

UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF MISSOURI
EASTERN DIVISION

In re

PATRIOT COAL CORPORATION, *et al.*,

Debtors.¹

Chapter 11

Case No. 12-51502-659

(Jointly Administered)

Objection Deadline:

October 30, 2013 at 4:00 p.m.

(prevailing Central Time)

Reply Deadline: November 4, 2013 at

12:00 p.m. (prevailing Central Time)

Hearing Date:

November 6, 2013 at 10:00 a.m.

(prevailing Central Time)

**NOTICE AND MOTION OF THE DEBTORS FOR ENTRY OF AN ORDER
PURSUANT TO 11 U.S.C. §§ 105(a), 363(b), 1113 AND 1114(e) AND
FED. R. BANKR. P. 9019(a) APPROVING THE SETTLEMENT
WITH PEABODY ENERGY CORPORATION, AND THE UMWA, ON
BEHALF OF ITSELF AND IN ITS CAPACITY AS AUTHORIZED
REPRESENTATIVE OF THE UMWA EMPLOYEES AND UMWA RETIREES**

PLEASE TAKE NOTICE that this motion is scheduled for hearing on November 6, 2013, at 10:00 a.m. (prevailing Central Time), in Bankruptcy Courtroom Seventh Floor North, in the Thomas F. Eagleton U.S. Courthouse, 111 South Tenth Street, St. Louis, Missouri 63102.

WARNING: ANY RESPONSE OR OBJECTION TO THIS MOTION MUST BE FILED WITH THE COURT BY 4:00 P.M. (PREVAILING CENTRAL TIME) ON OCTOBER 30, 2013. A COPY MUST BE PROMPTLY SERVED UPON THE UNDERSIGNED. FAILURE TO FILE A TIMELY RESPONSE MAY RESULT IN THE COURT GRANTING THE RELIEF REQUESTED PRIOR TO THE HEARING DATE.

¹ The Debtors are the entities listed on Schedule 1 attached hereto. The employer tax identification numbers and addresses for each of the Debtors are set forth in the Debtors' chapter 11 petitions.

**MOTION OF THE DEBTORS FOR ENTRY OF AN ORDER
PURSUANT TO 11 U.S.C. §§ 105(a), 363(b), 1113 AND 1114(e) AND
FED. R. BANKR. P. 9019(a) APPROVING THE SETTLEMENT
WITH PEABODY ENERGY CORPORATION, AND THE UMWA, ON
BEHALF OF ITSELF AND IN ITS CAPACITY AS AUTHORIZED
REPRESENTATIVE OF THE UMWA EMPLOYEES AND UMWA RETIREES**

Patriot Coal Corporation (“**Patriot**”) and its subsidiaries that are debtors and debtors in possession in these proceedings (the “**Debtors**”), hereby submit this motion (the “**Motion**”), pursuant to sections 105(a), 363(b), 1113 and 1114(e) of title 11 of the United States Code (the “**Bankruptcy Code**”), and Rule 9019(a) of the Federal Rules of Bankruptcy Procedure (the “**Bankruptcy Rules**”), for entry of an order (a) authorizing the Debtors to enter into a settlement agreement (the “**Peabody Settlement**”) containing the terms of the term sheet that was entered into on October 4, 2013, between (i) the Debtors and Patriot’s non-Debtor wholly-owned subsidiaries, (ii) Peabody Energy Corporation (“**PEC**”) and its subsidiaries and affiliates (collectively with PEC, “**Peabody**”), (iii) the United Mine Workers of America (the “**UMWA**”), on behalf of itself, (iv) the Debtors’ UMWA-represented employees (the “**UMWA Employees**”), by and through the UMWA as their authorized representative, and (v) the Debtors’ UMWA-represented retirees and their eligible dependents, by and through the UMWA as their authorized representative to the full extent permitted under section 1114 of the Bankruptcy Code, (the “**UMWA Retirees**” and, together, the “**Parties**”) and (b) authorizing the Debtors to take and perform such actions as may be necessary or appropriate to implement and effectuate the Peabody Settlement.²

² A copy of the proposed order granting the relief requested in the Motion (the “**Proposed Order**”) will be provided to the Core Parties (as defined below), Peabody Energy Corporation and the UMWA. A copy of the Proposed Order will be made available at www.patriotcaseinfo.com/orders.php.

BACKGROUND AND JURISDICTION

1. On July 9, 2012 (the “**Petition Date**”), each Debtor other than Brody Mining, LLC and Patriot Ventures LLC (collectively, the “**Initial Debtors**”) commenced with the United States Bankruptcy Court for the Southern District of New York (the “**SDNY Bankruptcy Court**”) a voluntary case under chapter 11 of the Bankruptcy Code. On December 19, 2012, the SDNY Bankruptcy Court entered an order transferring the Initial Debtors’ chapter 11 cases to this Court (the “**Transfer Order**”) [ECF No. 1789].³ Subsequently, Brody Mining, LLC and Patriot Ventures LLC (together, the “**New Debtors**”) each commenced its chapter 11 case by filing a petition for voluntary relief with this Court on September 23, 2013. The Debtors are authorized to operate their businesses and manage their properties as debtors in possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code. The Initial Debtors’ cases are being jointly administered pursuant to Bankruptcy Rule 1015(b) and the Joint Administration Order entered on July 10, 2012 [ECF No. 30], and the New Debtors’ cases are being jointly administered with the Initial Debtors’ cases pursuant to Bankruptcy Rule 1015(b) and the *Order Directing Joint Administration of Chapter 11 Cases* entered by this Court on September 27, 2013 in each of the New Debtors’ chapter 11 cases.

2. This Court has subject matter jurisdiction over this matter pursuant to 28 U.S.C. § 1334. This is a core proceeding pursuant to 28 U.S.C. § 157(b) and may be heard and determined by the Bankruptcy Court. Venue is proper before this Court pursuant to 28 U.S.C. §§ 1408 and 1409.

³ Pursuant to the Transfer Order, all orders previously entered in these chapter 11 cases remain in full force and effect in accordance with their terms notwithstanding the transfer of venue.

OVERVIEW

3. The Peabody Settlement is one of three agreements that are the cornerstones of the Debtors' plan of reorganization. Together with the Arch Settlement and the rights offerings backstopped by Knighthead (each described below), the Peabody Settlement will provide the Debtors with critically-needed cash and credit support that will position the Debtors to emerge from bankruptcy. Moreover, the Peabody Settlement will provide hundreds of millions of dollars in funding for the Patriot Retirees Voluntary Employee Benefit Association (the "VEBA"), the trust established by the UMWA to provide healthcare benefits for thousands of retirees and their families. Although the Debtors and the UMWA signed a new collective bargaining agreement in August, the agreement left open the question of how the VEBA would be funded, and the Peabody Settlement addresses this final contingency. By resolving all claims between and among the Debtors, Peabody and the UMWA, the Peabody Settlement brings to a close the significant pending and potential litigation between these parties in a manner that will allow the Debtors to emerge from bankruptcy and preserve thousands of jobs for the UMWA Employees and others, while helping the UMWA Retirees continue to receive meaningful healthcare benefits.

4. Prior to October 31, 2007, Patriot and a number of its subsidiaries were wholly-owned subsidiaries of PEC. Effective October 31, 2007, Patriot was spun off from PEC through a dividend of all outstanding shares of Patriot (the "**Spin-Off**"). As a result of the Spin-Off, Patriot became a separate, public company, listed on the New York Stock Exchange.

5. In connection with the Spin-Off, certain companies owned by PEC became Patriot companies (the "**Subsidiary Companies**"). The Subsidiary Companies remained responsible for certain healthcare liabilities relating to approximately 9,500 retirees who worked for those companies when they were owned by Peabody (or its predecessors). A subsidiary of PEC

assumed and agreed to pay certain of the Subsidiary Companies' pre-Spin-Off retiree healthcare obligations associated with the Coal Industry Retiree Health Benefit Act of 1992, 26 U.S.C. § 9701 et seq. (the "**Coal Act**"), the National Bituminous Coal Wage Agreement (the "**NBCWA**"), and certain salaried employees. Specifically, PEC and its subsidiary Peabody Holding Company, LLC ("**PHC**") entered into three separate liability assumption agreements: (1) Section 9711 Coal Act Liabilities Assumption Agreement (the "**Coal Act Assumption Agreement**"); (2) NBCWA Individual Employer Plan Liabilities Assumption Agreement (the "**NBCWA Assumption Agreement**"); and (3) Salaried Employee Liabilities Assumption Agreement (the "**Salaried Assumption Agreement**"). As of December 31, 2012, these liabilities had a present value of \$637.6 million. Even though PHC assumed and agreed to pay for these obligations, subject to the terms and conditions of the relevant agreements, Patriot has historically administered them pursuant to an agreement with Peabody. The Debtors are currently required to post approximately \$52 million in letters of credit to secure these and similar obligations, approximately \$42 million of which is attributable to Coal Act benefits paid by PHC under the Coal Act Assumption Agreement.

