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*Proposed Counsel for the Debtors and  
Debtors in Possession*

**UNITED STATES BANKRUPTCY COURT  
FOR THE EASTERN DISTRICT OF VIRGINIA  
RICHMOND DIVISION**

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In re:	)	
	)	Chapter 11
	)	
PATRIOT COAL CORPORATION, <i>et al.</i> ,	)	Case No. 15-32450 (KLP)
	)	
Debtors.	)	(Joint Administration Requested)
	)	

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**DECLARATION OF RAY DOMBROWSKI,  
CHIEF RESTRUCTURING OFFICER OF PATRIOT COAL  
CORPORATION, *ET AL.*, IN SUPPORT OF FIRST DAY MOTIONS**

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I, Raymond E. Dombrowski, Jr., hereby declare under penalty of perjury:

1. I am the Chief Restructuring Officer of the above-captioned debtors and debtors in possession (collectively, “Patriot” or the “Debtors”). I have served in this position since March 31, 2015. In such capacity, I am generally familiar with the Debtors’ day-to-day operations, business and financial affairs, and books and records. I am above 18 years of age, and I am competent to testify.

2. I am authorized to submit this Declaration on behalf of the Debtors. Except as otherwise indicated, all facts set forth herein are based on my personal knowledge of the Debtors’ operations and finances, information learned from my review of relevant documents, and information I have received from other members of the Debtors’ management or advisers. I have reviewed the “first day” motions (the “First Day Motions”) that the Debtors intend to file along with the chapter 11 petitions on the date hereof (the “Petition Date”) or have otherwise had their contents explained to me. It is my belief that the relief sought in the First Day Motions is essential to the uninterrupted operation of the Debtors’ business and to the value-maximizing administration of these chapter 11 cases. If called upon to do so, I could and would testify competently to the facts set forth herein on that basis.

### **PRELIMINARY STATEMENT**

3. The Debtors are a leading producer and marketer of coal in the United States. Patriot’s principal business is the mining and preparation of thermal coal, sold primarily to electricity generators, and metallurgical coal, sold primarily to steel and coke producers. The Debtors control approximately 1.4 billion tons of proven and probable coal reserves—including owned and leased assets in the Central Appalachia basin (in West Virginia and Ohio) and Southern Illinois basin (in Kentucky and Illinois)—and their operations consist of eight active mining complexes in West Virginia. Patriot employs approximately 2,870 individuals on a full-

time basis, of which approximately 900 are unionized and represented by the United Mine Workers of America (the “UMWA”).

4. As described in further detail below, these are the Debtors’ second chapter 11 cases. Patriot previously filed for relief under the U.S. Bankruptcy Code on July 9, 2012, seeking to achieve an operational and financial restructuring (the “2012-13 Restructuring”).<sup>1</sup> On December 18, 2013, the Bankruptcy Court for the Eastern District of Missouri confirmed the Debtors’ plan of reorganization, and the Debtors emerged having deleveraged their balance sheet and reduced expenses, including certain expenses associated with their legacy liabilities.<sup>2</sup> Also as discussed more herein, the linchpins of the Debtors’ prior chapter 11 plan were a global settlement among the Debtors, the UMWA, and two third parties—Peabody Energy Corporation and Arch Coal, Inc.—and a commitment by a consortium of Patriot’s financial creditors, led by certain funds and accounts managed and/or advised by Knighthood Capital Management, LLC (collectively, the “Ad Hoc Group”), to backstop two rights offerings that funded the plan.<sup>3</sup>

5. In the 2012-13 Restructuring, the Debtors reduced wages and benefits for their non-union employees and retirees, negotiated new collective bargaining agreements with the

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<sup>1</sup> *In re Patriot Coal Corp.*, No. 12-12900 (SCC) (Bankr. S.D.N.Y. July 9, 2012), Declaration of Mark N. Schroeder Pursuant to Local Bankruptcy Rule 1007-2 [Docket No. 4]. The prior chapter 11 cases are closed. *In re Patriot Coal Corp.*, No. 12-5105-659 (KAS) (Bankr. E.D. Mo. Sep. 30, 2014), Final Decree Closing Chapter 11 Cases of Patriot Coal Corporation and Brody Mining, LLC [Docket No. 5574].

Some of the entities that filed for chapter 11 in 2012 are no longer part of the Debtors’ organizational structure, and some of the entities that are now Debtors did not file for chapter 11 in 2012. Nonetheless, for ease of reference, the defined terms “Patriot” and “Debtors” are used when discussing the 2012-13 Restructuring.

<sup>2</sup> *In re Patriot Coal Corp.*, No. 12-5105-659 (KAS) (Bankr. E.D. Mo. Dec. 18, 2013), Amended Order Confirming Debtors’ Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code [Docket No. 5169].

<sup>3</sup> As will be explained in greater detail in its forthcoming retention application, Kirkland & Ellis LLP (“K&E”), proposed counsel to the Debtors in these chapter 11 cases, represented the Ad Hoc Group in the 2012-13 Restructuring. K&E’s representation of the Ad Hoc Group concluded after the conclusion of the 2012-13 Restructuring.

UMWA, and transitioned their retiree healthcare obligations under preexisting collective bargaining agreements to a voluntary employees' beneficiary association trust (the "UMWA VEBA"). However, substantial portions of the Debtors' legacy liabilities remained in place. Notably, the Debtors' obligations to contribute to the multi-employer pension fund under the UMWA 1974 Pension Plan (the "1974 Pension Plan") and to make payments pursuant to certain federal statutes applicable to the coal industry (the Coal Act and the Black Lung Act, each of which is defined and discussed below) were unaffected by the previous chapter 11 cases. The Debtors' capital structure upon emergence from the 2012-13 Restructuring remains in place today.

6. Patriot's feasibility upon emergence from the 2012-13 Restructuring was predicated on assumptions about coal prices that ultimately did not materialize. Notwithstanding the consummation of its prior chapter 11 cases, Patriot, like other coal industry leaders, has faced—and continues to face—strong headwinds as a result of the continued decline in domestic and foreign demand for coal, burdensome environmental regulations, and unsustainable further legacy and other non-operating liabilities. In addition, operational issues relating to a longwall move and a mine collapse at one of the Debtors' mining complexes, Federal, caused Patriot to suffer significant cash shortfalls from its projections.

7. In response to continued challenges following the 2012-13 Restructuring, Patriot's management and advisers pursued certain strategic M&A and sale transactions, but these efforts did not yield a transformative transaction.<sup>4</sup> Accordingly, Patriot was forced to take actions to reduce further their cost structure by idling and reducing activity at certain mining complexes to match expected sales volumes and market demand. In addition, on December 31,

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<sup>4</sup> Also as will be explained further in its forthcoming retention application, K&E represented Patriot in these post-2012-13 Restructuring transactional efforts.

2014, Patriot entered into asset purchase agreements with Alliance Resources Partners, L.P. (“Alliance”), pursuant to which Patriot agreed to transfer to Alliance all assets associated with its Dodge Hill mining complex and certain undeveloped coal reserves in Western Kentucky. Patriot also entered into asset purchase agreements with Prairie Mining Company, LLC and Prairie Dock Company, LLC for the sale to these companies of permits and associated property rights for Patriot’s Highland mining complex. Patriot expects these sales will conclude in the first half of 2015 and provide approximately \$46 million in revenue.

8. In addition to these asset purchase agreements, on December 31, 2014, Patriot sold its rights to certain coal supply agreements to affiliates of Alliance, realizing a gain of approximately \$9.1 million.

9. Over the past several months, due to continued weakened demand for coal, Patriot’s management has had to address increasingly severe pressures on its financial condition. In the first quarter of 2015, it became apparent that Patriot would have difficulty obtaining an unqualified audit opinion by March 31, 2015, which would have been an event of default under its secured debt instruments. And unless cured 30 days thereafter, this default would have accelerated (and cross-accelerated) Patriot’s approximately \$791 million secured capital structure. Additionally, Patriot was in jeopardy of not satisfying certain financial covenants. Accordingly, Patriot and its advisers<sup>5</sup> negotiated and obtained on March 31, 2015 requisite amendments from their lenders that provided further time to explore options to secure additional liquidity and/or effectuate a going-concern sale and/or restructuring transaction (the “March 31 Amendments”).

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<sup>5</sup> In addition to K&E, Patriot’s proposed retained professionals principally include Centerview Partners LLC (“Centerview”), as investment banker and financial adviser, and my firm, Alvarez & Marsal (“A&M”), as restructuring adviser.

10. Also over the past several months, Patriot engaged in multiple efforts to sell assets. *First*, Patriot had extensive negotiations with purchasers interested in one of their underground mining complexes known as Federal. These discussions led to significant indications of interest for a sale of Federal. As part of the March 31 Amendments, however, Patriot and its lenders agreed to postpone this transaction until it could be confirmed whether a sale outside of a chapter 11 case would obtain the greatest possible value for the asset. As described further below, the Debtors intend to resume as soon as practicable postpetition the marketing process for Federal.

