTORS -- TERMS EXPIRING IN 2005

ROGER H. GOODSPEED, age 52, has been a director of the Company since 1998. Mr. Goodspeed is currently an Advisory Director of Lehman Brothers Inc., an investment banking firm. He joined Lehman Brothers in 1974 and became a Managing Director in 1984. During his tenure at Lehman Brothers he has had management responsibility for several Investment Banking groups and has served as a member of the Operating Committee of the Investment Banking Division. In 1994, Mr. Goodspeed became Chairman of Citizens Lehman Power, an electric power marketing joint venture 50% owned by Lehman Brothers, and continued in that role until the joint venture was sold to The Energy Group in 1997 and changed its name to

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Citizens Power LLC. Mr. Goodspeed served on the Board of Directors of Citizens Power LLC from 1997 until 2000 when it was sold to Edison Mission Energy.

JAMES R. SCHLESINGER, PhD, age 74, has been a director of the Company since 2001. He is Chairman of the Board of Trustees of MITRE Corporation, a not-for-profit corporation that provides systems engineering, research and development and information technology support to the government, a position he has held since 1985. Dr. Schlesinger also serves as Senior Advisor and Consultant to Lehman Brothers Inc., a role he has held since 1980, and as Counselor to the Center for Strategic and International Studies.

5

Dr. Schlesinger served as U.S. Secretary of Energy from 1977 to 1979. He also held senior executive positions for three U.S. Presidents, serving as Chairman of the U.S. Atomic Energy Commission from 1971 to 1973, Director of the Central Intelligence Agency in 1973 and Secretary of Defense from 1973 to 1975. Other past positions include Assistant Director of the Office of Management and Budget, Director of Strategic Studies at the Rand Corporation, Associate Professor of Economics at the University of Virginia and consultant to the Federal Reserve Board of Governors. Dr. Schlesinger is also a director of BNFL, Inc.

SANDRA VAN TREASE, age 42, has been a director of the Company since January 2003. Ms. Van Trease is President of UNICARE, an operating affiliate of WellPoint Health Networks, Inc., one of the nation's largest publicly traded managed care companies. She has held that position since February 2002, when her prior employer, RightCHOICE Managed Care, Inc., was acquired by WellPoint. Ms. Van Trease served as President and Chief Operating Officer of RightCHOICE from 2000 to 2002. She served as Executive Vice President and Chief Operating Officer from 1997 to 2000, and served as Chief Financial Officer from November 1995 until September 2001. Prior to joining RightCHOICE in 1994, she was a Senior Audit Manager with Price Waterhouse LLP. She is a Certified Public Accountant and Certified Management Accountant. Ms. Van Trease is also a director of U.S. Bank, N.A.

INFORMATION REGARDING BOARD OF DIRECTORS AND COMMITTEES

The Board of Directors met eight times in 2002. The Board also has appointed four standing committees from among its members to assist it in carrying out its obligations. In 2002, each director other than Mr. Duroc-Danner attended 75% or more of the aggregate number of meetings of the Board and the committees on which he or she served that were held during his or her tenure as director. A description of each committee and its current membership follows:

COMPENSATION COMMITTEE

The members of the Compensation Committee are Henry E. Lentz (Chair), Bernard J. Duroc-Danner (since January 2003), Blanche M. Touhill and Alan H. Washkowitz. The Compensation Committee met five times during 2002.

The primary responsibilities of the Compensation Committee include the following:

- To monitor performance and compensation of the Company's CEO, executive officers and other key employees;
- To review and recommend compensation policies, plans and programs for the Company's CEO, executive officers and other key employees;
- To approve Company-wide salary increase budgets and overall compensation and benefits plan design for all Company employees;

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- To administer the Company's annual and long-term incentive programs;
- To periodically assess the Company's director compensation program and, when appropriate, recommend modifications for Board consideration;
- To review and make recommendations to the Board of Directors with respect to succession planning and management development; and
- To make regular reports on its activities to the Board of Directors.

A separate Report of the Compensation Committee on Executive Compensation is set forth at pages 14 through 18 of this Proxy Statement.

6

EXECUTIVE COMMITTEE

The members of the Executive Committee are Irl F. Engelhardt (Chair), Henry E. Lentz and Alan H. Washkowitz. The Executive Committee met eight times during 2002.

When the Board of Directors is not in session, the Executive Committee will have all of the power and authority as delegated by the Board of Directors, except with respect to:

- Amending the Company's certificate of incorporation and bylaws;
- Adopting an agreement of merger or consolidation;
- Recommending to stockholders the sale, lease or exchange of all or substantially all of the Company's property and assets;
- Recommending to stockholders a dissolution of the Company or revocation of any dissolution;
- Declaring a dividend;
- Issuing stock; and
- Appointing members of Board committees.

NOMINATING AND CORPORATE GOVERNANCE COMMITTEE

The members of the Nominating and Corporate Governance Committee are Blanche M. Touhill (Chair), William E. James, James R. Schlesinger (since January 2003) and Alan H. Washkowitz.

The Nominating and Corporate Governance Committee was established in July 2002 and met three times during 2002. The primary responsibilities of the Nominating and Corporate Governance Committee include the following:

- To identify, evaluate and recommend qualified candidates for election to the Board of Directors;
- To advise the Board of Directors on matters related to corporate governance;
- To assist the Board of Directors in conducting its annual assessment of Board performance;

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- To recommend the structure, composition and responsibilities of other Board committees;
- To advise the Board of Directors on matters related to corporate social responsibility; and
- To make regular reports on its activities to the Board of Directors.

The Nominating and Corporate Governance Committee will consider nominees recommended by stockholders upon submission in writing to the Secretary of the Company the names of such nominees, together with a detailed description of their background and qualifications for service as a director of the Company. See "Additional Information -- Information About Stockholder Proposals" on page 20 for more information on submitting nominees.

AUDIT COMMITTEE

The members of the Audit Committee are William C. Rusnack (Chair), Robert B. Karn III (since January 2003) and Sandra Van Trease (since January 2003). Mr. Duroc-Danner and Dr. Schlesinger served on the Audit Committee in 2002. The Audit Committee met six times during 2002.