6. On July 23, 2008, Patriot acquired Magnum Coal Company LLC (the "**Magnum Acquisition**"), which carried on its balance sheet substantial assets and liabilities previously acquired from Arch Coal, Inc. ("**Arch**").

A. The UMWA Settlement

7. As of the Petition Date, ten of the ninety-nine Debtors (the "**Obligor Debtors**") were signatories to collective bargaining agreements with the UMWA and had costly and unsustainable obligations to UMWA-represented employees and retirees. The Debtors began formal negotiations with the UMWA in November 2012 with the goal of securing consensual

modifications to their existing collective bargaining agreements (the “**CBA**s”) and to the Obligor Debtors’ retiree healthcare obligations under the CBAs (the “**Retiree Benefits**”). By March 14, 2013, the Debtors and the UMWA had not reached an agreement, and the Debtors—whose financial condition had continued to deteriorate during the period of negotiation with the UMWA—filed a motion for relief under sections 1113 and 1114 of the Bankruptcy Code (the “**1113/1114 Motion**”). Over the next six weeks, the Bankruptcy Court presided over comprehensive litigation, including a week-long trial involving more than a dozen fact and expert witnesses. On May 29, 2013, the Bankruptcy Court granted the 1113/1114 Motion and authorized the Obligor Debtors to implement their proposed changes to the CBAs and to the Retiree Benefits (the “**1113/1114 Decision**”). Pursuant to the 1113/1114 Decision, the VEBA would receive an equity stake in the reorganized enterprise of 35%, as well as certain royalty payments and profit-sharing contributions. Shortly after the Bankruptcy Court issued its 1113/1114 Decision, the UMWA filed a notice of appeal (the “**1113/1114 Appeal**”). The Debtors and the UMWA continued to negotiate following the issuance of the 1113/1114 Decision and during the pendency of the 1113/1114 Appeal.

8. On August 9, 2013, the Debtors and the UMWA reached a settlement (the “**UMWA Settlement**”) that consensually resolved the 1113/1114 Appeal and resulted in a new collective bargaining agreement (the “**New CBA**”). On August 16, 2013, the UMWA Settlement was ratified by the members of the UMWA, and on August 22, 2013, the Bankruptcy Court entered an order approving the UMWA Settlement. The UMWA Settlement provides for, among other things, modifications to the existing CBAs and the transition of provision and administration of the Retiree Benefits to the VEBA. The UMWA Settlement is expected to provide the Debtors with labor stability and approximately \$130 million in annual savings.

9. In connection with the UMWA Settlement, the Debtors entered into a VEBA Funding Agreement (the “**VFA**”) under which the VEBA would receive an equity stake in the reorganized debtors of between 35 and 38 percent, as well as the above-referenced royalty payments and profit-sharing contributions (the “**VEBA Funding Amount**”). However, the VFA contains a significant contingency in that it obligates the Debtors to use their best efforts to monetize some or all of the VEBA Funding Amount through a third party funding source in an amount and/or modification acceptable to the UMWA that provides for fixed dollars to be contributed to the VEBA. Had the Debtors and UMWA been unable to agree on an amendment to the VFA acceptable to the UMWA to account for such monetization, the UMWA would have had the right to terminate the VFA and the New CBA, which risked unwinding the UMWA Settlement, and possibly forcing the Debtors into liquidation. As described below, the Peabody Settlement represents a key component of the Debtors’ ability to monetize the VEBA Funding Amount in a manner and amount satisfactory to the UMWA.

10. As part of the UMWA Settlement, the Debtors and the UMWA entered into a Memorandum of Understanding (the “**MOU**”). Pursuant to the MOU, among other things, the Debtors agreed to establish and fund a litigation trust to pursue certain claims or causes of action against Peabody or Arch on the terms set forth in the MOU.

B. The Attachment A Litigation

11. At the same time that the Debtors filed the 1113/1114 Motion, they initiated an adversary proceeding against PEC and PHC seeking a declaratory judgment regarding approximately \$280 million in healthcare obligations for approximately 3,100 retirees and their eligible dependents (the “**Attachment A Retirees**”). The Attachment A Retirees had worked for Heritage Coal Company LLC (f/k/a Peabody Coal Company LLC) (“**Heritage**”) when Heritage

was owned by Peabody. Pursuant to, and to the extent set forth in, the NBCWA Assumption Agreement, PHC assumed and agreed to pay for Heritage's healthcare obligations to the Attachment A Retirees following the Spin-Off. Prior to the execution of the NBCWA Assumption Agreement, PHC, the UMWA, and, for limited purposes, Heritage entered into an Acknowledgement and Assent (the "**Acknowledgement and Assent Agreement**") that, among other things, gave the UMWA certain rights with respect to the enforcement of PHC's obligations under the anticipated NBCWA Assumption Agreement. The NBCWA Assumption Agreement also provides that, under certain circumstances, PHC's obligations under the agreement may change, contingent on the level of benefits paid by the Debtors to certain other UMWA retirees.

12. Concerned that Peabody might take the position that PHC's obligations would be affected by the Debtors' petition for relief under sections 1113 and 1114 of the Bankruptcy Code, the Debtors sought a declaration from the Bankruptcy Court that PHC's obligations with respect to the Attachment A Retirees would be unaffected by the relief the Debtors sought in the 1113/1114 Motion. On April 5, 2013, the Debtors filed a motion for summary judgment in the adversary proceeding.

13. On May 29, 2013, the Bankruptcy Court denied the Debtors' motion and *sua sponte* granted summary judgment in favor of Peabody, finding, among other things, that the Debtors' exercise of the authority granted to them in the 1113/1114 Decision would affect Peabody's obligations with respect to the Attachment A Retirees. The Debtors appealed that decision to the United States Bankruptcy Appellate Panel for the Eighth Circuit (the "**Panel**"), and made a successful motion to expedite the appeal. On August 21, 2013, the Panel ruled in the Debtors' favor, reversing the Bankruptcy Court's decision.

14. On September 13, 2013, Peabody appealed the Panel's decision to the United States Court of Appeals for the Eighth Circuit. That same day, Peabody filed an answer and counterclaims in the Bankruptcy Court, seeking declarations as to the effect, if any, of the UMWA Settlement on PHC's obligations under the NBCWA Assumption Agreement. Briefing has yet to begin with respect to Peabody's appeal to the Eighth Circuit, and no motion practice has been initiated on the counterclaims.

15. In addition to the Attachment A Litigation, the Debtors and Peabody have been engaged in a dispute regarding the scope of PHC's obligations under the NBCWA Assumption Agreement. Peabody believes that PHC's obligations, if any, are limited to those individuals listed on Attachment A to the NBCWA Assumption Agreement. The Debtors believe that PHC's obligations extend to a broader group of individuals and should not be limited to those listed on Attachment A. The Debtors and Peabody have exchanged positions concerning this issue, but have not made a determination as to the venue in which the dispute would be litigated.

C. The Peabody Investigation

16. Soon after the Petition Date, the Debtors, joined by the Official Committee of Unsecured Creditors (the "**Creditors' Committee**"), launched an investigation into potential causes of action in connection with the Spin-Off (the "**Peabody Investigation**"). As a first step, the Debtors conducted an initial collection and review of hardcopy and electronic documents in their own files, and conducted several days of interviews with certain Patriot employees with first-hand knowledge of the Spin-Off. Over the course of this review, the Debtors' outside counsel reviewed over 115,000 documents.

17. Thereafter, the Debtors and the Creditors' Committee embarked on a nearly nine-month-long series of negotiations and motion practice aimed at obtaining discovery from

Peabody pursuant to Federal Rule of Bankruptcy Procedure 2004. After sending Peabody a draft subpoena requesting documents under Bankruptcy Rule 2004 in early January 2013, the Debtors, the Creditors' Committee, and Peabody engaged in over seven weeks of negotiations regarding the scope of Peabody's production. When those negotiations reached an impasse, the Debtors and the Creditors' Committee moved the Bankruptcy Court for permission to propound their Bankruptcy Rule 2004 discovery requests in a motion filed on April 2, 2013. The Bankruptcy Court granted that motion in part at a hearing on April 23, 2013 and entered a corresponding order—negotiated between the Debtors, the Creditors' Committee, and Peabody over a matter of weeks—on June 7, 2013.

18. On June 10, 2013, the Debtors and the Creditors' Committee served on Peabody the subpoena contemplated by the Bankruptcy Court's order, containing 37 individual requests pertaining to potential causes of action against Peabody. Over the next several weeks, the parties negotiated 43 paragraphs of electronic search terms to be used to cull Peabody's over one million electronic files pulled from a three-and-a-half-year period, which search terms were finally agreed to in July 2013.