11. *Second*, also over the past several months, Patriot had extensive negotiations regarding the purchase of certain reserves at its Huff Creek mine. These discussions led to an agreement in principle for a transaction slated to close by April 30, 2015. As part of the March 31 Amendments, it was agreed that Patriot could retain 50% of the Huff Creek asset sale proceeds for general corporate purposes, and the other 50% would be used to cash collateralize its letters of credit. In the last week of April, however, a series of complications arose that precluded consummation of this transaction, and Patriot's consequent inability to utilize these expected sale proceeds was a further material strain on liquidity.

12. *Finally*, and perhaps most significantly, in recent weeks Patriot has been engaged in extensive negotiations with a strategic party interested in effectuating a transaction acquiring essentially all of Patriot's operating assets (excluding Federal) and many of its reserves (including Huff Creek). Discussions with this potential acquirer are in a highly advanced stage, with the parties having exchanged a series of proposals and counterproposals, and progress is underway towards drafting a term sheet and related documentation.

13. The Debtors intend to continue these negotiations in earnest postpetition and, as soon as practicable, hope to file with the Court a motion to approve bidding procedures for one



or more transactions, possibly accompanying a motion to approve one or more stalking horse bidders, to sell assets pursuant to section 363 or under a chapter 11 plan. Throughout this marketing process, the Debtors also will continue their ongoing analysis of whether a standalone plan of reorganization or some combination of section 363 sales and a plan will maximize value for stakeholders.

14. Importantly, the aforementioned strategic party does not have employees represented by the UMWA or any union, and thus far has expressed an unwillingness to enter into a transaction that would involve assuming various legal liabilities related to, among other things, the Debtors' collective bargaining agreements with the UMWA (the "CBAs"). The Debtors will explore all possible transactional solutions that do not involve having to reject the CBAs—and, most critically, these explorations will include active, direct, and comprehensive negotiations with the UMWA that seek a consensual outcome for all affected parties. If such consensual resolution is not achievable, however, the Debtors may not be able to avoid commencing, as they did during the 2012-13 Restructuring (and described below), proceedings under sections 1113 and 1114 of the Bankruptcy Code.

15. In connection with these potential transactions, the Debtors have secured a fully committed \$100 million debtor-in-possession facility from a subset of their prepetition lenders that control a majority of the Debtors' prepetition term loan debt and second lien notes (the proposed "DIP Facility"). The DIP Facility is secured by the collateral securing the Debtors' prepetition secured credit facilities plus unencumbered property, including nonresidential real property leases. Subject to Court approval, the Debtors will have approximately \$30 million in cash available on their balance sheet through a new term loan, and

\$70 million in additional borrowing capacity upon final approval, the latter subject to the achievement of certain milestones.

16. To familiarize the Court with Patriot, its businesses, and the initial relief sought by the Debtors to stabilize operations and facilitate their restructuring, this Declaration is organized as follows: **Part I** describes Patriot's history and business, **Part II** summarizes the 2012-13 Restructuring, **Part III** sets forth the Debtors' present capital and corporate structure, **Part IV** explains the circumstances giving rise to the commencement of these chapter 11 cases, and **Part V** addresses the relief requested in, and the facts supporting, each of the First Day Motions.

#### **I. PATRIOT'S HISTORY & BUSINESS**

17. Prior to October 31, 2007, Patriot Coal Corporation and a number of its subsidiaries were wholly-owned subsidiaries of Peabody Energy Corporation ("Peabody"), which at the time was the world's largest privately-owned coal company. On October 31, 2007, Patriot was spun off from Peabody through a dividend of all outstanding shares of Patriot, and Patriot became a separate, public company, listed on the New York Stock Exchange. As discussed below, Patriot is no longer a public company.

18. On July 23, 2008, Patriot acquired Magnum Coal Company ("Magnum"). At the time of this acquisition, Magnum (which had on its balance sheet substantial assets and liabilities previously acquired from Arch Coal, Inc. ("Arch")) was one of the largest coal producers in Appalachia, controlling more than 600 million tons of proven and probable coal reserves.

19. Patriot's principal business is the mining, preparation, and sale of thermal and metallurgical coal. Thermal coal is primarily sold to electricity generators, and metallurgical coal is sold to steel mills and independent coke producers. The Debtors have eight active mining

complexes located in West Virginia, which include company-operated mines, a contractor-operated mine, and coal preparation facilities. The Debtors are organized under the laws of the States of Virginia, Delaware, Kentucky, and West Virginia.

20. In 2014, the Debtors sold approximately 22.4 million tons of coal, of which approximately 68% was sold to domestic and global electricity generators and industrial customers and approximately 32% was sold to domestic and global steel and coke producers. Export sales were approximately 44% of the Debtors' total volume in 2014. The Debtors ship coal to electricity generators, industrial users, steel mills, and independent coke producers, as well as brokers that ultimately sell the coal to these same types of customers. The coal is shipped via various company-owned and third-party loading facilities, multiple rail and river transportation routes and ocean-going vessels. As of December 31, 2014, the Debtors had an estimated 1.4 billion tons of proven and probable coal reserves—including owned and leased assets in the Central Appalachia basin (in West Virginia and Ohio) and Southern Illinois basin (in Kentucky and Illinois)—approximately 36% of which the Debtors own and approximately 64% of which the Debtors control through leases.<sup>6</sup>

21. The Debtors employ approximately 2,840 individuals on a full-time basis, of which approximately 900 are represented by the UMWA through collective bargaining agreements. These employees include miners, engineers, truck drivers, mechanics, electricians, administrative support staff, managers, directors, and executives. The Debtors provide to their employees health and welfare benefit plans, including medical, prescription drug, dental, and vision plans, and health savings accounts. Certain of the Debtors are required to contribute to the 1974 Pension Plan, a multi-employer plan that provides defined benefits to a majority of the

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<sup>6</sup> Thermal coal reserves compose approximately two thirds of this total, with metallurgical coal reserves making up the rest.

hourly coal production workers represented by the UMWA. The expense related to 1974 Pension Plan was \$20.8 million in 2012, \$20.6 million in 2013, and \$16.8 million in 2014.

22. The Debtors also contribute to plans established for certain retirees who retired before October 1, 1994 under the Coal Industry Retiree Health Benefits Act of 1992, 26 U.S.C. § 9701 *et seq.* (the “Coal Act”). As discussed further below, Peabody has posted credit support with respect to certain of these obligations in the form of letters of credit. Like other coal companies, the Debtors also incur costs and make award payments in accordance with the Federal Mine Safety and Health Act of 1977, 30 U.S.C. §§ 901–45 (the “Black Lung Benefits Act”).

23. Separately, the Debtors are subject to other workers’ compensation laws in the states in which they operate or used to operate. A portion of their workers’ compensation program is self-insured, but the Debtors also maintain excess and large-deductible coverage through third-party insurance providers. The Debtors provide letters of credit as collateral to these insurance providers to secure their obligations under the policies. The Debtors intend to, and pursuant to the First Day Motions are seeking authority to, continue making all payments to their current employees and all payments with respect to the Coal Act, the Black Lung Act, and their workers’ compensation program, among others.

24. Like other coal companies, the Debtors have asset retirement obligations that include both reclamation and selenium water treatment. Reclamation obligations primarily represent the fair value of future anticipated costs to restore surface land to levels equal to or greater than pre-mining conditions, as required by the federal Surface Mining Control and Reclamation Act as well as certain state laws. Selenium water treatment obligations primarily represent the fair value of future anticipated costs for water treatment of selenium discharges, as

required by current court orders, consent decrees, and mining permits. The Debtors have posted surety bonds, a portion of which are backed by letters of credit, to secure their asset retirement obligations.

## **II. THE 2012-13 RESTRUCTURING**

25. On July 9, 2012, the Debtors filed voluntary chapter 11 petitions in the U.S. Bankruptcy Court for the Southern District of New York. Following a venue challenge by, among other parties, the UMWA, the cases were transferred on November 27, 2012 to the U.S. Bankruptcy Court for the Eastern District of Missouri.<sup>7</sup> The Debtors commenced the 2012-13 Restructuring for a number of reasons, including the decrease in demand for coal, increasing costs associated with burdensome government regulations, and increasing labor-related liabilities.

26. In 2012, Patriot employed more than 4,000 personnel, approximately 42% (or 1,680 employees) of which were unionized and represented by the UMWA under previous collective bargaining agreements. The Debtors also provided health care and other benefits to 10,286 primary insureds and 12,145 beneficiaries under the Debtors' plans.

27. As a result of continuing downward pressure on coal prices and the substantial legacy liabilities that hampered the Debtors' financial condition, the Debtors' capital structure needed significant deleveraging.