The Audit Committee's primary purpose is to provide assistance to the Board of Directors in fulfilling its oversight responsibility with respect to (i) the quality and integrity of the Company's financial statements and financial reporting processes, (ii) the Company's systems of internal accounting and financial controls and disclosure controls, (iii) the independent auditor's qualifications and independence, (iv) the performance of the Company's internal audit function and independent auditor, and (v) compliance with legal and regulatory requirements, and codes of conduct and ethics programs established by management and the Board of Directors.

7

The primary responsibilities of the Audit Committee include the following:

- To appoint the Company's independent auditor, which shall report directly to the Audit Committee;
- To approve all audit engagement fees and terms and all permissible non-audit engagements with the Company's independent auditor;
- To meet on a regular basis with the Company's financial management, internal audit management and independent external auditors to review matters relating to the Company's internal accounting controls, internal audit program, accounting practices and procedures, the scope and procedures of the outside audit, the independence of the external auditors and other matters relating to the Company's financial condition;
- To review in advance the Company's quarterly reports on Form 10-Q, annual reports on Form 10-K, annual reports to stockholders, proxy materials and earnings press releases; and
- To make regular reports to the Board of Directors regarding the activities and recommendations of the Audit Committee.

The Board of Directors has determined that each member of the Audit Committee meets applicable independence and financial literacy requirements.

REPORT OF THE AUDIT COMMITTEE

The Audit Committee has reviewed and discussed the Company's audited

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financial statements for the fiscal year ended December 31, 2002 with management and Ernst & Young LLP, the Company's independent external auditor. Management is responsible for the Company's internal controls, financial reporting processes and financial statements, while Ernst & Young is responsible for expressing an opinion on the Company's financial statements in accordance with generally accepted accounting principles.

The Audit Committee reviewed with Ernst & Young the overall scope and plans for their audit of the Company's financial statements. The Audit Committee also discussed with Ernst & Young matters relating to the quality and acceptability of the Company's accounting principles, as applied in its financial reporting processes, as required by Statement of Auditing Standards (SAS) No. 61 and SAS No. 90. In addition, the Audit Committee reviewed and discussed with Ernst & Young the auditor's independence from management and the Company, as well as the matters included in written disclosures received from Ernst & Young as required by Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees. As part of its review, the Audit Committee reviewed fees paid to Ernst & Young and considered whether Ernst & Young's performance of non-audit services for the Company was compatible with the auditor's independence.

Based on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002 for filing with the Securities and Exchange Commission.

MEMBERS OF THE AUDIT COMMITTEE:

WILLIAM C. RUSNACK, CHAIR
ROBERT B. KARN III
SANDRA VAN TREASE

8

APPOINTMENT OF INDEPENDENT AUDITORS AND FEES

Ernst & Young LLP served as the Company's independent auditors for the fiscal year ended December 31, 2002 and has been appointed to serve in that capacity again for fiscal 2003. The Board of Directors anticipates that representatives of Ernst & Young will be present at the Annual Meeting to respond to appropriate questions and to make a statement if they so desire.

The following fees were paid to Ernst & Young for services rendered during the fiscal year ended December 31, 2002:

- Audit Fees: \$648,000 for services rendered for the audit of the Company's financial statements and reviews of SEC Forms 10-Q and 10-K.
- Financial Information Systems Design and Implementation Fees: No fees were paid for services rendered in connection with the design or implementation of hardware or software systems that aggregate source data underlying the financial statements or generate information that is significant to the financial statements taken as a whole.
- All Other Fees: \$379,000 for audit related services including accounting consultation and research, financial due diligence procedures associated with registration statements and mergers and acquisitions, and audits of benefit plans; \$843,000 for tax compliance and consulting services.

COMPENSATION OF DIRECTORS

Mr. Engelhardt, who is a member of management, and Messrs. Goodspeed, Lentz

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and Washkowitz, who are each affiliated with Lehman Brothers, receive no additional pay for serving as directors. All other directors (each a "non-employee director") are paid an annual cash retainer of \$30,000. Committee chairpersons receive an additional \$3,500 annual cash retainer. Each non-employee director also receives a fee of \$1,500 for each day that he or she attends Board and/or committee meetings. The Company pays the travel and accommodation expenses of directors to attend meetings and other corporate functions.

Non-employee directors receive options to purchase 1,000 shares of Company Common Stock and a grant of restricted stock valued at \$50,000 when they are first elected to the Board of Directors. Non-employee directors also receive annual stock option grants valued at \$25,000 (based on Black-Scholes methodology). The shares subject to the restricted stock awards vest after three years if the recipient continues to serve on the Board of Directors. All non-employee director stock options are granted at an exercise price equal to the fair market value of the Company's Common Stock on the date of grant. These options vest in one-third increments over three years and expire ten years after grant. In the event of a change of control of the Company, any previously unvested options will vest and all restrictions related to the restricted stock awards will lapse.

9

OWNERSHIP OF COMPANY SECURITIES

The following table sets forth information as of March 1, 2003 with respect to persons or entities who are known to beneficially own more than 5% of the Company's outstanding Common Stock, each director, each executive officer named in the Summary Compensation Table on page 11 of this Proxy Statement, and all directors and executive officers as a group.

BENEFICIAL OWNERS OF MORE THAN FIVE PERCENT, DIRECTORS AND MANAGEMENT

| NAME AND ADDRESS OF BENEFICIAL OWNER ----- | AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP (1) (2) ----- | PERCENT OF CLASS (3) ----- |
|--|--|----------------------------------|
| Lehman Brothers Merchant Banking Partners II L.P. and affiliates..... c/o Lehman Brothers Holdings Inc. 745 Seventh Avenue, 25th Floor New York, New York 10019 | 21,284,994 | 40.6% |
| Bernard J. Duroc-Danner..... | 1,603 | * |
| Irl F. Engelhardt..... | 708,067 | 1.3% |
| Roger H. Goodspeed(4)..... | -- | * |
| William E. James..... | 49,114 | * |
| Robert B. Karn III..... | 2,628 | * |
| Henry E. Lentz(4)..... | -- | * |
| Richard A. Navarre..... | 194,575 | * |
| Fredrick D. Palmer..... | 49,704 | * |
| William C. Rusnack..... | 2,242 | * |
| James R. Schlesinger..... | 2,246 | * |
| Blanche M. Touhill..... | 2,246 | * |
| Sandra Van Trease..... | 1,828 | * |
| Roger B. Walcott, Jr. | 224,600 | * |
| Alan H. Washkowitz(4)..... | -- | * |

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| | | |
|---|-----------|------|
| Richard M. Whiting..... | 223,685 | * |
| All directors and executive officers as a group (20 people)..... | 1,992,574 | 3.8% |

- (1) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and includes voting and investment power with respect to shares. Unless otherwise indicated, the persons named in the table have sole voting and sole investment control with respect to all shares beneficially owned.