19. While Peabody began producing documents in June 2013, the Debtors and the Creditors' Committee moved, in August 2013, to compel Peabody to complete its production by October 2013. Peabody then advised that the agreed parameters of discovery resulted in an initial set of over 630,000 documents for Peabody's review, and estimated that its review would not be complete until early 2014. The Court subsequently ordered Peabody to complete its production by October 31, 2013. To date, Peabody has produced over 130,000 pages of documents, which the Debtors and the Creditors' Committee have been reviewing on an ongoing basis.

20. Concurrently, the Debtors moved for leave from the Bankruptcy Court to take Bankruptcy Rule 2004 discovery of Duff & Phelps Corp. (“**Duff & Phelps**”) and Morgan Stanley & Co. LLC (“**Morgan Stanley**”), which served as advisors to Peabody in connection with the Spin-Off. The Bankruptcy Court granted leave to take such discovery on May 22, 2013. Both Duff & Phelps and Morgan Stanley are also producing documents on a rolling basis, and the Debtors and the Creditors’ Committee have been reviewing them for information pertinent to any potential causes of action. Duff & Phelps has produced over 22,000 pages of documents, while Morgan Stanley’s production exceeds 33,000 pages.

21. All the while, the Debtors analyzed potential estate causes of action against Peabody. Beginning with an examination of precedent Spin-Off-related claims, the Debtors identified a number of potential claims, including claims for fraudulent transfer. The Debtors weighed the evidence in their possession in connection with these claims, and complemented their analysis of potential claims with an assessment of Peabody’s potential defenses.

22. Were the Debtors and the Creditors’ Committee to bring suit against Peabody, they likely would pursue claims of fraudulent transfer relating to the liabilities associated with the Spin-Off transaction. Among other defenses, Peabody likely would argue that the claims are barred by the statute of limitations, that the Debtors were solvent at the time of the Spin-Off and thereafter, and that the Magnum Acquisition and other intervening events led to the Debtors’ bankruptcy. Peabody has vigorously denied any wrongdoing or liability with respect to all claims, events and transactions relating to the Spin-Off or otherwise.

D. The *Lowe* Action

23. Independent of the proceedings before the Bankruptcy Court, on October 23, 2012, the UMWA and a number of retirees brought a lawsuit against Peabody and Arch in an

action captioned *Lowe v. Peabody Holding Co.*, No. 2:12-CV-06925 (S.D. W. Va.). In that action, the plaintiffs alleged that the defendants violated the Employee Retirement Income Security Act of 1974 and should be required to maintain certain benefit plans at their current levels. Peabody and Arch moved to dismiss the claims on February 20, 2013. On September 27, 2013, the district court judge granted the defendants' motion to dismiss. That same day, the plaintiffs appealed that decision to the United States Court of Appeals for the Fourth Circuit, which appeal remains pending.

E. The Peabody Settlement

24. Although the Debtors reached a comprehensive agreement with the UMWA that will result in approximately \$130 million of savings per year, the Debtors require additional capital and credit support if they are to attract exit financing and successfully reorganize. At the same time, the Debtors recognized that current and potential litigation with Peabody likely would take years to litigate, that the ultimate outcome of any litigation is uncertain, that Peabody would defend all claims against it vigorously, and that additional funding for the VEBA is necessary in order to satisfy the terms of the UMWA Settlement and the monetization condition of the VFA. Given the Debtors' near-term needs and the possibility of liquidation if those needs are not addressed, the Debtors entered into negotiations with Peabody and the UMWA concerning the terms of a potential settlement that would result in Peabody making significant cash contributions to the Debtors' estates and the VEBA in exchange for a release of potential claims by the Debtors, the UMWA, and the UMWA Employees and UMWA Retirees through the UMWA as their representative.

25. After extensive negotiations, on October 4, 2013, the Debtors, the UMWA, and Peabody entered into a term sheet (the "**Peabody Settlement Term Sheet**"), a copy of which is

included as Exhibit A and incorporated herein by reference, which sets forth the principal terms of a global settlement that is essential to the Debtors' reorganization and resolves multiple, complex disputes between the Debtors, Peabody, the UMWA, the UMWA Employees, and the UMWA Retirees, including the Attachment A Litigation, the Debtors' investigation into Peabody's actions at the time of the Spin-Off, and the *Lowe* action. If approved by the Bankruptcy Court, the Peabody Settlement would resolve the risks and uncertainties created by the parties' ongoing litigation and would help provide the Debtors with necessary liquidity and credit support to exit chapter 11. The Peabody Settlement also would provide the VEBA with significant funding and allow the Debtors to resolve their remaining outstanding issues with the UMWA.

26. The Peabody Settlement, along with the rights offerings backstopped by Knighthead Capital Management LLC, solely on behalf of certain funds and accounts it manages and/or advises ("**Knighthead**"), one of Patriot's largest bondholders, and a global settlement with Arch (the "**Arch Settlement**") that are described in separate motions filed contemporaneously herewith, is expected to position the Debtors to emerge from bankruptcy by the end of 2013. The Debtors believe that these agreements represent a remarkable achievement and will provide maximum value to the estates' stakeholders. These agreements are supported by the Creditors' Committee, the UMWA and Knighthead. Indeed, as a condition of its agreement to backstop the rights offerings, Knighthead required that the Debtors enter into an acceptable agreement with Peabody, further demonstrating the importance of the Peabody Settlement.

27. The Peabody Settlement unquestionably is in the best interests of the Debtors and their estates, easily satisfies the standards for approval of a compromise and settlement under the Bankruptcy Code and related statutes, and should be approved in all respects.

Terms of the Peabody Settlement

28. The following summarizes certain of the key terms of the Peabody Settlement:⁴

- (a) Peabody shall pay an aggregate amount of \$90 million to the VEBA and to the Debtors (and if received by the Debtors, to be contributed to the VEBA within one business day of receipt), on the later of (i) January 2, 2014 or (ii) the first business day that is seven business days after the Effective Date.⁵
- (b) Peabody shall also pay to the VEBA the following amounts: \$75 million on January 2, 2015, \$75 million on January 2, 2016, and \$70 million on January 2, 2017; or, with respect to each such date, on the next business day thereafter if not a business day.
- (c) On the effective date of the Debtors' plan of reorganization, Peabody shall (i) post a \$41.525 million letter of credit to secure the benefits of the retirees covered by the Coal Act Assumption Agreement; (ii) replace, either by letter of credit or surety \$15 million dollar cash collateral posted by Patriot for Black Lung Act liabilities, guaranteed by Patriot and its subsidiaries on an unsecured basis; and (iii) post \$84 million in letters of credit to replace letters of credit currently posted by the Debtors in a like aggregate value, which letters of credit are to be selected by Peabody in its sole discretion and guaranteed by the Debtors. The term of the credit support for (ii) and (iii) above shall be five years from the effective date of the Debtors' plan of reorganization and will be reduced over time as letters of credit roll off or are reduced and not replaced, with take-out provisions in event of a refinancing and a 100 bps ticking fee on any then-remaining letters of credit referred to in clause (iii) of this paragraph for the 4th and 5th years after the effective date of the Debtors' plan of reorganization, paid monthly in arrears.

⁴ Any description contained in this Motion regarding the Parties' obligations under the Peabody Settlement is merely a summary and is qualified in its entirety by the actual terms and conditions of the Peabody Settlement. In the event any such description conflicts with or varies from the Peabody Settlement, the Peabody Settlement shall control. Capitalized terms used in this section and not otherwise defined herein have the meanings given to them in the Peabody Settlement Term Sheet.

⁵ Pursuant to the Peabody Settlement, the allocation of the \$90 million between the Debtors and the VEBA will be set forth in the Settlement Documents, and the Debtors shall, within one business day of actual receipt of such funds from Peabody, pay over to the VEBA such amounts received from Peabody.

- (d) Peabody will pay at current levels all benefits claims of the Attachment A Retirees that are incurred by such Attachment A Retirees through December 31, 2013. Thereafter, Peabody will have no obligation to pay for retiree healthcare benefits for the Attachment A Retirees, and benefits for such retirees will be provided by the VEBA.
- (e) As of the Effective Date, any obligations of Peabody under the NBCWA Assumption Agreement and the Acknowledgement and Assent Agreement will be deemed satisfied in full and such agreements will be terminated.
- (f) Peabody shall continue to honor its obligations under the Coal Act Assumption Agreement and Salaried Assumption Agreement.
- (g) The term of the Coal Terminaling Agreement, dated May 3, 2011, by and among Peabody Terminals LLC, James River Coal Terminal, LLC and Patriot Coal Sales LLC shall be extended through and including March 31, 2016, and the price for services thereunder shall be reduced from \$5.50 per ton to \$1.75 per ton from October 1, 2013, through and including March 31, 2016.⁶
- (h) As of the Effective Date, the Debtors will assume the agreements executed in connection with the Spin-Off including Patriot's indemnification obligations contained therein and (ii) all other agreements entered into by the Debtors and Peabody prior to the Petition Date and not previously assumed, rejected, terminated or expired, including the Settlement and Release Agreement dated September 2, 2008; provided, however, that Patriot shall not be required to indemnify Peabody under the assumed agreements for any liability to the extent specifically arising out of or relating to (a) promissory notes referenced in Schedule 1.1(d) of the Separation Agreement, Plan of Reorganization and Distribution, dated October 22, 2007, by and between Peabody Energy Corporation and Patriot (the "**Separation Agreement**"), payable to Donald and Betty Bowles or Bentley Badgett II and Linda Badgett, (b) the Rocklick Preparation Plant Lease with Bank of America, N.A., or (c) Patriot's termination of the banked vacation benefit plan ((a) through (c) collectively, the "**Indemnification Carve-Out Claims**"), and Peabody shall not request any indemnification for any such Indemnification Carve-Out Claims. For the avoidance of doubt, any claims of Peabody for indemnity relating to any claims by or on behalf of the 1974 Pension Plan are not included in the Indemnification Carve-Out Claims.
- (i) Releases

⁶ The Coal Terminaling Agreement is the successor agreement to the DTA Throughput and Storage Agreement referenced in the Peabody Settlement Term Sheet.