### **A. Operational Reorganization**

#### *1. Union-Related Savings*

28. In November 2012, the Debtors began formal negotiations with the UMWA with the goal of securing consensual modifications to their existing collective bargaining agreements

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<sup>7</sup> *In re Patriot Coal Corp.*, No. 12-12900 (SCC) (Bankr. S.D.N.Y. November 27, 2012), Memorandum Decision on Motions to Transfer Venue Pursuant to 28 U.S.C. § 1412 [Docket No. 1629]. The two debtor entities previously established in the Southern District of New York were both dissolved as part of the 2012-13 Restructuring. In January 2015, Patriot announced it was closing its corporate headquarters in St. Louis, Missouri.

and their retiree health care obligations thereunder. Between November 2012 and March 2013, the Debtors and the UMWA engaged in extensive negotiations, with the Debtors delivering multiple labor proposals in an effort to reach a consensual resolution with the UMWA. By mid-March 2013, the Debtors the UMWA had not reached an agreement and the Debtors filed a motion for relief under sections 1113 and 1114 of the Bankruptcy Code. On May 29, 2013, the Bankruptcy Court issued a 102-page ruling granting the Debtors' motion and authorizing, but not directing, the Debtors to implement their proposed changes to the existing collective bargaining agreements and to the retiree benefits (the "1113/1114 Decision").

29. Shortly afterwards, the UMWA filed a notice of appeal (the "1113/1114 Appeal") and elected to have the 1113/1114 Appeal heard by the United States District Court for the Eastern District of Missouri. The 1113/1114 Appeal was assigned to the Honorable Carol E. Jackson (Case No. 4:13cv-01086-CEJ) and was fully briefed by the UMWA and the Debtors.

30. The parties continued to negotiate during the 1113/1114 Appeal, and in August 2013, the parties agreed upon new collective bargaining agreements that included, among other things, the following key changes with regard to the Debtors' UMWA-represented employees:

- Various adjustments were made to wages, including future changes;
- Differential payments were shifted and premium overtime pay were eliminated, but UMWA-represented employees continued to receive 1.5 times their regular pay for any hours worked over 40 hours per week and holidays;
- Paid time off was reduced and adjustments were made to work rules;
- UMWA-represented employees agreed to receive a healthcare plan more closely matching that of Patriot's non-union employees, but with lower out-of-pocket maximums and without healthcare premiums;
- Patriot agreed to contribute three percent of UMWA-represented employees' gross wages into a 401(k) or similar plan in lieu of the obligation to provide retiree healthcare in the future; and

- Patriot agreed that the entities participating in and contributing to the 1974 Pension Plan would continue to do so.

The following key changes were made with regard to the Debtors' UMWA-represented retirees:

- The UMWA established a Voluntary Employee Beneficiary Association trust (the "UMWA VEBA"), which assumed the Debtors' obligations to provide retiree healthcare benefits to certain UMWA-represented retirees, effective June 30, 2013; and
- Patriot, on behalf of itself and certain Patriot subsidiaries, entered into an agreement to provide certain funding to the UMWA VEBA.<sup>8</sup>

## *2. Non-Union-Related Savings*

31. Both prior to and during the 2012-13 Restructuring, the Debtors identified many changes that led to substantial cash savings, including by rejecting or renegotiating unprofitable contracts, increasing efficiency, selling nonstrategic assets, eliminating management positions, and making significant cuts to wages and benefits for their non-union employees and retirees. On April 26, 2013, the Bankruptcy Court entered an order authorizing the Debtors to discontinue substantially all of their non-union retiree healthcare programs, eliminate retiree life insurance benefits for current non-union employees, and cap life insurance benefits for current non-union employees. Pursuant to this order, the Debtors contributed a total of \$4 million in cash to a Voluntary Employee Beneficiary Association trust for the benefit of current non-union retirees.

## *3. Arch & Peabody Settlements*

32. As mentioned above, on October 31, 2007, Patriot was spun off from Peabody through a dividend of all outstanding shares of Patriot, and on July 23, 2008, Patriot acquired Magnum, which had on its balance sheet substantial assets and liabilities previously acquired

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<sup>8</sup> Funding for the VEBA included: (a) a 35% ownership stake in the common stock issued upon emergence of the reorganized company; (b) profit sharing contributions up to a maximum of \$300 million, subject to certain financial conditions that have never been satisfied; (c) a royalty contribution (of \$0.20 to \$1.00 per ton) for every ton produced at all existing mining complexes; (d) cash contributions of up to \$75 million to be paid over the four years following emergence, subject to certain financial conditions that have never been satisfied; and (e) \$10 million paid at emergence.

from Arch. As part of the 2012-13 Restructuring, the Debtors entered into two settlements, addressing longstanding disputes between Patriot and Arch and among Patriot, Peabody, and the UMWA (the “Arch Settlement” and the “Peabody Settlement,” respectively).

33. As part of the Arch Settlement, among other things, (a) Arch provided \$5 million cash to Patriot, (b) Arch purchased one of Patriot’s reserves, referred to as South Guffey, for \$16 million, and (c) Arch relieved Patriot for a period of two years of the obligation to post \$16 million of letters of credit to collateralize certain obligations.

34. Under the Peabody Settlement, among other things, Peabody agreed to (a) provide \$310 million in cash contributions ultimately to be funded to the UMWA VEBA<sup>9</sup> and (b) provide \$141 million in credit support for letters of credit and cash collateral previously posted by Patriot for UMWA retiree healthcare, obligations under the Black Lung Act and Coal Act, and other obligations.

#### **B. Financial Reorganization**

35. The Debtors also implemented a number of transactions to deleverage their balance sheet. Most significantly, on October 9, 2013, the Ad Hoc Group committed to backstop two rights offerings that provided the Debtors with \$250 million of capital through the issuance of 15% second lien PIK toggle notes due December 15, 2023 (the “Second Lien Notes”) and 10 million warrants exercisable for new common stock in reorganized Patriot.

36. Equity interests in the Debtors were cancelled, and new common stock of the reorganized Debtors was distributed as follows: 60% to a voting trust administered by an

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<sup>9</sup> The \$310 million contribution provided by Peabody was due in installments beginning in January 2014 and is to be paid annually through 2017, \$70 million of which was funded to Patriot in January 2014. Patriot provided the \$70 million to the UMWA VEBA within one business day of the receipt from Peabody, which occurred on January 2, 2014.



independent trustee; 35% to the UMWA; and 5% to holders of general unsecured claims. Upon emergence from the 2012-13 Restructuring, the Debtors ceased to be a publicly traded company.

37. The Debtors exited the 2012-13 Restructuring with approximately \$725 million in senior secured exit financing facilities. That capital structure, as described in Part III.B below, remains in place today.

### **III. THE DEBTORS CORPORATE & CAPITAL STRUCTURE**

#### **A. Corporate Structure**

38. As set forth on the chart attached hereto as **Exhibit A**, Patriot Coal Corporation is the direct or indirect parent of each of the Debtors. The Debtors are organized in the states of Virginia, Delaware, Kentucky and West Virginia. The Debtors Kanawha Eagle Coal, LLC and Emerald Processing, LLC were formed under Chapter 12 of Title 13.1 of the Code of Virginia in 1999 and 1995, respectively. Patriot acquired a controlling interest in the entities in 2006, and became a 100% owner in 2007.

## B. Capital Structure

39. As of the Petition Date, the Debtors' secured debt claims include those arising under an asset-based lending revolving credit facility, a term loan facility that has a first-out letter of credit sub-facility, and second lien notes. The outstanding balances are:

Debt	Balance <sup>10</sup>
ABL Revolving Facility	\$38 million
L/C Facility	\$200 million
Term Loan Facility	\$247 million
Second Lien Notes	\$306 million
<b>Total</b>	<b>\$791 million</b>

### 1. *ABL Revolving Facility*

40. Patriot, as borrower, and the remaining Debtors, as guarantors, are party to that Credit Agreement (as amended, supplemented, modified, or amended and restated from time to time, the "ABL Revolving Credit Agreement") by and between the Debtors and, among others, Deutsche Bank AG New York Branch, as administrative agent, and the lenders party thereto. The ABL Revolving Credit Agreement provides the Debtors with a senior secured asset-based revolving credit facility (the "ABL Revolving Facility") in aggregate principal amount of up to \$65.0 million, including a \$50.0 million letter of credit sub-limit and a swing line sub-limit of up to \$10.0 million, subject to the terms and conditions set forth therein. The ABL Revolving Facility matures in 2018 and bears interest at a rate per annum equal to the Eurocurrency Rate (as defined in the ABL Revolving Credit Agreement) plus 2.25%, 2.50%, or 2.75% based on historical excess availability, or the Base Rate (as defined in the ABL Revolving Credit Agreement) plus 1.25%, 1.50%, or 1.75% based on historical excess availability. There is an unused line fee of 0.375 % or 0.50% based on historical excess availability.

<sup>10</sup> Excludes accrued and unpaid interest.