- (2) Includes shares issuable pursuant to stock options exercisable within 60 days after March 1, 2003, as follows: Mr. Engelhardt, 439,362; Mr. Navarre, 138,842; Mr. Palmer, 42,111; Mr. Walcott, 161,089; Mr. Whiting, 161,698; Mr. James, 47,234; Mr. Duroc-Danner, 167; Mr. Rusnack, 334; Dr. Schlesinger, 334; Dr. Touhill, 334; and all directors and executive officers as a group, 1,354,906.

- (3) Asterisk (*) indicates that the applicable person owns less than one percent of the outstanding shares.

- (4) Messrs. Goodspeed, Lentz and Washkowitz are employees or consultants of Lehman Brothers Inc. Mr. Washkowitz is a Managing Director of Lehman Brothers Inc. and head of Lehman Brothers Merchant Banking. Mr. Goodspeed is an Advisory Director of Lehman Brothers Inc. and Mr. Lentz is a consultant to Lehman Brothers Inc. Messrs. Goodspeed, Lentz and Washkowitz disclaim beneficial ownership of the shares held or controlled by these entities or their affiliates.

10

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

The Company's executive officers and directors and persons beneficially holding more than ten percent of the Company's Common Stock are required under the Securities Exchange Act of 1934 to file reports of ownership and changes in ownership of Company Common Stock with the Securities and Exchange Commission and the New York Stock Exchange. During the fiscal year ended December 31, 2002, one executive officer, Jiri Nemec, made a late filing on Form 4 with respect to one transaction involving the Company's common stock. Inadvertent late filings were also submitted in connection with salary deferrals made by another executive officer, Ian Craig, under the Company's Deferred Compensation Plan. To the best of the Company's knowledge, based solely on its review of the copies of such reports furnished to the Company during the fiscal year ending December 31, 2002, all other required reports were timely filed.

EXECUTIVE COMPENSATION

The following table summarizes the annual and long-term compensation paid to the Chief Executive Officer and the four other most highly compensated executive officers of the Company for their service to the Company during the periods indicated. Effective December 31, 2001, the Company changed its fiscal year-end from March 31 to December 31.

SUMMARY COMPENSATION TABLE

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| NAME AND PRINCIPAL POSITION | FISCAL PERIOD ENDED (1) | ANNUAL COMPENSATION | | LONG-TERM COMPENSATION | | |
|--|-------------------------|---------------------|----------------|-------------------------------------|---------------------------------------|--------------------|
| | | SALARY (\$) | BONUS (\$ (2)) | RESTRICTED STOCK AWARDS (#) (3) (4) | SECURITIES UNDERLYING OPTIONS (#) (5) | LTIP PAYMENTS (\$) |
| Irl F. Engelhardt..... | 12/31/02 | 739,583 | 280,000 | -- | 40,488 | -- |
| Chairman, Chief Executive Officer and Director | 12/31/01 | 543,750 | 1,270,895 | -- | 38,839 | -- |
| | 3/31/01 | 700,000 | 1,050,000 | -- | 64,019 | -- |
| | 3/31/00 | 700,000 | 875,000 | -- | -- | -- |
| Richard M. Whiting..... | 12/31/02 | 432,500 | 70,400 | -- | 15,823 | -- |
| Executive Vice President -- | 12/31/01 | 318,750 | 412,590 | -- | 15,179 | -- |
| Sales, Marketing and Trading | 3/31/01 | 400,000 | 600,000 | -- | 22,696 | -- |
| | 3/31/00 | 400,000 | 500,000 | -- | -- | -- |
| Roger B. Walcott, Jr. | 12/31/02 | 407,500 | 80,000 | -- | 14,892 | -- |
| Executive Vice President -- | 12/31/01 | 300,000 | 490,720 | -- | 14,286 | -- |
| Corporate Development | 3/31/01 | 350,000 | 525,000 | -- | 22,696 | -- |
| | 3/31/00 | 350,000 | 437,500 | 72,164 | -- | -- |
| Richard A. Navarre..... | 12/31/02 | 323,542 | 119,000 | -- | 11,169 | -- |
| Executive Vice President and Chief Financial Officer | 12/31/01 | 225,000 | 451,520 | -- | 10,714 | -- |
| | 3/31/01 | 250,000 | 406,250 | -- | 55,084 | -- |
| | 3/31/00 | 233,750 | 343,750 | -- | -- | -- |
| Fredrick D. Palmer(7)..... | 12/31/02 | 355,000 | 57,600 | -- | 13,031 | -- |
| Executive Vice President -- | 12/31/01 | 262,500 | 343,980 | -- | 12,500 | -- |
| Legal and External Affairs | 3/31/01 | 49,135 | 43,225 | -- | 63,000 | -- |
| | 3/31/00 | -- | -- | -- | -- | -- |

(1) Due to a change in the Company's fiscal year-end, amounts shown for the period ended December 31, 2001 relate to the nine-month fiscal period ended December 31, 2001.

11

(2) Amounts for the nine months ended December 31, 2001 include special bonuses paid with respect to the Company's initial public offering and prorated annual incentive bonuses paid for the nine-month period.

(3) Represents number of shares of Common Stock granted to executives during the periods shown, after reflecting the 1.4-for-one split in 2001.

(4) As of December 31, 2002, the value of the shares reported for Mr. Walcott in this column was \$2,109,354. Dividends are paid on these shares on an ongoing basis at the same rate as paid to all holders of Common Stock.

(5) Represents number of shares of Common Stock underlying options.

(6) Includes annual matching contributions and performance contributions to

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qualified and non-qualified savings and investment plans on behalf of the named executives in the following amounts: Mr. Engelhardt, \$66,125; Mr. Whiting, \$38,700; Mr. Walcott, \$36,450; Mr. Navarre, \$28,413; and Mr. Palmer, \$22,500. All remaining amounts are for group term life insurance.

(7) Mr. Palmer was employed by the Company effective February 12, 2001.