- (1) Other than as set forth in the Peabody Settlement, the releases by the UMWA, the UMWA Employees, and the UMWA Retirees shall include releases of all of their Causes of Action against the Peabody Released Parties, and will be supported by an injunction and covenant not to sue barring the UMWA, the UMWA Employees, and the UMWA Retirees from pursuing any Causes of Action against the Peabody Released Parties, including, without limitation, any Causes of Action under the Acknowledgement and Assent Agreement or ERISA. The UMWA will represent that it has the power and authority to consent to such releases, injunction and covenant not to sue on behalf of itself and as the authorized representative of the UMWA Employees and UMWA Retirees.
- (2) Other than as set forth in the Peabody Settlement, the releases by the Debtors shall include a release of all of their Causes of Action against Peabody, and will be supported by an injunction barring all entities with claims against the Debtors from pursuing any proceeding against Peabody on account of any Causes of Action released by the Debtors pursuant to the Peabody Settlement.
- (3) Other than as set forth in the Peabody Settlement, the releases by Peabody shall include a release of all of its Causes of Action against the Debtors and the UMWA. Peabody shall also withdraw its proofs of claim asserted against the Debtors in their bankruptcy cases, and shall release and waive any claims it may have against the Debtors or the UMWA for fees and/or costs incurred in the *Lowe* action.
- (j) The Peabody Settlement will be void *ab initio* if the Parties are unable to agree to definitive documentation with respect to the Peabody Settlement or a plan of reorganization for the Debtors that is consistent with the Peabody Settlement Term Sheet, in either case, with an effective date no later than March 31, 2014.
- (k) The Peabody Settlement also contains several conditions that must be satisfied or waived in order for the Peabody Settlement to become effective, including, without limitation, the support of the Creditors' Committee, the occurrence of the effective date of a plan of reorganization that is consistent with the Peabody Settlement, and the satisfaction of certain liquidity requirements by the Debtors.

29. In connection with the Peabody Settlement, the Debtors are contemporaneously filing motions to amend the VFA and the MOU in a manner consistent with the Peabody Settlement.

BASIS FOR RELIEF

I. Entry into the Peabody Settlement Meets the Legal Standard Established Pursuant to Bankruptcy Rule 9019(a) and Is in the Best Interests of the Debtors' Estates

30. The Peabody Settlement is in the best interests of the Debtors and their stakeholders, and should be approved pursuant to Bankruptcy Rule 9019. A debtor in possession's settlement is governed by Bankruptcy Rule 9019(a), which provides, in relevant part, that "[o]n motion by the [debtor in possession] and after notice and a hearing, the court may approve a compromise or settlement." Fed. R. Bankr. P. 9019(a). This Rule empowers Bankruptcy Courts to approve settlements "if they are in the best interests of the estate." *Vaughn v. Drexel Burnham Lambert Grp., Inc. (In re Drexel Burnham Lambert Grp., Inc.)*, 134 B.R. 499, 505 (Bankr. S.D.N.Y. 1991). A decision to accept or reject a compromise or settlement is within the sound discretion of the Court. *Tri-State Financial, LLC v. Lovald*, 525 F.3d 649, 654 (8th Cir. 2008) (citing *In re New Concept Housing, Inc.*, 951 F.2d 932, 939 (8th Cir. 1991) ("A bankruptcy court's approval of a settlement will not be set aside unless there is plain error or abuse of discretion")); *see also* 10 *Collier on Bankruptcy* ¶ 9019.02 (15th ed. rev. 2009). The proposed settlement need not result in the best possible outcome for the debtor, but must not "fall below the lowest point in the range of reasonableness." *Tri-State Financial*, 525 F.3d at 654 (citing *Protective Comm. For Indep. Stockholders of TMT Trailer Ferry, Inc. v. Anderson*, 390 U.S. 414, 424 (1968)); *see also Drexel Burnham Lambert Grp.*, 134 B.R. at 505 (citing *In re W.T. Grant & Co.*, 699 F.2d 599, 608 (2d Cir. 1983)). Moreover, the form of consideration provided in the settlement is only one of the factors to be considered when determining whether a settlement is reasonable. *See In re Tower Auto., Inc.*, 342 B.R. 158, 162 (Bankr. S.D.N.Y.) *aff'd*, 241 F.R.D. 162 (S.D.N.Y. 2006).

31. Relying on the guiding language of *Protective Committee for Independent Stockholders of TMT Trailer Ferry, Inc. v. Anderson*, 390 U.S. 414 (1968), courts in this circuit have set forth the following factors regarding the reasonableness of settlements:

- (a) the probability of success in the litigation;
- (b) the difficulties associated with collection;
- (c) the complexity of the litigation, and the attendant expense, inconvenience, and delay; and
- (d) the paramount interests of the creditors.

Tri-State Financial, 525 F.3d at 654, *Martin v. Cox (In re Martin)*, 212 B.R. 316, 319 (B.A.P. 8th Cir. 1997), *In re Apex Oil Co.*, 92 B.R. 847, 866 (Bankr. E.D. Mo. 1988); *see also Sec. Exch. Comm'n v. Drexel Burnham Lambert Grp., Inc. (In re Drexel Burnham Lambert Grp., Inc.)*, 960 F.2d 285, 292 (2d Cir. 1992).

32. Based on these factors, the Peabody Settlement should be approved for several reasons. *First*, the “probability of success in the litigation” factor weighs in favor of the approval of the Peabody Settlement. The Debtors have undertaken a diligent analysis of the disputed claims and have concluded that, given the likelihood of success of those claims and the costs of litigating these actions, the benefits of the Peabody Settlement outweigh its costs. Peabody strongly disputes the merits of the Debtors’ claims underlying the Attachment A Litigation, and in fact prevailed in the Bankruptcy Court before the decision was reversed by the Panel. Although the Debtors believe they have strong arguments, the appellate process is unpredictable, and there is a risk that the Debtors would not succeed on appeal. Moreover, while the Debtors have identified a number of potential claims, including claims for fraudulent transfer against Peabody, there is a considerable risk that the Debtors would not succeed in litigation.

33. *Second*, the complexity of the litigation, attendant expense, inconvenience, and delay factor also weighs heavily in favor of the Peabody Settlement. It is unlikely that the

Debtors could achieve the benefits provided by the Peabody Settlement without engaging in costly and protracted litigation for years. Both the Attachment A Litigation and Peabody Investigation involve complex, highly contested issues. Briefing has yet to begin with respect to Peabody's appeal to the Eighth Circuit in the Attachment A Litigation, and no motion practice has been initiated on counterclaims asserted by Peabody in the Bankruptcy Court. The Peabody Investigation is still in its initial stages. Proceeding with the investigation into Peabody's actions at the time of the Spin-Off would involve costly preparations, including the review of hundreds of thousands (perhaps millions) of pages of documents, depositions, briefing, hearing preparation, and other time-consuming efforts. Thus, by entering into the Peabody Settlement, the Debtors will be able to conserve valuable resources as they seek to reorganize.

34. Importantly, the Debtors do not have the considerable time that it will take to pursue these actions. The Debtors' debtor-in-possession financing will provide liquidity only through the end of the year, and the Debtors need additional capital in the short-term to avoid liquidation. To emerge from chapter 11, the Debtors must raise additional financing by the end of the year. Accordingly, approval of the Peabody Settlement will allow the Debtors to avoid further expense, uncertainty and delay associated with the Attachment A Litigation and Peabody Investigation.