41. The ABL Revolving Facility is subject to a borrowing base that consists of (a) 100% qualified cash up to a \$50 million cap; plus (b) 85% of eligible billed and unbilled accounts receivable; plus (c) the lesser of: (i) 85% of the appraised net orderly liquidation value of eligible inventory, including saleable and raw coal; or (ii) 80% of the value of eligible inventory that constitutes saleable coal and 40% of the value of eligible inventory that constitutes raw coal; less (d) reserves. As of the Petition Date, under the ABL Revolving Facility, approximately \$38 million in letters of credit were issued and outstanding.

42. Obligations arising under the ABL Revolving Facility are guaranteed by each of the Debtor subsidiaries and are secured by first priority liens on all accounts receivable (excluding any accounts arising from the sale of collateral securing the L/C Facility and Term Facility on a first priority basis), minerals that have been extracted from real property, inventory (excluding any minerals that have not yet been extracted from real property), as well as deposit, securities, and commodity accounts (excluding such accounts used as collateral with respect to the L/C Facility and Term Facility) and second priority liens on substantially all of the Debtors' other assets, equity interests in the Debtors, and all minerals not yet extracted from real property.

## 2. *The L/C Facility*

43. Patriot has a \$200 million first-out letter of credit facility (the "L/C Facility"), under that certain Credit Agreement (L/C Facility and Term Facility) (as amended, supplemented, modified, or amended and restated from time to time, the "L/C and Term Loan Credit Agreement"), by and between the Debtors and, among others, Barclays Bank PLC, as administrative agent for the L/C Lenders (as defined therein), the L/C Lenders party thereto, Cortland Capital Market Services LLC, as administrative agent for the Term Lenders (as defined therein), the Term Lenders, and Wilmington Trust, National Association, as collateral agent. As

of the Petition Date, approximately \$200 million in letters of credit under the L/C Facility were issued and outstanding.

44. The L/C Facility matures in 2018 and bears interest on undrawn principal amounts of any outstanding letters of credit at a rate per annum equal to (A) for letters of credit that are not cash collateralized, (i) for the first three years, 5.25%, (ii) for year four, 6.00% and (iii) for year five, 6.50% or (B) for letters of credit that are cash collateralized, 0.25%. Letter of credit borrowings carry an interest rate per annum equal to (A) the Eurocurrency Rate (as defined in the L/C and Term Loan Credit Agreement) plus (i) for the first three years, 7.00%, (ii) for year four, 7.50% and (iii) for year five, 8.00% or (B) the Base Rate (as defined in the L/C and Term Loan Credit Agreement) plus (i) for the first three years, 6.00%, (ii) for year four, 6.50%, and (iii) for year five, 7.00%.

45. Obligations arising under the L/C and Term Loan Credit Agreement are guaranteed by each of the Debtors and are secured by first priority liens on substantially all of the Debtors' fixed assets, equity interests in the Debtors, and all minerals not yet extracted from real property. Obligations under the L/C and Term Loan Credit Agreement are also secured by a second lien on all minerals that have been extracted from real property, accounts receivable, inventory, as well as deposit, securities, and commodity accounts.

### 3. *The Term Facility*

46. The L/C and Term Loan Credit Agreement also provides for a senior secured term loan facility (the "Term Facility"), with Cortland Capital Market Services LLC as administrative agent for the Term Lenders (as defined therein). As of the Petition Date, approximately \$247 million in direct borrowings under the Term Facility were outstanding.

47. The Term Facility matures in 2018 and bears interest at a rate per annum equal to the Eurocurrency Rate (as defined in the L/C and Term Loan Credit Agreement) plus 8.00% or

the Base Rate (as defined in the L/C and Term Loan Credit Agreement) plus 7.00%. As of December 31, 2014, the effective interest rate on the Term Loan Facility was 13.1%. Upon the occurrence and during the continuance of an event of default under the L/C and Term Loan Credit Agreement, the interest rate increases by 2.00% per annum.

4. *The Second Lien Notes*

48. Patriot Coal Corporation, as issuer, and the remaining Debtors, as guarantors, are party to that certain indenture (as amended, supplemented, modified, or amended and restated from time to time, the “Notes Indenture”) by and between the Debtors and U.S. Bank National Association, as indenture trustee, under which the Patriot issued the Second Lien Notes. The Second Lien Notes mature in 2023 and carry an interest rate of 15%, with interest compounding semi-annually, and such interest may be settled in-kind or in cash, at Patriot’s option. As of the Petition Date, approximately \$306 million aggregate principal amount of Second Lien Notes were outstanding.

49. Obligations arising under the Second Lien Notes are guaranteed by each of the Debtor subsidiaries and are secured by junior priority liens on substantially all of the same assets securing the Term Facility and the ABL Revolving Facility.

**IV. EVENTS LEADING TO THESE CHAPTER 11 CASES**

**A. Exploration of a Strategic Transaction**

50. Subsequent to emerging from the 2012-13 Restructuring, the Debtors and a special committee of the Debtors’ Board of Directors retained K&E, as counsel, and, ultimately, Centerview, as investment banker, and began exploring strategic M&A and sale transactions.

51. Despite negotiations with a variety of parties, none of the contemplated transactions has yet come to fruition. In response to continued challenges, the Debtors took actions to further reduce their cost structure by idling and reducing activity at certain mining

complexes in order to match expected sales volumes and market demand. In addition, the Debtors sold certain non-core assets, reserves, and coal supply agreements in the west Kentucky region to third parties.

**B. Continued Challenges to Liquidity**

*1. External Pricing Pressure*

52. Because the Debtors sell substantial quantities of coal products to domestic and international electricity generators and steel producers, the Debtors' business and results of operations are linked closely to global demand for coal-fueled electricity and steel production. Since the 2012-13 Restructuring, thermal and metallurgical coal markets and pricing have become increasingly challenged with oversupply conditions.

53. Coal's share of the U.S. energy market and prices for thermal and metallurgical coal have both declined markedly. The lethargic economic environment, lack of growth in energy demand generally, and a number of scheduled coal-fired plant retirements have precipitated this decline. As of December 31, 2014, natural gas pricing was 46% lower compared with a year ago and stood at \$2.95/MBtu, a price at which it is difficult for any coal basin to compete. Additionally, the demand and price for metallurgical coal are dependent on the strength of the global economy and, in particular, on steel production in countries such as China and India, as well as Europe, Brazil and the United States. The global metallurgical coal market continues to suffer from oversupply in addition to reduced demand from China, further depressing the price of coal.

*2. Increased Regulation*

54. The regulatory environment has also contributed to the Debtors' current financial situation. Federal and state regulatory authorities impose obligations on the coal mining industry with respect to employee health and safety, permitting and licensing requirements,

environmental protection, the reclamation and restoration of mining properties after mining has been completed, and the effect of mining on surface and groundwater quality.

55. Several citizen lawsuits brought by non-governmental organizations have also stressed the Debtors' financial condition. The Debtors have incurred significant costs to comply with these laws and regulations.

### 3. *Legacy Liabilities*

56. As discussed above, the Debtors' obligations to contribute to the 1974 Pension Plan and to make payments pursuant to Coal Act and the Black Lung Act continue today, notwithstanding the 2012-13 Restructuring. When coupled with the external pricing pressure, increased regulation, and other costs associated with the Debtors' businesses, these legacy liabilities, and in particular the Debtors' obligation to contribute to the 1974 Pension Plan, have hindered the Debtors' ability to operate competitively in the current market environment. Modifications to these and other non-operational liabilities may be necessary for the Debtors to implement a successful going-concern transaction.

### **C. Negotiations with Potential Purchasers**

57. In recent weeks, Patriot has been engaged in extensive negotiations with a strategic party interested in effectuating a transaction acquiring essentially all of Patriot's operating assets (excluding Federal) and many of its reserves (including Huff Creek). Discussions with this potential acquirer are in a highly advanced stage, with the parties having exchanged a series of proposals and counterproposals, and progress is underway towards drafting a term sheet and related documentation.

58. The Debtors intend to continue these negotiations in earnest postpetition and, as soon as practicable, hope to file with the Bankruptcy Court a motion to approve bidding procedures for one or more transactions, possibly accompanying a motion to approve one or

more stalking horse bidders, to sell assets pursuant to section 363 or under a chapter 11 plan. Throughout this marketing process, the Debtors also will continue their ongoing analysis of whether a standalone plan of reorganization or some combination of section 363 sales and a plan maximize value for stakeholders.

59. Importantly, the aforementioned strategic party does not have employees represented by the UMWA or any union, and thus far has expressed an unwillingness to enter into a transaction that would involve assuming various legal liabilities related to, among other things, the Debtors' CBA. The Debtors will explore all possible transactional solutions that do not involve having to reject the CBA—and, most critically, these explorations will include active, direct, and comprehensive negotiations with the UMWA that seek a consensual outcome for all affected parties. If such consensual resolution is not achievable, however, the Debtors may not be able to avoid commencing, as they did during the 2012-13 Restructuring (and described below), proceedings under sections 1113 and 1114 of the Bankruptcy Code

## **V. FIRST DAY MOTIONS<sup>11</sup>**

60. The Debtors filed the First Day Motions concurrently with the filing of their chapter 11 petitions. In my opinion, approval of the relief requested in the First Day Motions will minimize disruption to the Debtors' business operations, thereby preserving and maximizing the value of the Debtors' estates.