The following table sets forth information concerning the grant of stock options to each of the Company's executive officers listed on the Summary Compensation Table above during the fiscal year ended December 31, 2002. The exercise price for all options granted is equal to the fair market value of the Company's Common Stock on the date of grant.

OPTION GRANTS IN LAST FISCAL YEAR

| NAME | INDIVIDUAL GRANTS | | | | POTENTIAL R VALUE AT ANNUAL RATE PRICE APPREC OPTION |
|----------------------------|--|---|---|--------------------|--|
| | NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED (#) (1) | PERCENT OF OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR | EXERCISE OR BASE PRICE (\$/SHARE) | EXPIRATION DATE | |
| Irl F. Engelhardt..... | 40,488 | 5.9% | 26.86 | 1/15/12 | 683,928 |
| Richard M. Whiting..... | 15,823 | 2.3% | 26.86 | 1/15/12 | 267,284 |
| Roger B. Walcott, Jr. | 14,892 | 2.2% | 26.86 | 1/15/12 | 251,563 |
| Richard A. Navarre..... | 11,169 | 1.6% | 26.86 | 1/15/12 | 188,668 |
| Fredrick D. Palmer..... | 13,031 | 1.9% | 26.86 | 1/15/12 | 220,121 |

(1) Other material terms of these options are described under the caption "Stock Options" in the Report of the Compensation Committee on page 16 of this Proxy Statement.

The following table sets forth the number and value of securities underlying unexercised options held by each of the Company's executive officers listed on the Summary Compensation Table above as of December 31, 2002. None of the named executive officers exercised any options during the fiscal year ended December 31, 2002.

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTION VALUES(1)

| NAME | NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AS OF DECEMBER 31, 2002 | | VALUE OF UNEXERCIS IN-THE-MONEY OPTIO AS OF DECEMBER 31, | |
|----------------------------|---|-------------------|--|--------------------|
| | EXERCISABLE (#) | UNEXERCISABLE (#) | EXERCISABLE (\$) | UNEXERCISABLE (\$) |
| Irl F. Engelhardt..... | 425,866 | 417,277 | \$6,184,935 | \$5,300,000 |
| Richard M Whiting..... | 156,423 | 149,034 | 2,267,587 | 1,800,000 |
| Roger B. Walcott, Jr. | 156,125 | 147,508 | 2,267,220 | 1,800,000 |
| Richard A. Navarre..... | 135,119 | 130,710 | 1,969,706 | 1,700,000 |

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Fredrick D. Palmer..... 37,767 50,764 507,109

12

 (1) Values are calculated based on the closing price of Peabody Energy Corporation Common Stock on December 31, 2002 (i.e., \$29.23 per share) less the applicable exercise price.

The following table sets forth information concerning the grant of performance units to each of the Company's executive officers listed on the Summary Compensation Table above during the fiscal year ended December 31, 2002. The performance period with respect to such awards is January 2, 2002 through December 31, 2004.

LONG-TERM INCENTIVE PLANS
 AWARDS IN LAST FISCAL YEAR

| NAME | NUMBER OF SHARES, UNITS OR OTHER RIGHTS (#) (1) | PERFORMANCE OR OTHER UNTIL MATURATION OR |
|----------------------------|--|---|
| Irl F. Engelhardt..... | 20,109 | 1/2/02 - 12/31/04 |
| Richard M. Whiting..... | 7,859 | 1/2/02 - 12/31/04 |
| Roger B. Walcott, Jr. | 7,396 | 1/2/02 - 12/31/04 |
| Richard A. Navarre..... | 5,547 | 1/2/02 - 12/31/04 |
| Fredrick D. Palmer..... | 6,472 | 1/2/02 - 12/31/04 |

 (1) Other material terms of these performance units are described under the caption "Performance Units" in the Report of the Compensation Committee on pages 16 and 17 of this Proxy Statement.

PENSION BENEFITS

The Company's Salaried Employees Retirement Plan, or pension plan, is a "defined benefit" plan. The pension plan provides a monthly annuity to salaried employees when they retire. A salaried employee must have at least five years of service to be vested in the pension plan. A full benefit is available to a retiree at age 62. A retiree can begin receiving a benefit as early as age 55; however, a 4% reduction factor applies for each year a retiree receives a benefit prior to age 62.

An individual's retirement benefit under the pension plan is equal to the sum of (1) 1.112% of the highest average monthly earnings over 60 consecutive months up to the "covered compensation limit" multiplied by the employee's years of service, not to exceed 35 years, and (2) 1.5% of the average monthly earnings over 60 consecutive months over the "covered compensation limit" multiplied by the employee's years of service, not to exceed 35 years.

The Company announced in February 1999 that the pension plan would be phased out beginning January 1, 2001. Certain transition benefits were introduced based on the age and service of the employee at December 31, 2000: (1) employees age 50 or older will continue to accrue service at 100%; (2) employees between the ages of 45 and 49 or under age 45 with 20 years or more of

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service will accrue service at the rate of 50% for each year of service worked after December 31, 2000; and (3) employees under age 45 with less than 20 years of service will have their pension benefits frozen. In all cases, final average earnings for retirement purposes will be capped at December 31, 2000 levels.

The estimated annual pension benefits payable upon retirement at age 62, the normal retirement age, for the Chief Executive Officer and the other eligible named executive officers are as follows:

| | |
|----------------------------|-----------|
| Irl F. Engelhardt..... | \$490,008 |
| Richard M. Whiting..... | 264,786 |
| Roger B. Walcott, Jr. | 24,663 |
| Richard A. Navarre..... | 37,993 |

The Company has one supplemental defined benefit retirement plan that provides retirement benefits to executives whose pay exceeds legislative limits for qualified defined benefit plans.