35. *Finally*, the Peabody Settlement is in the paramount interests of the Debtors' creditors. Despite the Debtors' efforts in chapter 11, the Debtors need additional liquidity and credit support to emerge from bankruptcy. Pursuant to the Peabody Settlement, Peabody will make \$310 million available to the VEBA (directly and through cash payments made to Patriot that Patriot will then pay to the VEBA), provide the Debtors with over \$140 million in credit support, and enter into a beneficial contract amendment with the Debtors. At the same time, the

Debtors will avoid the risk and expense of further proceedings in the Attachment A Litigation and Peabody Investigation. If approved by the Court, the Peabody Settlement will provide the Debtors with liquidity and credit support that is essential to the implementation of the Debtors' plan of reorganization and emergence from chapter 11. Without the Peabody Settlement, the Debtors likely would be unable to raise capital and likely would liquidate before the end of the year, with devastating consequences for the Debtors' creditors, employees, and retirees.

36. The Peabody Settlement also will allow the Debtors to satisfy their obligations to the UMWA, UMWA Employees and UMWA Retirees pursuant to the UMWA Settlement, because the funds to be contributed by Peabody to the VEBA make possible the agreement between Patriot and the UMWA to amend the VFA. In other words, the Peabody contribution to the VEBA, together with the portion of Knighthead's investment in Patriot that will be contributed to the VEBA, will provide a level of funding for the VEBA that is acceptable to the UMWA. Given that the Peabody Settlement brings to a close the Debtors' effort to resolve all remaining matters with the UMWA, it is clearly in the paramount interests of the Debtors' creditors.

37. Moreover, the Peabody Settlement represents the culmination of extensive, arm's length, and hard-fought negotiations between the Debtors, Peabody, and the UMWA, on behalf of itself and in each of its capacities as authorized representative of the UMWA Employees and the UMWA Retirees. All of the Parties were represented by experienced counsel, and the Peabody Settlement is the product of their judgment and negotiation. The Debtors believe that the Peabody Settlement is a fair and equitable resolution of extremely difficult issues.

38. There is no doubt that the Peabody Settlement is critical to the Debtors' successful reorganization under chapter 11. The Peabody Settlement is, therefore, a significant

step toward confirmation and resolution of these chapter 11 cases. *See In re Drexel Burnham Lambert Grp.*, 130 B.R. 910, 926-27 (S.D.N.Y. 1991), *aff'd*, 960 F.2d 285 (2d Cir. 1992) (approving pre-plan settlement of multi-billion dollar class action security fraud claim).

39. The Peabody Settlement satisfies all of the requirements of Bankruptcy Rule 9019 and the applicable authority in this Circuit. The terms of the Peabody Settlement are reasonable, resolve complex issues, will promote the successful administration of these cases, strike a fair balance between the parties to the dispute, and will serve to maximize value for all of the Debtors' stakeholders. Under these circumstances the Peabody Settlement and all of its terms should be approved.

II. The Debtors' Entry into the Peabody Settlement Should be Approved Pursuant to Sections 105(a), 363(b), 1113 and 1114(e) of the Bankruptcy Code

40. Ample authority also exists for approval of the Peabody Settlement under sections 105(a)⁷, 363(b), 1113 and 1114(e) of the Bankruptcy Code. Section 1113 governs a debtor-in-possession's agreement with an authorized representative over modifications to "collective bargaining agreement[s]." 11 U.S.C. § 1113. Similarly, section 1114(e) of the Bankruptcy Code governs a debtor-in possession's agreement with an authorized representative over modifications to "retiree benefits." 11 U.S.C. § 1114(e).

41. The Peabody Settlement should be approved under sections 1113 and 1114 of the Bankruptcy Code. The Peabody Settlement will facilitate the Debtors' satisfaction of certain conditions required by the Debtors' settlement of the 1113/1114 Motion that was approved by the Bankruptcy Court on August 22, 2013. As explained above, the Peabody Settlement is necessary to enter into a satisfactory VFA with the UMWA. If the Debtors and the UMWA are

⁷ Section 105 of the Bankruptcy Code provides, in relevant part, that "[t]he court may issue any order, process, or judgment that is necessary or appropriate to carry out the provisions of this title." 11 U.S.C. § 105(a).

unable to agree to an amendment to the VFA acceptable to the UMWA, the UMWA has the right to terminate both the VFA and the newly-ratified CBAs under the UMWA Settlement.

Moreover, the New CBA itself contains a right of termination in the event the Debtors and the UMWA do not amend the VFA in a manner satisfactory to the UMWA. Thus, the Peabody Settlement—which was negotiated with the UMWA in its capacity as the authorized representative of both the UMWA Employees and the UMWA Retirees—represents the successful conclusion of the 1113/1114 proceedings and should be approved on this basis as well.

42. Section 363(b) of the Bankruptcy Code provides, in relevant part, “[t]he trustee, after notice and a hearing, may use, sell, or lease, other than in the ordinary course of business, property of the estate.” 11 U.S.C. § 363(b)(1). Although section 363(b) of the Bankruptcy Code does not set forth a standard for determining when it is appropriate for a court to authorize the sale, disposition or other use of a debtor’s assets, courts in the Eighth Circuit and others, in applying this section, have required that such an action be based upon the sound business judgment of the debtor. *See In re Farmland Indus. Inc.*, 294 B.R. 855, 881 (Bankr. W.D. Mo. 2003) (approving an amendment to the debtors’ post-petition financing credit agreement as an exercise of sound and reasonable business judgment); *In re Food Barn Stores, Inc.*, 107 F.3d 558, 567 n.16 (8th Cir. 1997) (“[w]here the [debtor’s] request is not manifestly unreasonable or made in bad faith, the court should normally grant approval ‘as long as the proposed action appears to enhance the debtor’s estate’” (citing *Richmond Leasing Co. v. Capital Bank, N.A.*, 762 F.2d 1303, 1309 (5th Cir. 1985))); *In re Farmland Indus. Inc.*, 294 B.R. 903, 913 (Bankr. W.D. Mo. 2003) (approving the rejection of employment agreements and noting that “[u]nder the business judgment standard, the question is whether the [proposed action] is in the Debtors’ best

economic interests, based on the Debtors' best business judgment in those circumstances" (citations omitted)); *see also Comm. of Unsecured Creditors of LTV Aerospace & Defense Co. v. LTV Corp. (In re Chateaugay Corp.)*, 973 F.2d 141 (2d Cir. 1992) (holding that a court reviewing a section 363(b) application must find from the evidence presented a good business reason to grant such application); *Comm. of Equity Sec. Holders v. Lionel Corp. (In re Lionel Corp.)*, 722 F.2d 1063 (2d Cir. 1983) (same); *In re Chrysler LLC*, 405 B.R. 84 (Bankr. S.D.N.Y. 2009), *aff'd Ind. State Police Pension Trust v. Chrysler LLC (In re Chrysler LLC)*, 576 F.3d 108 (2d Cir. 2009) (same); *In re Gen. Motors Corp.*, 407 B.R. 463 (Bankr. S.D.N.Y. 2009) (same).

43. Moreover, a strong presumption attaches to a debtor's business decision that the debtor "acted on an informed basis, in good faith and in the honest belief that the action taken was in the best interests of the company." *Official Comm. of Sub. Bondholders v. Integrated Res., Inc. (In re Integrated Res., Inc.)*, 147 B.R. 650, 656 (S.D.N.Y. 1992) (holding that the Delaware business judgment rule has "vitality by analogy" in chapter 11); *see also In re Pilgrim's Pride Corp.*, 401 B.R. 229, 237 (Bankr. N.D. Tex. 2009) ("[I]f a valid business reason is shown for the transaction, the transaction is presumed appropriate."). The business judgment rule is "a presumption that in making a business decision the directors of a corporation acted on an informed basis, in good faith and in the honest belief that the action taken was in the best interest of the company." *Integrated Res., Inc.*, 147 B.R. at 656 (citations omitted). Courts are loath to interfere with corporate decisions absent a showing of bad faith, self-interest, or gross negligence. *Id.*

44. The vigorously negotiated agreement with Peabody and the UMWA clearly meets the requirements of section 363(b) of the Bankruptcy Code.

45. Finally, as discussed above, the Peabody Settlement contains several release provisions and related injunctions. These provisions and injunctions are critically important to Peabody, which has agreed to make hundreds of millions of dollars in contributions to the VEBA (directly and through cash payments made to Patriot) and provide substantial credit support to the Debtors, and are consensual. Without these provisions and injunctions, the Peabody Settlement would likely not have been possible, and the Debtors would have faced the possibility of liquidation. Accordingly, the release provisions and related injunctions are a key element of the Peabody Settlement and should be approved by the Court pursuant to sections 105(a), 363(b), 1113 and 1114(e) of the Bankruptcy Code and Bankruptcy Rule 9019.

46. For all of the reasons set forth above, the Debtors' decision to enter into the Peabody Settlement is in the best interests of the Debtors and all of their economic stakeholders. The decision plainly reflects the sound business judgment of the Debtors. The Peabody Settlement will provide the Debtors with significant liquidity and credit support, which are vital to the Debtors' restructuring and long-term viability, and provide the VEBA with significant additional funding.