61. For a more detailed description of the First Day Motions than set forth below, the Debtors respectfully refer the Court to the respective First Day Motions. To the extent that this Declaration and the provisions of any of the First Day Motions are inconsistent, the terms of the

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<sup>11</sup> Capitalized terms used but not defined in this section have the meanings assigned to such terms in the applicable First Day Motions.



First Day Motions shall control. Capitalized terms that are used in this Part IV but not otherwise defined herein shall have the meanings ascribed to them in the applicable First Day Motion.

**A. Administrative Motions**

1. *Debtors' Motion for Entry of an Order Directing Joint Administration of Chapter 11 Cases* (the "Joint Administration Motion")

62. Pursuant to the Joint Administration Motion, the Debtors seek entry of an order directing procedural consolidation and joint administration of their related chapter 11 cases and granting related relief. Specifically, the Debtors request that the Court maintain one file and one docket for all of the chapter 11 cases under the case of Patriot Coal Corporation. Further, the Debtors request that an entry be made on the docket of each of the chapter 11 cases of the Debtors other than Patriot Coal Corporation to indicate the joint administration of the chapter 11 cases.

63. Given the integrated nature of the Debtors' operations, it is my understanding that joint administration of these chapter 11 cases will provide significant administrative convenience without harming the substantive rights of any party in interest. Many of the motions, hearings, and orders in these chapter 11 cases will affect each and every Debtor entity. The entry of an order directing joint administration of these chapter 11 cases will reduce fees and costs by avoiding duplicative filings and objections and also will ease the administrative burdens on the Court by allowing the Debtors' cases to be administered as a single joint proceeding instead of forty-eight independent chapter 11 cases. Additionally, joint administration will allow the Office of the United States Trustee for the Eastern District of Virginia and all parties in interest to monitor these chapter 11 cases with greater ease and efficiency.

64. I believe that the relief requested in the Joint Administration Motion is in the best interests of the Debtors' estates, their creditors, and all other parties in interest and will enable

the Debtors to continue to operate their businesses in chapter 11 without disruption. Accordingly, on behalf of the Debtors, I respectfully submit that the relief requested in the Joint Administration Motion should be granted.

2. *Debtors' Motion for Entry of an Order (I) Extending Time to File Schedules and Statements of Financial Affairs, (II) Authorizing the Debtors to File a Consolidated List of Creditors in Lieu of Submitting a Mailing Matrix for Each Debtor, (III) Authorizing the Debtors to File a Consolidated List of the Debtors' 30 Largest Unsecured Creditors, and (IV) Granting Related Relief (the "Schedules Extension & Creditor Matrix Motion")*

65. Pursuant to the Schedules Extension & Creditor Matrix Motion, the Debtors seek entry of an order (I) extending the deadline by which the Debtors must file their Schedules and Statements, (II) authorizing the Debtors to file a consolidated list of creditors in lieu of submitting a mailing matrix for each debtor, (III) authorizing the Debtor to file a consolidated list of the Debtors' 30 largest unsecured creditors, and (IV) granting related relief.

66. To prepare the Schedules and Statements, the Debtors must compile information from books, records, and documents relating to the claims of hundreds of creditors, as well as the Debtors' many assets and contracts. This information is voluminous and located in numerous places throughout the Debtors' organization. Collecting the necessary information requires an enormous expenditure of time and effort on the part of the Debtors, their employees, and their professional advisors in the near term—when these resources would be best used to stabilize the Debtors' business operations.

67. Considering the amount of work entailed in completing the Schedules and Statements combined with the competing demands on the Debtors' employees and professionals to assist in efforts to stabilize business operations during the initial postpetition period, I understand the Debtors likely will not be able to complete properly and accurately the Schedules and Statements within the required time period.

68. I believe that the extension requested will allow the Debtors to focus their attention on business operations at this critical juncture of these chapter 11 cases. I believe the extension requested is necessary in order for the Debtors to operate their business in the ordinary course and preserve the ongoing value of the Debtors' operations and maximize the value of their estates for the benefit of all stakeholders.

69. The Debtors propose to retain Prime Clerk LLC ("Prime Clerk") as notice and claims agent in connection with the Debtors' chapter 11 cases to assist the Debtors in preparing creditor lists and mailing initial notices. With such assistance, the Debtors will be prepared to produce a computer-readable, consolidated list of creditors upon request and will be capable of undertaking all necessary mailings. Indeed, because there are thousands of creditors and parties in interest in these chapter 11 cases, I believe that converting the Debtors' computerized, consolidated information to a format compatible with Local Bankruptcy Rule 1007-1(H)(1) would prove an exceptionally burdensome task and would greatly increase the risk of error in transcription.

70. I believe that consolidation of the Debtors' computer records into a creditor database and mailing notices to all applicable parties in such database will be sufficient to permit Prime Clerk to promptly notice those parties. I believe that maintaining consolidated, electronic-format lists of creditors, rather than compiling the information in the format required by Local Bankruptcy Rule 1007-1(H)(1), will maximize efficiency and accuracy and reduce costs.

71. Accordingly, on behalf of the Debtors, I respectfully submit that the relief requested in the Schedules Extension & Creditor Matrix Motion should be granted.

3. *Debtors' Application for Entry Of an Order (I) Authorizing the Debtors to Employ and Retain Prime Clerk LLC As Notice, Claims, And Solicitation Agent, Effective Nunc Pro Tunc to the Petition Date and (II) Granting Related Relief* (the "Prime Clerk Retention Application")

72. Pursuant to the Prime Clerk Retention Application, the Debtors seek entry of an order (I) authorizing the Debtors to retain and employ Prime Clerk LLC as notice, claims, and solicitation agent, effective *nunc pro tunc* to the Petition Date and (II) granting related relief.

73. The Debtors will have hundreds, if not thousands, of potential creditors in these chapter 11 cases. Accordingly, Prime Clerk's engagement is an effective and efficient manner of providing notice to the thousands of creditors and parties in interest of the filing of and developments in the Debtors' chapter 11 cases. Additionally, Prime Clerk will significantly reduce the administrative burden on the clerk's office in connection with, among other things, the claims administration process. It is my understanding that Prime Clerk is fully equipped to handle the volume of mailing involved in properly sending the required notices to creditors and other interested parties in these chapter 11 cases and processing the claims filed in the Debtors' cases. Accordingly, on behalf of the Debtors, I respectfully submit that the relief requested in the Prime Clerk Retention Application should be granted.

4. *Debtors' Motion for Entry of an Order (I) Establishing Certain Notice, Case Management, and Administrative Procedures and (II) Granting Related Relief* (the "Case Management Motion")

74. Pursuant to the Case Management Procedures, the Debtors seek entry of an order (I) establishing certain notice, case management, and administrative procedures, (the "Case Management Procedures") and (II) granting related relief.

75. These chapter 11 cases are large, complex, and involve thousands of creditors and parties in interest, many of whom will have multiple concerns that may result in the filing of numerous pleadings, notices pursuant to Bankruptcy Rule 2002, and requests for service that

could very well lead to numerous, fragmented hearings. The establishment of the Case Management Procedures will promote the efficient and orderly administration of these chapter 11 cases. Indeed, authorizing the Debtors to serve their documents on a limited mailing matrix will ease the administrative and economic burdens on the Court and the Debtors' estates. Authorizing electronic service in these chapter 11 cases for the 2002 List will also allow for efficient and effective service at a significantly reduced cost to the Debtors' estates and other serving parties. Early notice to all parties in interest of Omnibus Hearings will enable these parties to plan efficiently for the use of hearing time, will avoid the need for numerous hearings within each month, and will lessen the burden on the Court and on the Debtors' estates. Additionally, parties in interest will still have the opportunity to bring true emergency matters before the Court on an expedited basis pursuant to the Local Bankruptcy Rules and the Case Management Procedures. Accordingly, I believe that implementing the Case Management Procedures is in the best interests of the Debtors' estates and should be approved on the terms and conditions described in the Case Management Motion.

5. *Debtors' Motion for Entry of an Order Approving the Form and Manner of Notice of Commencement of the Chapter 11 Cases* (the "Notice of Commencement")

76. Pursuant to the Notice of Commencement, the Debtors seek entry of an order approving the form and manner of the notice of commencement of these chapter 11 cases. As noted above, the Debtors will also seek authority to retain and employ Prime Clerk LLC, as the official notice, claims, and balloting agent in the chapter 11 cases. If that authority is granted, the Debtors propose that Prime Clerk LLC serve on all known creditors by first class U.S. mail, postage prepaid, the notice of the commencement of the chapter 11 cases and meeting of creditors pursuant to section 341 of the Bankruptcy Code (to the extent a meeting date has been set).

77. I believe that granting an order approving the form and manner of the notice of commencement of these chapter 11 cases is appropriate and in the best interests of the Debtors' estates.