13

EMPLOYMENT AGREEMENTS

The Company has entered into employment agreements with each of the named executive officers and with certain other key executives. The Chief Executive Officer's employment agreement provides for a three-year term that extends day-to-day so that there is at all times a remaining term of three years. Other executives' employment agreements have either one-year or two-year terms which extend day-to-day so that there is at all times a remaining term of one or two years, respectively. Following a termination without cause or resignation for good reason, the Chief Executive Officer is entitled to a lump sum payment equal to three years' base salary and three times the higher of (1) his target annual bonus or (2) the average of the actual annual bonuses paid to him in the three prior years. The Chief Executive Officer is also entitled to a one-time prorated bonus for the year of termination (based on the Company's actual performance multiplied by a fraction, the numerator of which is the number of business days the Chief Executive Officer was employed during the year of termination, and the denominator of which is the total number of business days during that year), payable when bonuses, if any, are paid to other executives. The Chief Executive Officer will also receive qualified and nonqualified pension, life insurance, medical and other benefits for three years. The other key executives are entitled to the following benefits, payable in equal installments over one or two years: (1) one or two times base salary and (2) one or two times the higher of (A) the target annual bonus or (B) the average of the actual annual bonuses paid in the three prior years. In addition, the other executives are entitled to (1) a one-time prorated bonus for the year of termination (based on the Company's actual performance multiplied by a fraction, the numerator of which is the number of business days the executive officer was employed during the year of termination, and the denominator of which is the total number of business days during that year), payable when bonuses, if any, are paid to the Company's other executives, and (2) qualified and nonqualified pension, life insurance, medical and other benefits for the one or two-year period, as applicable, following termination. However, the Company is not obligated to provide any benefits under tax qualified plans that are not permitted by the terms of each plan or by applicable law or that could jeopardize the plan's tax status. Continuing benefit coverage will terminate to the extent an executive (including the Chief Executive Officer) is offered or obtains comparable coverage from any other employer. The employment agreements provide for confidentiality during and following employment, and include a noncompetition and nonsolicitation agreement

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that is effective during and for one year following employment. If an executive (including the Chief Executive Officer) breaches any of his or her confidentiality, noncompetition or nonsolicitation agreements, the executive will forfeit any unpaid amounts or benefits. To the extent that excise taxes are incurred by an executive (including the Chief Executive Officer) as a result of "excess parachute payments," as defined by IRS regulations, the Company will pay additional amounts up to \$10 million, in the aggregate, so that executives would be in the same financial position as if the excise taxes were not incurred.

REPORT OF THE COMPENSATION COMMITTEE

The Compensation Committee is comprised entirely of non-employee directors and has the responsibility for reviewing and approving changes to the Company's executive compensation policies and programs. The Compensation Committee also approves all compensation payments to the Chief Executive Officer and the other named executive officers, including annual and long-term incentive awards.

COMPENSATION PHILOSOPHY

The fundamental objective of the Company's executive compensation program is to attract, retain and motivate key executives to enhance long-term profitability and stockholder value.

The Company's compensation program is based on the following policies and objectives:

- Programs will have a clear link to stockholder value.
- Programs will be designed to support achievement of the Company's business objectives.
- Total compensation opportunities will be established at levels which are competitive with marketplace practices and other pertinent criteria, taking into account such factors as executive performance, level of experience and retention value.

14

- Variable incentive pay will constitute a significant portion of each executive's compensation.
- Incentive pay will be designed to:
 - Reflect company-wide, business unit and individual performance, based on each individual's position and level; and
 - Incorporate "absolute" (internal) and "relative" (external) performance measures.
- Programs will be communicated so that participants understand how their decisions affect business results and their compensation.

With these policies and objectives in mind, the Compensation Committee has designed a pay structure for the named executive officers that incorporates three key components: base salary, annual incentive payments, and long-term incentive compensation consisting of stock options and performance units.

COMPENSATION PROGRAM COMPETITIVENESS STUDY

The Compensation Committee commissioned an in-depth compensation analysis conducted by an independent third party in June 2002 to determine whether the

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Company's executive compensation programs were consistent with those of other publicly held companies of similar size and in a similar industry. The results of this study confirmed that the Company's executive compensation programs are consistent with those of other publicly held companies of similar size and in a similar industry. The Compensation Committee will continue to periodically review the Company's executive compensation programs to ensure that such programs remain competitive and continue to meet their objectives.

ANNUAL BASE SALARY

Based upon the above-referenced study, the Compensation Committee reviewed the base salaries of the Company's executive officers to ensure competitiveness in the marketplace. The Compensation Committee will continue to review the base salaries of the named executive officers to ensure salaries continue to reflect marketplace practices and take into account performance, experience and retention value.

ANNUAL INCENTIVE PLAN

The Company's annual incentive compensation plan provides opportunities for key executives to earn annual cash incentive payments tied to the successful achievement of pre-established objectives.

All annual incentive plan participants are assigned threshold, target and maximum incentive percentages. If performance does not meet the threshold level, no incentive is earned. At threshold levels, the incentive that can be earned generally equals 50% of the target incentive. The target incentive represents the level of compensation that is considered to be required to stay competitive with the desired pay position in the market. The target incentives for the senior executives and the Chief Executive Officer are 150% and 175% of base salary. Target incentive payments generally are received for achieving budgeted financial goals and meeting personal performance goals. Maximum incentive payments generally are received when both budgeted financial and personal performance goals are significantly exceeded. The maximum incentives for the senior executives and the Chief Executive Officer are 150% and 175% of base salary. A participant's annual incentive opportunity is based upon his or her level of participation in the incentive plan. The incentive opportunity increases based upon an executive's potential to affect operations or profitability.

Awards for corporate employees, including the Chief Executive Officer, are based on achievement of corporate and individual performance goals. Awards to operating employees are based on achievement of a combination of corporate, business unit (including safety) and individual performance goals. Achievement of corporate performance is determined by comparing the Company's actual performance against objective and subjective performance measures, which are established by the Compensation Committee at the beginning of

15

each calendar year. In 2002, these performance measures for the named executive officers and their relative weightings were as follows:

- 60% -- pretax income;
- 20% -- return on invested capital (ROIC); and
- 20% -- individual performance.

All award payments to the named executive officers are subject to the review and approval of the Compensation Committee.

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2002 INCENTIVE PAYMENTS

For the fiscal year ended December 31, 2002, the Company awarded annual incentive payments to the Chief Executive Officer and the other four named executive officers, as reflected in the bonus column of the summary compensation table. Other eligible executives were paid under the same annual incentive plan. Although the Company did not meet the financial targets established for 2002 under the plan, the Compensation Committee approved payment of the discretionary component based upon the achievement of the executive's individual performance goals.

LONG-TERM INCENTIVES

The Compensation Committee has determined that a long-term incentive opportunity will be made available to each of the Company's named executive officers through annual awards of stock options and performance units. The targeted value of these awards generally is split equally between stock options and performance units and ranges from 100 to 150% of base salary for each of the named executive officers. The Compensation Committee intends that these long-term incentive opportunities be competitive and based on actual Company performance.