47. Accordingly, the Debtors submit that the Peabody Settlement should be approved under sections 105(a), 363(b), 1113 and 1114(e) of the Bankruptcy Code and Bankruptcy Rule 9019(a), as a sound exercise of the Debtors' reasonable business judgment and as being in the best interest of the Debtors' estates and all parties in interest.

Waiver of Bankruptcy Rules 6004(a) and (h)

48. To implement the foregoing immediately and to the extent applicable, the Debtors seek a waiver of the notice requirements under Bankruptcy Rule 6004(a) and the fourteen-day stay of an order authorizing the use, sale, or lease of property under Bankruptcy Rule 6004(h).

No Prior Request

49. No prior motion for the relief requested herein has been made to this Court or any other court.

Notice

50. Consistent with the Order Establishing Certain Notice, Case Management and Administrative Procedures entered on March 22, 2013 [ECF No. 3361] (the “**Case Management Order**”) the Debtors will serve notice of this Motion on the Core Parties (as defined in the Case Management Order), Peabody, and the UMWA. All parties who have requested electronic notice of filings in these cases through the Court’s ECF system will automatically receive notice of this motion through the ECF system no later than the day after its filing with the Court. A copy of this Motion and any order approving it will also be made available on the Debtors’ Case Information Website (located at www.patriotcaseinfo.com). A copy of the Proposed Order is available at www.patriotcaseinfo.com/orders.php (the “**Patriot Orders Website**”). The Proposed Order may be modified or withdrawn at any time without further notice. If any significant modifications are made to the Proposed Order, an amended Proposed Order will be made available on the Patriot Orders Website, and no further notice will be provided. In addition, the notice included as Exhibit B will be mailed to the UMWA Employees and the Debtors’ UMWA-represented retirees (and any surviving spouse of such retirees), as well as posted on the UMWA’s website. In light of the relief requested, the Debtors submit that no further notice is necessary. Pursuant to paragraph 14 of the Case Management Order, if no objections are timely filed and served in accordance therewith, the relief requested herein may be entered without a hearing.

WHEREFORE, for the reasons set forth herein, the Debtors respectfully request that the Court enter an order granting the relief requested herein and such other and further relief as is just and proper.

Dated: October 16, 2013
New York, New York

Respectfully submitted,

DAVIS POLK & WARDWELL LLP

/s/ Elliot Moskowitz

Marshall S. Huebner

Elliot Moskowitz

Brian M. Resnick

Michelle M. McGreal

450 Lexington Avenue

New York, New York 10017

Telephone: (212) 450-4000

Facsimile: (212) 607-7983

*Counsel to the Debtors
and Debtors in Possession*

UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF MISSOURI
EASTERN DIVISION

In re

PATRIOT COAL CORPORATION, et al.,

Debtors.

Chapter 11

Case No. 12-51502-659

(Jointly Administered)

SUMMARY OF EXHIBITS

The following exhibits (the “**Exhibits**”) referenced in the *Debtors’ Motion (the “Rule 9019 Motion”)*¹ for Entry of an Order Pursuant to 11 U.S.C. §§ 105(a), 363(b), 1113 and 1114(e) and Fed. R. Bankr. P. 9019(a) Approving the Settlement with Peabody Energy Corporation, the UMWA, UMWA Employees, and UMWA Retirees will be provided to the Core Parties, Peabody, and the UMWA. Copies of the Exhibits will also be made available at www.patriotcaseinformation.com/exhibits.php and will be made available for inspection at the hearing.

Exhibit A: Peabody Settlement Term Sheet

Exhibit B: Notice of Peabody Settlement provided to UMWA Employees and UMWA Retirees

¹ Unless otherwise defined herein, each capitalized term shall have the meaning ascribed to such term in the Rule 9019 Motion.

SCHEDULE 1
(Debtor Entities)

1. Affinity Mining Company
2. Apogee Coal Company, LLC
3. Appalachia Mine Services, LLC
4. Beaver Dam Coal Company, LLC
5. Big Eagle, LLC
6. Big Eagle Rail, LLC
7. Black Stallion Coal Company, LLC
8. Black Walnut Coal Company
9. Bluegrass Mine Services, LLC
10. Brody Mining, LLC
11. Brook Trout Coal, LLC
12. Catenary Coal Company, LLC
13. Central States Coal Reserves of Kentucky, LLC
14. Charles Coal Company, LLC
15. Cleaton Coal Company
16. Coal Clean LLC
17. Coal Properties, LLC
18. Coal Reserve Holding Limited Liability Company No. 2
19. Colony Bay Coal Company
20. Cook Mountain Coal Company, LLC
21. Corydon Resources LLC
22. Coventry Mining Services, LLC
23. Coyote Coal Company LLC
24. Cub Branch Coal Company LLC
25. Dakota LLC
26. Day LLC
27. Dixon Mining Company, LLC
28. Dodge Hill Holding JV, LLC
29. Dodge Hill Mining Company, LLC
30. Dodge Hill of Kentucky, LLC
31. EACC Camps, Inc.
32. Eastern Associated Coal, LLC
33. Eastern Coal Company, LLC
34. Eastern Royalty, LLC
35. Emerald Processing, L.L.C.
36. Gateway Eagle Coal Company, LLC
37. Grand Eagle Mining, LLC
38. Heritage Coal Company LLC
39. Highland Mining Company, LLC
40. Hillside Mining Company
41. Hobet Mining, LLC
42. Indian Hill Company LLC
43. Infinity Coal Sales, LLC
44. Interior Holdings, LLC
45. IO Coal LLC
46. Jarrell's Branch Coal Company
47. Jupiter Holdings LLC
48. Kanawha Eagle Coal, LLC
49. Kanawha River Ventures I, LLC
50. Kanawha River Ventures II, LLC
51. Kanawha River Ventures III, LLC
52. KE Ventures LLC
53. Little Creek LLC
54. Logan Fork Coal Company
55. Magnum Coal Company LLC
56. Magnum Coal Sales LLC
57. Martinka Coal Company, LLC
58. Midland Trail Energy LLC
59. Midwest Coal Resources II, LLC
60. Mountain View Coal Company, LLC
61. New Trout Coal Holdings II, LLC
62. Newtown Energy, Inc.
63. North Page Coal Corp.
64. Ohio County Coal Company, LLC
65. Panther LLC
66. Patriot Beaver Dam Holdings, LLC
67. Patriot Coal Company, L.P.
68. Patriot Coal Corporation
69. Patriot Coal Sales LLC
70. Patriot Coal Services LLC
71. Patriot Leasing Company LLC
72. Patriot Midwest Holdings, LLC
73. Patriot Reserve Holdings, LLC
74. Patriot Trading LLC
75. Patriot Ventures LLC
76. PCX Enterprises, Inc.
77. Pine Ridge Coal Company, LLC
78. Pond Creek Land Resources, LLC
79. Pond Fork Processing LLC
80. Remington Holdings LLC
81. Remington II LLC
82. Remington LLC
83. Rivers Edge Mining, Inc.
84. Robin Land Company, LLC
85. Sentry Mining, LLC
86. Snowberry Land Company
87. Speed Mining LLC
88. Sterling Smokeless Coal Company, LLC
89. TC Sales Company, LLC
90. The Presidents Energy Company LLC
91. Thunderhill Coal LLC
92. Trout Coal Holdings, LLC
93. Union County Coal Co., LLC
94. Viper LLC
95. Weatherby Processing LLC
96. Wildcat Energy LLC
97. Wildcat, LLC
98. Will Scarlet Properties LLC
99. Winchester LLC
100. Winifrede Dock Limited Liability Company
101. Yankeetown Dock, LLC

SETTLEMENT TERM SHEET

This term sheet (the "Term Sheet") describes the principal terms of a proposed settlement, subject to the execution of definitive documentation, among (i) Patriot Coal Corporation, its affiliates that are debtors and debtors-in-possession, and its non-debtor wholly-owned subsidiaries (collectively, "Patriot" or the "Debtors") in the jointly administered chapter 11 cases captioned *In re Patriot Coal Corporation, et al.*, Case No. 12-51502-659 (Bankr. E.D. Mo.) (the "Chapter 11 Cases") pending in the United States Bankruptcy Court for the Eastern District of Missouri (the "Bankruptcy Court"), (ii) Peabody Energy Corporation and its subsidiaries and affiliates (collectively, "Peabody"), (iii) the United Mine Workers of America (the "UMWA"), on behalf of itself, (iv) the Debtors' UMWA-represented employees (the "UMWA Employees"), by and through the UMWA as their authorized representative, and (v) the Debtors' UMWA-represented retirees and their eligible dependents (the "UMWA Retirees"), by and through the UMWA as their authorized representative to the full extent permitted under section 1114 of the Bankruptcy Code. Together, Patriot, the UMWA, the UMWA Employees, the UMWA Retirees and Peabody are referred to in this Term Sheet as the "Parties". This Term Sheet is intended as the basis for a settlement between the Parties and is protected by Rule 408 of the Federal Rules of Evidence. This Term Sheet reflects the entire understanding of the Parties with respect to the content hereof and supersedes any and all oral, written, implied, or expressed understandings or agreements between the Parties regarding the content of this Term Sheet.