**B. Financial Motions**

6. *Debtors' Motion for Entry of Interim and Final Orders (I) Authorizing the Debtors to Obtain Postpetition Financing, (II) Authorizing Use of Cash Collateral, (III) Granting Liens and Superpriority Claims, (IV) Granting Adequate Protection, (V) Modifying the Automatic Stay, (VI) Scheduling a Final Hearing, and (VII) Granting Related Relief (the "DIP Motion").*

78. Pursuant to the DIP Motion, the Debtors seek entry of interim and final orders (I) authorizing the Debtors to obtain post-petition financing of \$30 million on an interim basis and \$100 million on a final basis, (II) authorizing the use of Cash Collateral, (III) granting liens and providing superpriority administrative expense status to the DIP Lenders, (IV) granting adequate protection to the Debtors' prepetition secured creditors, (V) modifying the automatic stay, (VI) scheduling a final hearing, and (VII) granting related relief.

79. The Debtors need cash immediately. As noted in the declaration of Marc D. Puntus in support of the DIP Motion (the "Puntus Declaration"), as of the Petition Date, the Debtors have only \$14 million in cash to operate their enterprise of eight active mining complexes and continue paying their approximately 2,840 employees. Indeed, internal projections show that the Debtors will have a \$15 million shortfall for the period ending May 15, 2015. Accordingly, without access to the liquidity provided by the DIP Facility, the Debtors will be unable to continue to operate their business as a going concern.

80. Failure to obtain interim access to the DIP Facility would have immediate and likely irreparable negative effects on the ability of the Debtors to maximize their value in a going-concern transaction. *First*, and most importantly, the Debtors require certain equipment to maintain the integrity of their mines and the safety of their employees, including, among other

things, safety equipment and roof support supplies, including roof bolts and mine timbers. In the event the Debtors do not have money to pay their vendors, the Debtors will be without the materials necessary to ensure the safety and well-being of their coal mining employees. The Debtors would immediately cease operations if they lacked necessary safety equipment and related materials.

81. *Second*, the Debtors require significant amounts of other materials and services on a consistent basis in order to continue mining coal—among other things, replacement parts and fuel for mining equipment, bits for the coal extraction equipment, and explosives necessary for overburden removal at the Debtors’ mines. The Debtors’ failure to continue paying their vendors or meeting obligations under their supply contracts will likely result in an inability to retain significant customer and vendor relationships to the great detriment of the Debtors’ future business prospects. The Debtors also purchase chemicals and other environmental materials to remain in compliance with their permit requirements and applicable environmental regulations. The Debtors do not have material amounts of the supplies necessary to ensure environmental compliance. Absent the liquidity provided by the DIP Facility, the Debtors will be unable to procure additional materials needed to remain in compliance with their environmental obligations, and would cease operations, likely by the end of the week.

82. *Third*, the Debtors employ approximately 2,840 employees. Without additional funding, the Debtors will be unable to make payroll or fund employee benefits and related obligations. The Debtors’ inability to pay employee salaries and benefits would not only cause each of their employees to suffer, but have a material negative impact on the communities in which the Debtors operate. The Debtors would lay off their workforce if they lacked the liquidity to pay their employees’ wages.

83. *Fourth*, by idling their mines and losing their employees, the Debtors would be faced with a cascading series of problems that would severely diminish the value of their assets. For example, without employees to continue ventilating and keeping water pumped out of the mines, the mines could flood with both water and methane gas, requiring tens of millions of dollars and months to bring the mines back to safe working order. In addition, the Debtors currently have a great deal of equipment utilized in their longwall mining operations, which cannot be easily disassembled and removed and would likely be destroyed if the Debtors' mines flooded. The Debtors estimate that the replacement cost of their longwall mining equipment alone would be approximately \$300 million. In short, continuing as a going concern with fully functioning mines is the best path to maximizing value and avoiding massive value destruction, and the Debtors' only way to continue their operations is to obtain immediate access to the DIP Facility. By shutting down the mines and ceasing operations, the Debtors face a diminution in value of their assets well in excess of the funds to be provided under the DIP Facility.

84. Through access to the DIP Facility, the Debtors will be able to continue paying their safety, environmental, and equipment vendors, thereby maintaining significant customer relationships and ensuring the integrity and safety of their mines; meeting all payroll and related employee obligations, thereby preserving thousands of jobs; and continue operating as a going concern, thereby providing the Debtors with an ability to pursue a going-concern transaction for the benefit of their estates, creditors, and all other stakeholders. At the same time, as set forth more fully in the Puntus Declaration, the Debtors believe the DIP Facility represents the best and most favorable financing option available to the Debtors under the circumstances and they do not have any readily available sources of alternative financing. Accordingly, I believe that the



proposed DIP Facility is in the best interests of the Debtors' estates and should be approved on the terms and conditions described in the DIP Motion.

7. *Debtors' Motion for Entry of Interim and Final Orders (I) Authorizing the Debtors to Enter Into and Perform Under Coal Sale Contracts in the Ordinary Course of Business and (II) Granting Related Relief (the "Coal Sales Motion")*

85. Pursuant to the Coal Sales Motion, the Debtors seek entry of interim and final orders (I) authorizing the Debtors to enter into and perform under Coal Supply Contracts in the ordinary course of business and (I) granting related relief.

86. The Debtors routinely and in the ordinary course of their businesses enter into contracts with customers to sell coal from the Debtors' mining operations or acquired from other sources ("Coal Sale Contracts"). Entering into and performing under Coal Sale Contracts represents a core and absolutely critical part of the Debtors' operations. Coal sales generate virtually all of the Debtors' revenues. The Debtors submit that entering into and performing under Coal Sale Contracts is within the ordinary course of their businesses.

87. Because Coal Sale Contracts are term agreements (sometimes continuing for several years), and because Coal Sales Contracts often cover very large quantities of coal and involve millions of dollars in aggregate purchase price, counterparties may be unwilling to transact with the Debtors without specific authorization from this Court. If the Debtors had to seek Court approval every time they wished to enter into a new Coal Sale Contract, the Debtors believe that they would be at a competitive disadvantage to their competitors, resulting in a loss of customers and revenues, thus endangering their chances of successfully restructuring. In the highly competitive coal market, the Debtors must be able to enter into Coal Sale Contracts quickly and efficiently or else they risk losing revenue if certain counterparties are unwilling to

accept any perceived risk regarding whether the Coal Sale Contracts are within the ordinary course of the Debtors' businesses.

88. Allowing the Debtors to continue entering into Coal Sale Contracts is thus necessary to maintain the Debtors' their business operations in the ordinary course. Accordingly, on behalf of the Debtors, I respectfully submit that the relief requested in the Coal Sales Motion should be granted.

8. *Debtors' Motion for Entry of Interim and Final Orders (I) Authorizing (A) Debtors to Pay Certain Prepetition Claims of Trade Claimants and (B) Procedures Related Thereto and (II) Granting Related Relief (the "Vendor Motion")*

89. Pursuant to the Vendor Motion, the Debtors seek entry of interim and final orders (I) authorizing the Debtors to pay, in their sole discretion and in the ordinary course of business, certain prepetition claims, (II) granting administrative priority status to certain vendors and suppliers for undisputed obligations arising from outstanding orders for certain goods delivered postpetition and authorizing the Debtors to pay such obligations in the ordinary course of business, and (III) granting related relief. Specifically, the Debtors seek to pay:

Type of Vendor/Relief Sought	Interim Basis	Final Basis
503(b)(9) Claimants	\$6 million	\$8 million
Logistics Claimants	\$8 million	\$17.2 million
Foreign Claimants	\$490,000	\$500,000
Critical Vendors	\$20 million	\$22 million

90. In the ordinary course of their business, the Debtors rely on various third-party vendors, suppliers, service providers, and contractors (collectively, the "Vendors") for goods and

services associated with their coal sales and coal processing operations. These Vendors provide the Debtors with parts, inventory, supplies, and equipment, including diesel and lubricants, underground equipment and conveying systems (*e.g.*, continuous miners, shuttle cars, longwall systems, roofbolters, mantrips, and rockdusters), roof bolts and other roof control products, surface equipment (*e.g.*, draglines and shovels), blasting products (*e.g.*, ammonium nitrate and emulsion), conveyor belts, underground cutting tools (*e.g.*, bits), chemicals (*e.g.*, magnetite and anionic polymers), tires, underground equipment cable, and other goods for use in the regular operation of the Debtors' mining business.

91. Because of the wide-ranging scope of the goods and services provided by the Vendors, seamless interaction between the Debtors and the Vendors is crucial for continued operations. Many of the Vendors on which the Debtors rely hold a virtual monopoly over the goods and services they provide and replacing the vendors, even if possible, would substantially increase the Debtors' costs. Moreover, an uninterrupted supply of unique mining-related supplies, equipment, spare parts, and services is critical in the coal mining industry. Mining equipment must be inspected and repaired on a daily basis in order to maintain safe and orderly working conditions, and the Debtors require large deliveries of diesel fuel daily to sustain this equipment and their operations. Even a temporary interruption in the flow of goods and services provided by the Vendors, would materially affect the Debtors' day-to-day operations to the detriment of all of the Debtors' constituents.