Stock Options

The Company's stock option program is a long-term plan designed to create a direct link between executive compensation and increased stockholder value. The targeted value of annual option awards to the named executive officers is generally 50% of base salary for senior executives and 75% of base salary for the Chief Executive Officer as described above, but awards can deviate from these guidelines at the discretion of the Compensation Committee. The Company uses a Black-Scholes valuation model to establish the value of its stock option grants. The grants are currently made in the form of nonqualified stock options.

All stock options are granted at an exercise price equal to the closing price of the Company's Common Stock on the date of grant. Stock options generally vest in one-third increments over a period of three years; however, options will immediately vest upon a change of control of the Company or upon an employee's death, disability or a recapitalization event. Options expire ten years from the date of grant.

Performance Units

Certain key executives are eligible to receive long-term incentive awards in the form of performance units. Performance units awarded in 2002 will be payable in cash, if earned. For units awarded in 2002, the value of the performance units is tied to the relative performance of the Company's Common Stock. The percentage of the performance units earned is based on the Company's total stockholder return (TSR) over a period beginning January 2, 2002 and ending December 31, 2004 relative to both an industry comparator group (the Industry Peer Group) and the S&P Industrial Index. TSR measures cumulative stock price appreciation plus dividends. The Industry Peer Group generally is perceived to be subject to similar market conditions and investor reactions as the Company. For this reason, the Industry Peer Group is weighted at 75% while the S&P Industrial Index is weighted at 25%.

16

Performance payout formulas are as follows:

- Threshold payouts (equal to 50% of the value of the performance units)

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begin for TSR performance at the 40th percentile of the Industry Peer Group or the 35th percentile of the S&P Industrial Index.

- Target payouts (equal to 100% of the value of the performance units) are based on performance at the 55th percentile of the Industry Peer Group and 50th percentile of the S&P Industrial Index.
- Maximum payouts (equal to 200% of the value of the performance units) are based on performance at the 80th percentile of the Industry Peer Group and the 75th percentile of the S&P Industrial Index.
- No payments will be made if TSR is negative and performance is below the 50th percentile of the Industry Peer Group. Also, the maximum payout cannot exceed 150% of the value of the performance units if TSR is negative and performance is above the 50th percentile of the Industry Peer Group.

Performance units are issued at a price that equals the average closing price of the Company's Common Stock during the four weeks of trading immediately following the date of grant. TSR for the Company at the end of the cycle is based on the average closing price during the last four weeks of trading in the performance cycle. Units vest over, and are payable subject to the achievement of performance goals at the conclusion of, the measurement period. Upon a change of control of the Company, a recapitalization event or the executive's death, disability, retirement or termination without cause, payments by the Company will be paid in proportion to the number of vested performance units based upon the TSR performance as of the date the event occurs.

OTHER PLANS

The Company maintains a Deferred Compensation Plan pursuant to which certain executives can defer base, annual incentive and any cash-based long-term incentive compensation. The Company also maintains a defined contribution retirement plan, a defined benefit retirement plan (although the plan is being phased out) and other benefit plans for its employees. Executives participate in these plans on the same terms as other eligible employees, subject to any legal limits on the amount that may be contributed by or paid to executives under the plans. In addition, the Company maintains one excess defined benefit retirement plan and one excess defined contribution plan that provides retirement benefits to executives whose pay exceeds legislative limits for qualified defined benefit plans.

COMPENSATION OF THE CHIEF EXECUTIVE OFFICER

Mr. Engelhardt's base salary is \$800,000. A review of competitive market data conducted in June 2002 supports the competitiveness of this salary.

For the fiscal year ended December 31, 2002, Mr. Engelhardt's maximum incentive opportunity under the Company's annual incentive compensation plan was 175% of his base salary, or \$1,400,000. The maximum incentive opportunity for the other named executive officers was 150% of their base salary. Although the Company did not achieve the financial targets established under the annual incentive plan for pre-tax income or return on invested capital for the fiscal year ended December 31, 2002, as described above, the Company posted improvements year over year in key financial measures in the face of many challenges. As a result, Mr. Engelhardt was awarded a bonus payout of \$280,000, or 175% of the eligible 20% of his annual incentive related to individual performance for his successful management of the Company during the year.

During the fiscal year ended December 31, 2002, Mr. Engelhardt also received long-term incentive awards consisting of stock options and performance units. These awards were made in accordance with the Compensation Committee's

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long-term incentive guidelines described above. The specific terms of such awards

17

are outlined in this report under the captions "Long Term Incentives," "Stock Options" and "Performance Units," and in the Proxy Statement compensation tables.

MEMBERS OF THE COMPENSATION COMMITTEE:

HENRY E. LENTZ (CHAIR)
BERNARD J. DUROC-DANNER
BLANCHE M. TOUHILL, PhD
ALAN H. WASHKOWITZ

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

During the Company's last fiscal year, Messrs. Lentz and Washkowitz and Dr. Touhill served as members of the Compensation Committee. Mr. Duroc-Danner joined the Compensation Committee in January 2003. None of these committee members is employed by the Company. Messrs. Lentz and Washkowitz are employed by or consultants to Lehman Brothers Inc., whose affiliates own a substantial percentage of the Company's outstanding Common Stock. During the fiscal year ended December 31, 2002, Lehman Brothers engaged in certain transactions with the Company as described under the caption "Related Party Transactions" below.

RELATED PARTY TRANSACTIONS

TRANSACTIONS WITH AFFILIATES OF LEHMAN BROTHERS

As of March 1, 2003, Lehman Brothers Merchant Banking Partners II L.P. and its affiliates (collectively, "Lehman Brothers Merchant Banking Fund") owned 40.6% of the Company's outstanding Common Stock. Messrs. Goodspeed, Lentz and Washkowitz, each being one of the Company's directors, are investors in the Lehman Brothers Merchant Banking Fund. Mr. Goodspeed is an Advisory Director of, Mr. Lentz is a consultant to, and Mr. Washkowitz is a Managing Director of Lehman Brothers Inc.

Lehman Commercial Paper Inc. served as joint lead arranger, joint book-running manager and syndication agent in connection with the Company's new credit facility, which closed in March 2003. It received customary fees, plus reimbursement of certain expenses, for those services.