Subject to the conditions set forth herein and the execution of definitive documentation consistent with this Term Sheet, each Party hereto hereby agrees to take all actions reasonably necessary to negotiate, document and consummate the transactions contemplated by this Term Sheet. If, by March 31, 2014, (a) the Parties are unable to agree to definitive documentation with respect to the proposed settlement set forth herein or (b) a plan of reorganization that is consistent with this Term Sheet is not effective, this Term Sheet shall expire and be null and void, and each Party shall be relieved of any and all obligations to take any further action in connection with this Term Sheet or the proposed settlement set forth herein. Notwithstanding the foregoing, the obligations set forth herein that are effective upon execution of this Term Sheet shall be binding and effective immediately upon such execution.

The Parties agree that the transactions, compromises and settlement contemplated by this Term Sheet, including the releases set forth herein, (i) are essential to the implementation of Patriot's plan of reorganization and the transactions contemplated therein, (ii) are integral to such plan and will be, upon entry of the Approval Order, incorporated therein, and (iii) will confer a material benefit on, and are in the best interests of, the Parties.

Cash Payments	<p>Peabody shall pay an aggregate amount of \$90.0 million to the voluntary employee beneficiary association (“VEBA”) and to Patriot (to be contributed to the VEBA), on the later of (i) January 2, 2014 or the next business day thereafter if not a business day or (ii) the first business day that is seven business days after the Effective Date. In the case of the payments referred to in the immediately prior sentence, (i) the allocation of the \$90 million between Patriot and the VEBA will be finalized in definitive documents and (ii) Patriot shall, within one business day of actual receipt of such funds from Peabody, pay over to the VEBA such amounts received from Peabody.</p> <p>Peabody shall also pay to the VEBA the following amounts: \$75 million on January 2, 2015, \$75 million on January 2, 2016, and \$70 million on January 2, 2017; or, with respect to each such date, on the next business day thereafter if not a business day. Total payments to Patriot and the VEBA pursuant to this term sheet will total \$310 million on the schedule described above.</p>
Letters of Credit	<p>On the effective date of the Debtors’ plan of reorganization, Peabody shall (a) post a \$41.525 million letter of credit to secure the benefits of the retirees covered by the Coal Act Liabilities Assumption Agreement (defined below); (b) replace, either by letter of credit or surety \$15 million dollar cash collateral posted by Patriot for Federal black lung benefits, guaranteed by Patriot and its subsidiaries on an unsecured basis; and (c) post \$84 million in letters of credit to replace letters of credit currently posted by Patriot in a like aggregate value, which Patriot letters of credit are to be selected by Peabody in its sole discretion and guaranteed by Patriot. The term of the credit support shall be five years post-emergence and will be reduced over time as letters of credit roll off or are reduced and not replaced, with take-out provisions in event of a refinancing and a 100 bps ticking fee on any then-remaining letters of credit referred to in clause (c) of this paragraph for the 4th and 5th years post- emergence, paid monthly in arrears.</p>
Continuation of Benefit Payments	<p>Peabody will pay at current levels all benefits claims of the individuals identified on Attachment A of the NBCWA Liabilities Assumption Agreement and their eligible dependents (the “Attachment A Retirees”) that are incurred by such Attachment A Retirees through December 31, 2013. Thereafter, Peabody will have no obligation to pay for retiree healthcare benefits for the Attachment A Retirees and such retirees will be included in the VEBA.</p>

<p>DTA Rate Reduction</p>	<p>The DTA Throughput and Storage Agreement, dated October 22, 2007, by and among Peabody Terminals LLC, James River Coal Terminal, LLC and Patriot Coal Sales LLC shall be extended through and including March 31, 2016, and the DTA rate shall be reduced from \$5.50 per ton to \$1.75 per ton from October 1, 2013 through and including March 31, 2016.</p>
<p>Spinoff and Other Agreements</p>	<p>As of the Effective Date, Patriot agrees to assume (i) the agreements (the "<u>Spinoff Agreements</u>") executed in connection with Peabody's spinoff of Patriot in 2007 (the "<u>Spinoff</u>"), including Patriot's indemnification obligations contained therein and (ii) all other agreements entered into by Patriot and Peabody prior to the bankruptcy filing and not previously assumed, rejected, terminated or expired, including the Settlement and Release Agreement dated September 2, 2008; <i>provided, however</i>, that Patriot shall not be required to indemnify Peabody under the assumed agreements for any liability to the extent specifically arising out of or relating to (a) promissory notes referenced in Schedule 1.1(d) of the Separation Agreement, Plan of Reorganization and Distribution, dated October 22, 2007, by and between Peabody Energy Corporation and Patriot (the "<u>Separation Agreement</u>"), payable to Donald and Betty Bowles or Bentley Badgett II and Linda Badgett, (b) the Rocklick Preparation Plant Lease with Bank of America, N.A., or (c) Patriot's termination of the banked vacation benefit plan ((a) through (c) collectively, the "<u>Indemnification Carve-Out Claims</u>"), and Peabody shall not request any indemnification for any such Indemnification Carve-Out Claims. For the avoidance of doubt, any claims of Peabody for indemnity relating to any claims by or on behalf of the UMWA 1974 Pension Trust are not included in the Indemnification Carve-Out Claims.</p> <p>Any obligations of Peabody under the NBCWA Liabilities Assumption Agreement and the Acknowledgment and Assent Agreement will be deemed satisfied in full and such agreements terminated on the Effective Date. Patriot will indemnify Peabody for any claims that may be asserted against it by UMWA Retirees relating to the NBCWA Liabilities Assumption Agreement or the Acknowledgment and Assent Agreement, other than claims for the payment of benefits claims incurred through December 31, 2013.</p> <p>The assignment provision in the Second Amended and Restated Transloading Agreement with Elkland Holdings, LLC shall be modified so as to (i) eliminate the requirement of Patriot's consent for the first actual or constructive assignment (whether by change of control or otherwise) that may occur after the Effective Date if such assignment is made to a prudent operator and (ii) amend the requirement of Patriot's consent for any actual or constructive assignment (whether by change of control or otherwise) thereafter to require that such consent not be</p>

	<p>unreasonably withheld.</p> <p>Certain of the Spinoff Agreements will need to be amended to reflect changes to such agreements required by this settlement, and any such amended agreements will be attached as exhibits to any settlement agreement.</p>
Cure Claims	<p>The Parties agree that the cure amounts in connection with the foregoing assumption are zero, and that Peabody shall not assert any claims for cure costs in connection with such assumption.</p>
Coal Act and Salaried Benefits	<p>Peabody shall continue to honor its obligations under (i) the Section 9711 Coal Act Liabilities Assumption Agreement, dated October 22, 2007, by and between Peabody Holding Company, LLC, Patriot Coal Corporation and Peabody Energy Corporation (the "<u>Coal Act Liabilities Assumption Agreement</u>") and (ii) the Salaried Employee Liabilities Assumption Agreement, dated October 22, 2007, by and between Peabody Holding Company, LLC, Patriot Coal Corporation, Peabody Coal Company, LLC and Peabody Energy Corporation (the "<u>Salaried Assumption Agreement</u>").</p>
Releases by the Debtors	<p>In consideration of Peabody's agreement to, among other things, make the contributions and provide the credit support reflected herein that (i) will collectively enable the Debtors to satisfy their obligations to the UMWA Employees and UMWA Retirees, strengthen the Debtors' liquidity and permit the Debtors to obtain exit and other financing, and (ii) are integral to effectuation of the Debtors' plan of reorganization on and as of the Effective Date, other than as set forth in this Term Sheet, the Debtors and their estates shall release Peabody and their current and former professionals, employees, advisors, officers and directors (the "<u>Peabody Released Parties</u>") from any and all Causes of Action,¹ including, but not limited to, any Causes of Action that Patriot, Heritage or their estates may have against Peabody with respect to the obligations of PHC and Peabody under the NBCWA Liabilities Assumption Agreement, including those asserted in the adversary proceeding captioned <i>Patriot Coal Corporation v. Peabody Holding Company</i>,</p>

¹ "Causes of Action" means, without limitation, any and all actions, proceedings, causes of action, controversies, liabilities, obligations, rights, rights of set-off, recoupment rights, suits, damages, judgments, accounts, defenses, offsets, powers, privileges, licenses, franchises, claims (as defined in section 101(5) of title 11 of the United States Code (the "Bankruptcy Code") and including alter-ego claims and claims under chapter 5 of the Bankruptcy Code as well as any claims or rights created pursuant to sections 301 and 541 of the Bankruptcy Code upon the commencement of the Chapter 11 Cases), counterclaims, cross-claims, affirmative defenses and demands of any kind or character whatsoever, whether known or unknown, asserted or unasserted, reduced to judgment or otherwise, liquidated or unliquidated, fixed or contingent, matured or unmatured, disputed or undisputed, secured or unsecured, assertable directly or derivatively, existing or hereafter arising, in contract or in tort, in law, in equity or otherwise in any court, tribunal, forum or proceeding, under any local, state, federal, foreign, statutory, regulatory or other law or rule, based in whole or in part upon any act or omission or other event occurring prior to July 9, 2012 or during the course of the Chapter 11 Cases, including through the Effective Date.