92. In addition, certain of the Debtors' vendors operate outside of the United States and produce parts and components which the Debtors cannot resource. Such foreign vendors, if not paid in the ordinary course, may suspend shipment or terminate their supply agreements notwithstanding the applicability of the automatic stay. And any disruption in the supply of

these critical goods—however brief—would cause irreparable harm to the Debtors’ business, goodwill, employees, customer base, and market share.

93. Accordingly, and specifically due to the unique importance of Vendors to the Debtors’ day-to-day operations, I believe that the relief requested in the Vendor Motion is appropriate. Such relief will help ensure a continuous supply of materials indispensable to the Debtors’ operations, serves the best interests of the Debtors’ estates, their creditors, and all other parties in interest, and constitutes a critical element in achieving a successful restructuring. With the assistance of their advisors, the Debtors have spent significant time reviewing and analyzing their books and records, consulting operations management and reviewing the Debtors’ agreements and business relationships. I believe the relief requested in the Vendor Motion is narrowly tailored to facilitate the Debtors’ restructuring efforts. Absent receiving the relief requested in the Vendor Motion, I believe the Debtors would suffer irreparable harm to their business. Accordingly, on behalf of the Debtors, I respectfully submit that the relief requested in the Vendor Motion should be granted.

9. *Debtors’ Motion for Entry of Interim and Final Orders (I) Authorizing the Debtors to Continue and Renew Their Surety Bond Program on an Uninterrupted Basis and (II) Granting Related Relief (the “Surety Bond Motion”)*

94. Pursuant to the Surety Bond Motion, the Debtors seek entry of interim and final orders (I) authorizing the Debtors to continue and renew, in their sole discretion, their Surety Bond Program on an uninterrupted basis, including the right to post collateral if required by law and the applicable agreements and (II) granting related relief.

95. In the ordinary course of their businesses, the Debtors are required to provide surety bonds to certain third parties to secure the Debtors’ payment or performance of certain obligations, often to governmental units or other public agencies

(the “Surety Bond Program”). These include, among others: (a) obligations owed to municipalities; (b) obligations related to environmental regulatory agencies; (c) obligations relating to obtaining and maintaining permits or licenses, and (d) obligations with respect to workers’ compensation laws. Often, statutes or ordinances require the Debtors to post surety bonds to secure such obligations. Failure to provide, maintain, or timely replace these surety bonds could prevent the Debtors from undertaking essential functions related to their mining operations. As of the Petition Date, the Debtors had approximately \$233,361,918 in outstanding surety bonds under their Surety Bond Program.

96. To continue their business operations during the reorganization process, the Debtors must be able to provide financial assurances to local governments, regulatory agencies, and other third parties. This in turn requires the Debtors to maintain the existing Surety Bond Program, including the existing cash collateral arrangements with the Sureties, and potentially to acquire additional bonding capacity as needed in the ordinary course of the Debtors’ business.

97. Continuing the Surety Bond Program is thus necessary to maintain the Debtors’ current terms and existing relationships with their Sureties. It is also critical to the Debtors’ business that they have the ability to renew or enter into new surety relationships. Accordingly, on behalf of the Debtors, I respectfully submit that the relief requested in the Surety Bond Motion should be granted.

10. *Debtors’ Motion for Entry of an Order (I) Authorizing the Debtors to (A) Continue to Operate Their Cash Management System, (B) Honor Certain Prepetition Obligations Related Thereto, (C) Maintain Existing Business Forms, and (D) Continue to Perform Intercompany Transactions and (II) Granting Related Relief (the “Cash Management Motion”)*

98. Pursuant to the Cash Management Motion, the Debtors seek entry of an order (I) authorizing the Debtors to (a) continue to operate their Cash Management System, (b) honor certain prepetition obligations related thereto, (c) maintain existing business forms, and

(d) continue to perform intercompany transactions consistent with historical practice, (II) waiving the deposit and investment requirements of section 345(b) of the Bankruptcy Code, and (III) granting related relief.

99. I am familiar with the Debtors' Cash Management System. The Debtors' Cash Management System is comparable to the centralized cash management systems used by similarly situated companies to manage the cash of numerous operating units in a cost-effective, efficient manner. The Debtors use their Cash Management System in the ordinary course of their business to collect, transfer, and disburse funds generated from their operations and to facilitate cash monitoring, forecasting, and reporting. The Debtors' treasury department maintains daily oversight over the Cash Management System and implements cash management controls for entering, processing, and releasing funds, including in connection with intercompany transactions. Additionally, the Debtors' corporate accounting and treasury departments regularly reconcile the Debtors' books and records to ensure that all transactions are accounted for properly on a consolidated basis.

100. Given the complexity of the Debtors' business operations, I believe that any disruption to the Cash Management Systems could impede a successful reorganization of the Debtors' businesses. I believe that the relief requested in the Cash Management Motion is in the best interests of the Debtors' estates and will enable the Debtors to operate their businesses in chapter 11 without disruption. Accordingly, on behalf of the Debtors, I respectfully submit that the relief requested in the Cash Management Motion should be granted.

11. *Debtors' Motion for Entry of Interim and Final Orders (I) Establishing Notification and Hearing Procedures for Transfers of Certain Equity Securities and (II) Granting Related Relief* (the "Equity Trading Motion")

101. Pursuant to the Equity Trading Motion, the Debtors seek entry of interim and final orders (I) authorizing the Debtors to establish notification and hearing procedures regarding the

trading of Equity Securities or of any beneficial interest therein that parties must comply with before trading or transferring such securities and (II) granting related relief.

102. As of December 31, 2014, the Debtors had NOLs in an amount of approximately \$1.2 billion. I understand that utilization of such Tax Attributes could translate to potential tax savings of approximately \$480 million. I believe that the value of the Tax Attributes will inure to the benefit for all of the Debtors' stakeholders.

103. The Tax Attributes are substantial and I believe that any loss of the Tax Attributes, including during the first month of these chapter 11 cases, could cause significant and irreparable damage to the Debtors' estates and stakeholders. The Procedures for Trading in Equity Securities are the mechanism by which the Debtors will monitor, and object to, certain transfer of Equity Securities to ensure preservation of the Tax Attributes. I further believe that the Procedures for Trading in Equity Securities and other relief requested are critical for maximizing estate value and will help to ensure a meaningful recovery for creditors. If no restrictions on trading are imposed as requested in the Equity Trading Motion, such trading could severely limit or even eliminate the Debtors' ability to utilize the Tax Attributes. I believe that the loss of these valuable estate assets could lead to significant negative consequences for the Debtors, their estates and stakeholders, and the overall restructuring process. Accordingly, on behalf of the Debtors, I respectfully submit that the relief requested in the Equity Trading Motion should be granted.

**C. Operational Motions**

12. *Debtors' Motion for Entry of Interim and Final Orders (I) Authorizing the Debtors to (A) Pay Prepetition Wages, Salaries, Other Compensation, Reimbursable Expenses, and Director Obligations, (B) Continue an Ordinary Course Incentive Program for Non-Insiders, (C) Continue Employee Benefits Programs, (II) Allowing Employees and Retirees to*

*Proceed with Outstanding Workers' Compensation Claims, and  
(III) Granting Related Relief (the "Wages & Benefits Motion")*

104. Pursuant to the Wages and Benefits Motion, the Debtors seek entry of interim and final orders (I) authorizing the Debtors to (a) pay prepetition wages, salaries, other compensation, reimbursable expenses, and director obligations, (b) continue an ordinary-course incentive program for non-insiders (subject to entry of the Final Order), and (c) continue employee benefits programs in the ordinary course of business, including payment of certain prepetition obligations related thereto, (II) allowing employees and retirees to proceed with outstanding workers' compensation claims, and (III) granting related relief.

105. As of the Petition Date, the Debtors employ approximately 2,870 individuals on a full-time basis. Approximately 900 of these Employees belong to the UMWA and approximately 1,973 are not represented by a union, of which approximately 1,147 are paid on an hourly basis while approximately 826 receive a salary.

106. The Debtors' Employees perform a wide variety of functions critical to the administration of these chapter 11 cases and the Debtors' successful restructuring. Their skills, knowledge, and understanding of the Debtors' operations and infrastructure form an essential part of preserving operational stability and efficiency. In many instances, the Debtors' Employees include highly trained personnel who the Debtors could not easily replace. I believe that discontinuing or interrupting the services of the Employees would materially impair the Debtors' effective restructuring.

107. At the same time, the vast majority of Employees rely exclusively on their compensation and benefits to pay their daily living expenses and support their families. Thus, Employees would face significant financial constraints if the Debtors could not continue paying Employee Compensation and Benefits.