In March 2003, Lehman Brothers Inc. served as the dealer manager in connection with a tender offer for the Company's outstanding 8 7/8% senior notes due 2008 and 9 5/8% senior subordinated notes due 2008. Lehman Brothers also served as an initial purchaser in this offering. Lehman Brother received customary fees, plus reimbursement of certain expenses, for those services.

In April 2002, Lehman Brothers served as the lead underwriter in connection with the offering of Company Common Stock by Lehman Brothers Merchant Banking Fund and certain other selling stockholders. Lehman Brothers received customary fees, plus reimbursement of certain expenses, for those services.

Lehman Commercial Paper Inc. was a participant in the Company's previous senior credit facility, which was amended in April 2001. Lehman Commercial Paper Inc. received \$0.06 million of the \$1.4 million credit facility amendment fee.

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Lehman Brothers has been retained to serve as financial advisor in connection with the Company's efforts to develop mine-mouth electric generating facilities in Kentucky and certain other locations. During the nine months ended December 31, 2001, Lehman Brothers received \$0.5 million plus reimbursement of expenses for services rendered in connection with these projects. Lehman Brothers has not received any fees or expense reimbursement since that time.

18

TRANSACTIONS WITH MANAGEMENT

During the fiscal years ended March 31, 1999, 2000 and 2001, some of the Company's executive officers and 18 other employees purchased or were granted shares of Class B Common Stock under the 1998 Stock Purchase and Option Plan for Key Employees. All such Class B shares subsequently converted into Company Common Stock on a one-for-one basis at the time of the Company's initial public offering. In connection with these purchases and grants, the Company, affiliates of Lehman Brothers Holdings and the executives who received Class B Common Stock entered into stockholders agreements providing for certain rights relating to the registration of their shares in connection with certain sales of Company capital stock by affiliates of Lehman Brothers Holdings. The stockholders agreements provide the investors with the right to register and sell their unregistered stock in the event the Company conducts certain types of registered offerings.

In conjunction with the purchases and grants of Class B Common Stock, the executive officers and employees executed term notes. The term notes related to the grants are due on May 19, 2003 and the term notes executed for purchases are due on February 1, 2006. Subsequently, the term notes executed for purchases were replaced with term notes related to the grants. All of the term notes bear interest at an applicable U.S. federal rate used by the Internal Revenue Service for loans to employees. The maturity of the promissory notes will accelerate upon the occurrence of certain events, including six months following any termination of employment or disposition of the stock.

The following table sets forth certain information regarding the term notes for the Company's executive officers with aggregate indebtedness in excess of \$60,000.

| NAME | OUTSTANDING INDEBTEDNESS AT MARCH 5, 2003 | LARGEST AGGREGATE INDEBTEDNESS DURING FISCAL YEAR ENDED DECEMBER 31, 2002 |
|----------------------------|--|---|
| Roger B. Walcott, Jr. | \$161,766 | \$226,158 |
| Richard M. Whiting..... | 159,366 | 221,384 |
| Jeffery L. Klinger..... | 40,541 | 131,497 |
| Irl F. Engelhardt..... | -- | 680,426 |
| Sharon D. Fiehler..... | -- | 130,552 |
| Richard A. Navarre..... | -- | 188,202 |

19

STOCK PERFORMANCE GRAPH

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The following performance graph compares the cumulative total return to stockholders on the Company's Common Stock with the cumulative total return of two indices: (1) Standard & Poor's MidCap 400 Index, and (2) a peer group comprised of Arch Coal, Inc., Massey Energy Company, Consol Energy, Inc. and Westmoreland Coal Co. The graph assumes that the value of the investment in Company Common Stock and each index was \$100 at May 21, 2001, the date of the Company's initial public offering. The graph also assumes that all dividends were reinvested and that investments were held through December 31, 2002.

CUMULATIVE TOTAL RETURN
BASED UPON AN INITIAL INVESTMENT OF \$100 ON MAY 21, 2001
WITH DIVIDENDS REINVESTED

(PERFORMANCE GRAPH)

| | 21-MAY-01 | JUN-01 | SEP-01 | DEC-01 | MAR-02 | JUN-02 |
|-----------------------------------|-----------|--------|--------|--------|--------|--------|
| Peabody Energy Corporation | \$100 | \$117 | \$86 | \$101 | \$105 | \$105 |
| S&P(C) MidCap 400 Index | \$100 | \$ 95 | \$79 | \$ 94 | \$100 | \$100 |
| Custom Composite Index (4 Stocks) | \$100 | \$ 67 | \$50 | \$ 65 | \$ 63 | \$ 63 |

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ADDITIONAL INFORMATION

INFORMATION ABOUT STOCKHOLDER PROPOSALS

If you wish to submit a proposal for inclusion in next year's Proxy Statement and proxy, we must receive the proposal on or before December 2, 2003. Any proposals should be submitted in writing to: Corporate Secretary, Peabody Energy Corporation, 701 Market Street, St. Louis, Missouri 63101.

Under the Company's bylaws, if you wish to nominate a director or bring other business before the stockholders at the 2004 Annual Meeting without having your proposal included in next year's Proxy Statement:

- You must notify the Corporate Secretary in writing between January 7, 2004 and February 4, 2004; and
- Your notice must contain the specific information required by the Company's bylaws.

20

You can obtain a copy of the Company's bylaws without charge by writing to the Corporate Secretary at the address shown above.

COSTS OF SOLICITATION

The Company is paying the cost of preparing, printing and mailing these proxy materials. The Company has engaged Georgeson Shareholder Communications

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Inc. to assist in distributing proxy materials and in performing other proxy solicitation services for a fee of \$4,000 plus their out-of-pocket expenses. Proxies may be solicited personally or by telephone by regular employees of the Company without additional compensation as well as by employees of Georgeson. The Company will reimburse banks, brokerage firms and others for their reasonable expenses in forwarding proxy materials to beneficial owners and obtaining their voting instructions.

OTHER BUSINESS

The Board of Directors is not aware of any matters requiring stockholder action to be presented at the Annual Meeting other than those stated in the Notice of Annual Meeting. Should other matters be properly introduced at the Annual Meeting, those persons named in the enclosed proxy will have discretionary authority to act on such matters and will vote the proxy in accordance with their best judgment.

THE COMPANY WILL PROVIDE TO ANY STOCKHOLDER, WITHOUT CHARGE AND UPON WRITTEN REQUEST, A COPY (WITHOUT EXHIBITS UNLESS OTHERWISE REQUESTED) OF THE COMPANY'S ANNUAL REPORT ON FORM 10-K AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002. ANY SUCH REQUEST SHOULD BE DIRECTED TO PEABODY ENERGY CORPORATION, INVESTOR RELATIONS, 701 MARKET STREET, ST. LOUIS, MISSOURI 63101-1826; TELEPHONE (314) 342-3100.

By Order of the Board of Directors,

/s/ Fredrick D. Palmer
FREDRICK D. PALMER
Executive Vice President --
Legal and External Affairs
and Secretary

21

PEABODY ENERGY
CORPORATION

ADMISSION CARD

ANNUAL MEETING OF STOCKHOLDERS
Tuesday, May 6, 2003, 10:00 A.M.
Ritz-Carlton Hotel
100 Carondelet Plaza
Clayton, Missouri 63105

IF YOU PLAN TO ATTEND THE 2003 ANNUAL MEETING OF STOCKHOLDERS OF PEABODY ENERGY CORPORATION, PLEASE DETACH THIS FORM AND BRING IT WITH YOU TO THE MEETING. This card will provide evidence of your ownership and enable you to attend the meeting. Attendance will be limited to those persons who owned Peabody Energy Corporation Common Stock as of March 15, 2003, the record date for the Annual Meeting.

When you arrive at the Annual Meeting site, please fill in your complete name in the space provided below and submit this card to one of the attendants at the registration desk.

IF YOU DO NOT BRING THIS ADMISSION CARD AND YOUR SHARES ARE REGISTERED IN YOUR OWN NAME, YOU WILL NEED TO PRESENT A PHOTO I.D. AT THE REGISTRATION DESK. IF YOUR SHARES ARE REGISTERED IN THE NAME OF YOUR BANK OR BROKER, YOU WILL BE REQUIRED TO SUBMIT OTHER SATISFACTORY EVIDENCE OF OWNERSHIP (SUCH AS A RECENT ACCOUNT STATEMENT OR A CONFIRMATION OF BENEFICIAL OWNERSHIP FROM YOUR BROKER)

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AND A PHOTO I.D. BEFORE BEING ADMITTED TO THE MEETING.

STOCKHOLDER NAME:

DETACH HERE

ZPBD52

PROXY

PEABODY ENERGY CORPORATION

PROXY FOR ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON MAY 6, 2003
THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

The undersigned hereby constitutes and appoints Messrs. Irl F. Engelhardt, Richard A. Navarre and Fredrick D. Palmer, or any of them, with power of substitution to each, proxies to represent the undersigned and to vote, as designated on the reverse side of this form, all shares of Common Stock which the undersigned would be entitled to vote at the Annual Meeting of Stockholders of Peabody Energy Corporation (Peabody) to be held on May 6, 2003 at the Ritz-Carlton Hotel, 100 Carondelet Plaza, Clayton, Missouri 63105 at 10:00 A.M., and at any adjournments thereof.

THE SHARES REPRESENTED BY THIS PROXY WILL BE VOTED IN THE MANNER INDICATED BY THE STOCKHOLDER. IN THE ABSENCE OF SUCH INDICATION, SUCH SHARES WILL BE VOTED FOR THE ELECTION OF DIRECTORS IN ITEM 1. THE SHARES REPRESENTED BY THIS PROXY WILL BE VOTED IN THE DISCRETION OF SAID PROXIES WITH RESPECT TO SUCH OTHER BUSINESS AS MAY PROPERLY COME BEFORE THE MEETING AND ANY ADJOURNMENTS THEREOF.

If the undersigned is a participant in the Peabody Holding Company, Inc. Employee Retirement Account or other 401(k) plans sponsored by Peabody or its subsidiaries, this proxy card also provides voting instructions to the trustee of such plans to vote at the Annual Meeting, and any adjournments thereof, as specified on the reverse side hereof. If the undersigned is a participant in one of these plans and fails to provide voting instructions, the trustee will vote the undersigned's plan account shares (and any shares not allocated to individual participant accounts) in proportion to the votes cast by other participants in that plan.

| SEE REVERSE |
| SIDE |

| SEE REVERSE |
| SIDE |

IMPORTANT - THIS PROXY MUST BE SIGNED AND DATED ON THE REVERSE SIDE.

PEABODY ENERGY CORPORATION

C/O EQUISERVE TRUST COMPANY, N.A.
P.O. BOX 8694
EDISON, NJ 08818-8694

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VOTER CONTROL NUMBER

| |
| |

YOUR VOTE IS IMPORTANT. PLEASE VOTE IMMEDIATELY.

| VOTE-BY-INTERNET [GRAPHIC] | VOTE-BY-TELEPHONE |
|--|--|
| 1. LOG ON TO THE INTERNET AND GO TO HTTP://WWW.EPROXYVOTE.COM/BTU. | 1. CALL TOLL-FREE 1-877-PRX-VOTE (1 |
| 2. ENTER YOUR VOTER CONTROL NUMBER LISTED ABOVE AND FOLLOW THE EASY STEPS OUTLINED ON THE SECURED WEBSITE. | 2. ENTER YOUR VOTER LISTED ABOVE AND RECORDED INSTRUCT |

OR

IF YOU VOTE OVER THE INTERNET OR BY TELEPHONE, PLEASE DO NOT MAIL YOUR CARD

DETACH HERE IF YOU ARE RETURNING YOUR PROXY CARD BY MAIL

PLEASE MARK
[X] VOTES AS IN
THIS EXAMPLE.

A VOTE FOR EACH OF THE NOMINEES LISTED IN ITEM 1 IS RECOMMENDED BY THE BOARD OF DIRECTORS.

1. Election of Directors.

The undersigned hereby GRANTS authority to elect the following nominees:
NOMINEES: (01) William E. James, (02) Robert B. Karn III,
(03) Henry E. Lentz and (04) Blanche M. Touhill

FOR WITHHELD
ALL [] [] FROM ALL
NOMINEES NOMINEES

[] _____
For all nominees except as noted above

MARK HERE IF YOU PLAN TO ATT

NOTE: Please sign exactly as na
accounts, each joint owner shou
executor, administrator, trustee
full title.

Signature:_____ Date:_____ Signature:_____