108. To minimize the personal hardships the Employees would otherwise suffer, the Debtors seek authority to pay and honor certain prepetition claims relating to, among other things, wages, salaries, other compensation incentive programs, expense reimbursements, director obligations, payroll services and fees, federal and state withholding taxes and other amounts withheld (including garnishments, Employees' share of insurance premiums, taxes, and retirement-plan contributions), health insurance, retirement benefits, workers' compensation benefits, vacation time, other paid leave, life and accidental death and dismemberment insurance, short- and long-term disability coverage, employee assistance, vehicle allowance, and other benefits that the Debtors have historically directly or indirectly provided to retirees and current and former Employees, as applicable, in the ordinary course of business. In addition, the Debtors also seek to pay all costs incident to the Employee Compensation and Benefits.

109. I believe that paying prepetition Employee Compensation and Benefits will benefit the Debtors' estates and their stakeholders by allowing the Debtors' business operations to continue without interruption. Indeed, I believe that without the requested relief, the Debtors' Employees may seek alternative opportunities, perhaps with the Debtors' competitors. Such a development would deplete the Debtors' workforce, hindering the Debtors' ability to successfully restructure. The loss of valuable Employees and the resulting need to recruit new personnel to replenish the Debtors' workforce would be distracting and counterproductive at this critical time in chapter 11. Further, if the Debtors lose valuable Employees, they will incur recruiting expenses in locating replacements. Additionally, I believe the morale of the Debtors' Employees would suffer absent the Debtors obtaining the relief requested in the Wages Motion. Accordingly, there can be no doubt that the Debtors must do their utmost to retain their

workforce by, among other things, continuing to honor the Employee Compensation and Benefits that accrued prepetition.

13. *Debtors' Motion for Interim and Final Orders (I) Authorizing Debtors to (A) Continue and Renew Their Liability, Property, Casualty, and Other Insurance Programs and Honor All Obligations In Respect Thereof and (B) Continue and Renew Their Prepetition Insurance Premium Financing Agreements and (II) Granting Related Relief* (the "Insurance Motion")

110. Pursuant to the Insurance Motion, the Debtors seek entry of interim and final orders (I) authorizing the Debtors to (a) continue insurance coverage entered into prepetition and satisfy payment of prepetition obligations related thereto in the ordinary course of business, (b) renew, supplement, or purchase insurance coverage in the Debtors' discretion on a postpetition basis, (c) continue performance under prepetition insurance premium financing agreements, (d) renew, supplement, or enter into insurance premium financing agreements in the Debtors' discretion on a postpetition basis and (II) granting related relief.

111. In the ordinary course of the Debtors' business, the Debtors maintain various liability, casualty, property, and other insurance and reinsurance and risk control programs through several private insurance carriers (the "Insurance Programs"). The Debtors employ insurance brokers to assist with, procure, and manage the insurance programs. The Debtors finance certain insurance program through premium financing agreements (the "Premium Financing Agreements"). Under the Insurance Programs, the Debtors are required to pay all amounts arising in connection with the Insurance Programs or Premium Financing Agreements, including various brokers' fees and insurance deductibles related to the Insurance Programs, workers' compensation obligations, and obligations that are backed by letters of credit (the "Insurance Obligations"), whether due and payable before or after the Petition Date.

112. As of the Petition Date, the Debtors estimate that approximately \$8,266,924 in Insurance Obligations has accrued prepetition, \$3,000,000 of which will become due and

payable within the first 21 days of these chapter 11 cases. If the requested relief is not granted and the Insurance Programs lapse or terminate, the Debtors may well be unable to continue large portions of their operations, thereby endangering the Debtors' successful reorganization and substantially harming all creditors.

113. I believe that the relief requested in the Insurance Motion is in the best interests of the Debtors' estates, their creditors, and all other parties in interest and constitutes a critical element in achieving a successful and smooth transition to chapter 11. Accordingly, on behalf of the Debtors, I respectfully submit that the Insurance Motion should be granted.

14. *Debtors' Motion for Entry of Interim and Final Orders (I) Authorizing the Debtors to (A) Honor Prepetition Obligations to Customers in the Ordinary Course of Business and (B) Continue Customer Practices and (II) Granting Related Relief (the "Customer Obligations Motion")*

114. Pursuant to the Customer Obligations Motion, the Debtors seek interim and final orders (I) authorizing, but not directing, the Debtors, in their sole discretion, to (a) honor Customer Obligations in the ordinary course of business and in a manner consistent with past practice and (b) continue, renew, replace, implement, or terminate any customer practices and (II) granting related relief.

115. Prior to the Petition Date and in the ordinary course of their operations, the Debtors incurred various obligations to customer and/or service providers under certain of the Debtors' prepetition contracts, including true-up, deposits, invoice corrections, and other obligations, all of which are described more fully in the Customer Obligations Motion.

116. I believe that the relief requested in the Customer Obligations Motion is essential to preserving the Debtors' critical business relationships and customer goodwill for the benefit of their estates and is in the best interests of the Debtors' estates, their creditors, and all other

parties in interest. Accordingly, on behalf of the Debtors, I respectfully submit that the relief requested in the Customer Obligations Motion should be granted.

15. *Debtors' Motion for Entry of Interim and Final Orders (I) Determining Adequate Assurance of Payment of Future Utility Services, (II) Prohibiting Utility Companies from Altering, Refusing, or Discontinuing Services, (III) Establishing Procedures for Determining Adequate Assurance of Payment, and (IV) Granting Related Relief (the "Utilities Motion")*

117. Pursuant to the Utilities Motion, the Debtors seek entry of interim and final orders (I) determining adequate assurance of payment for future utility services, (II) prohibiting utility companies from altering, refusing, or discontinuing services, (III) establishing procedures for determining adequate assurance of payment, and (IV) granting related relief.

118. In the ordinary course of their businesses, the Debtors incur utility expenses for electricity, natural gas, water, waste disposal, telephone, internet, cable, and other similar services from a number of utility companies or their brokers. On average, the Debtors pay approximately \$4,180,000 each month for third party Utility Services, calculated as a historical average over a twelve-month period.

119. Preserving Utility Services on an uninterrupted basis is essential to the Debtors' ongoing operations and, therefore, to the success of their reorganization. Indeed, any interruption in utility services, even for a brief period of time, would disrupt the Debtors' ability to continue operations and service their customers. I believe this disruption would adversely impact customer relationships resulting in a decline in the Debtors' revenues and profits. Such a result could seriously jeopardize the Debtors' restructuring efforts and, ultimately, the value of their estates. It is critical, therefore, that utility services continue uninterrupted during these chapter 11 cases. Accordingly, on behalf of the Debtors, I respectfully submit that the relief requested in the Utilities Motion should be granted.

16. *Debtors' Motion for Entry of Interim and Final Orders (I) Authorizing the Debtors to Pay Certain Prepetition Taxes and Fees and (II) Granting Related Relief (the "Taxes and Fees Motion")*

120. Pursuant to the Taxes and Fees Motion, the Debtors seek entry of interim and final orders (I) authorizing the Debtors to remit and pay Taxes and Fees that accrued prior to the Petition date and (II) granting related relief.

121. In the ordinary course of business, the Debtors collect, withhold, and incur severance, excise, sales, use, franchise, property, environmental, and safety taxes and fees, as well as other taxes and fees described in the Taxes and Fees Motion. The Debtors estimate that they owe approximately \$26.6 million of prepetition Taxes and Fees, with approximately \$6 million becoming due and owing within 21 days following the Petition Date.

122. I believe that the payment of the Taxes and Fees is critical to the Debtors' continued and uninterrupted operations, and that the Debtors' business would suffer irreparable harm if the Debtors were unable to make the payments contemplated by the Tax Motion in the first 21 days of these chapter 11 cases. The Debtors' failure to pay prepetition Taxes and Fees may cause the Authorities to take precipitous action, including, but not limited to, conducting audits, filing liens, preventing the Debtors from doing business in certain jurisdictions, seeking to lift the automatic stay, or pursuing payment of the Taxes and Fees from the Debtors' officers and directors, all of which would greatly disrupt the Debtors' operations and ability to focus on their reorganization efforts.

123. I believe the relief requested in the Taxes and Fees Motion is in the best interest of the Debtors' estates, their creditors, and all other parties in interest, and will enable the Debtors to continue to operate their businesses in chapter 11 without disruption. Accordingly, on behalf of the Debtors, I respectfully submit that the relief in requested in the Taxes and Fees Motion should be granted.

I, the undersigned Chief Restructuring Officer of Patriot Coal, declare under penalty of perjury that the foregoing is true and correct.

Dated: May 12, 2015

/s/ Ray Dombrowski

Ray Dombrowski  
Chief Restructuring Officer

**EXHIBIT A**

**(Corporate Structure Chart)**

# Patriot Coal Corporation Corporate Structure



All Entities In Chart 100% Owned Unless Otherwise Noted  
All Entities In Chart Presumptive Debtors Unless Otherwise Noted