	<p><i>LLC</i>, Adv. Pro. No. 13-04067-659 (Bankr. E.D. Mo. 2013), and such releases shall be binding on any trustees or successors to the Debtors. As a result, no Causes of Action against Peabody will be included in the litigation trust contemplated by the MOU and the MOU will be modified accordingly. The Debtors and Peabody will cooperate to take actions reasonably necessary to give effect to the release and injunction provisions contemplated by this settlement.</p> <p>This release will be supported by an injunction barring all entities who have held, hold or may hold claims, interests or Causes of Action against the Debtors, from pursuing, commencing or continuing in any manner any action or other proceeding against the Peabody Released Parties on account of or in connection with or with respect to any Causes of Action of the Debtors that are released by the Debtors pursuant to this settlement.</p> <p>The Parties agree that this release provision is a material provision of the settlement and non-severable from the other provisions of the settlement.</p>
Representation by UMWA	<p>In connection with any UMWA release of claims, covenant not to sue or other representation or covenant on behalf of the UMWA Employees and UMWA Retirees, the UMWA will represent that it has power and authority to do each of these on behalf of itself and as the authorized representative of the UMWA Employees and the UMWA Retirees.</p>
Release by UMWA, the UMWA Employees and the UMWA Retirees	<p>In consideration of Peabody's agreement to, among other things, make the contributions and provide the credit support reflected herein that (i) will collectively enable the Debtors to satisfy their obligations to the UMWA Employees and UMWA Retirees, strengthen the Debtors' liquidity and permit the Debtors to obtain exit and other financing, and (ii) are integral to effectuation of the Debtors' plan of reorganization on and as of the Effective Date, the UMWA, on behalf of itself, the UMWA Employees, by and through the UMWA as their authorized representative and the UMWA Retirees, by and through the UMWA as their authorized representative, shall release any Causes of Action that they might have against the Peabody Released Parties, including without limitation any Causes of Action under the Acknowledgment and Assent Agreement, ERISA or in any way relating to any benefit plan, collective bargaining agreement or retiree benefits (as defined in section 1114(a) of the Bankruptcy Code) and the UMWA and the other plaintiffs in <i>Lowe et al v. Peabody Holding Company, LLC, et al</i>, Civil Action 2:12-cv-06925 ("<u>Lowe</u>"), shall request that the appeal of the dismissal of the <i>Lowe</i> case be held in abeyance pending the Effective Date, which appeal shall thereafter be promptly dismissed by all such plaintiffs with prejudice, and each party shall bear its costs and expenses in connection with <i>Lowe</i>.</p>

	<p>This release will be supported by a covenant not to sue on, and an injunction against, the pursuit of any Causes of Action against the Peabody Released Parties, including without limitation any Causes of Action under the Acknowledgment and Assent Agreement, ERISA or in any way relating to any benefit plan, collective bargaining agreement or retiree benefits (as defined in section 1114(a) of the Bankruptcy Code) by the UMWA, the UMWA Employees and the UMWA Retirees, and the UMWA, on behalf of itself and as the authorized representative of the UMWA Employees and the UMWA Retirees, will enter into a covenant not to sue and support the issuance of such injunction. The UMWA, on behalf of itself and as the authorized representative of the UMWA Employees and the UMWA Retirees, will cooperate and assist in additional filings or proceedings or other actions necessary to give effect to the release, covenant not to sue and injunction provisions contemplated by this settlement.</p> <p>Notwithstanding anything to the contrary herein, the UMWA is not releasing any claims or causes of action arising as the result of (a) any direct employment relationship between Peabody Western Coal Company, Big Sky Coal Company, Seneca Coal Company, LLC, and Big Ridge, Inc. and individuals belonging to, or represented by, the UMWA; or (b) the pending dispute between United Mine Workers of America, District 12 and Peabody Holding Company, LLC and Black Beauty Coal Company (n/k/a Peabody Midwest Mining, LLC) relating to the Memorandum of Understanding Regarding Job Opportunities effective January 1, 2007 between the UMWA and Peabody Coal Company, LLC, n/k/a Heritage Coal Company LLC.</p> <p>The Parties agree that this release provision is a material provision of the settlement and non-severable from the other provisions of the settlement.</p>
Releases by Third Parties	<p>In consideration of Peabody's agreement to, among other things, make the contributions and provide the credit support reflected herein that (i) will collectively enable the Debtors to satisfy their obligations to the UMWA Employees and the UMWA Retirees, strengthen the Debtors' liquidity and permit the Debtors to obtain exit and other financing, and (ii) are integral to effectuation of the Debtors' plan of reorganization, the Debtors will include the Peabody Released Parties in any third-party release, exculpation and injunction provisions contained in the Debtors' plan to the extent permitted by law.</p> <p>The UMWA shall not object to any such releases.</p> <p>The Parties agree that this release provision is a material provision of the settlement and non-severable from the other provisions of the settlement.</p>

Releases by Peabody

On and as of the Effective Date, Peabody shall: (i) release the Debtors from any and all Causes of Action, including, but not limited to, any Indemnification Carve-Out Claims, any counterclaims or defenses asserted by PHC or Peabody in the adversary proceeding captioned *Patriot Coal Corporation v. Peabody Holding Company, LLC*, Adv. Pro. No. 13-04067-659 (Bankr. E.D. Mo. 2013), and any appeals related thereto; (ii) irrevocably withdraw any and all proofs of claim filed against the Debtors in the Chapter 11 Cases; *provided, however*, that such release or withdrawal will not, except as otherwise set forth in this Term Sheet, (a) release or waive any Causes of Action that Peabody may have against the Debtors under (1) any agreement with Peabody entered into after the commencement of the Chapter 11 Cases or (2) any agreement assumed prior to or as of the Effective Date, including any claims for indemnity accruing or arising on or after the Effective Date or (b) impact, impair or in any way limit any defenses that Peabody or PHC may have under the Spinoff Agreements; (iii) release any and all Causes of Action it or its officers or directors may have against the UMWA, its current and former officers or agents, including, but not limited to any Causes of Action relating to the UMWA corporate campaign, picketing, handbilling, bannering and other forms of organized activities directed against Peabody, its officers or directors; and (iv) waive and release any and all claims it may have for fees and/or costs incurred in connection with the Lowe case.

Notwithstanding anything to the contrary herein, Peabody is not releasing any claims, causes of action or defenses arising as the result of (a) any direct employment relationship between Peabody Western Coal Company, Big Sky Coal Company, Seneca Coal Company, LLC, and Big Ridge, Inc. and individuals belonging to, or represented by, the UMWA; or (b) the pending dispute between United Mine Workers of America, District 12 and Peabody Holding Company, LLC and Black Beauty Coal Company (n/k/a Peabody Midwest Mining, LLC) relating to the Memorandum of Understanding Regarding Job Opportunities effective January 1, 2007 between the UMWA and Peabody Coal Company, LLC, n/k/a Heritage Coal Company LLC.

The Parties agree that this release provision is a material provision of the settlement and non-severable from the other provisions of the settlement.

Conditions to Effectiveness

1. Negotiation, execution and delivery of mutually acceptable definitive agreements relating to the settlement described in this Term Sheet (the "Settlement Documents"), which Settlement Documents shall be governed by the laws of the State of New York;
2. The Creditors' Committee shall have provided written confirmation to Peabody of its agreement to suspend all 2004 discovery and its support of the settlement reflected herein, and will not object to the incorporation of any provisions of this settlement, including the releases and injunctions contemplated by this settlement, into the Debtors' plan of reorganization;
3. Any provision in the disclosure statement, plan of reorganization, solicitation procedures order, confirmation order and related notices (the "Plan Documents") that relates to Peabody, this Term Sheet or the Settlement Documents shall be in form and substance reasonably acceptable to Peabody, and none of such provisions shall be changed in a manner adverse to Peabody without Peabody's consent;
4. Necessary corporate and governmental approvals, if any, including any approvals by the Parties' respective boards of directors;
5. The effective date of a plan of reorganization, consistent in form and substance with the terms of the Settlement Documents, shall have occurred;
6. At emergence from bankruptcy, Patriot will have \$175 million cash (which shall include the \$15 million dollar cash collateral posted by the Company in respect of federal black lung benefits even if not yet released by the Department of Labor) and a \$125 million revolver facility undrawn as of closing, with at least \$75 million of availability at closing; and
7. The Bankruptcy Court shall have issued an order, in form and substance reasonably acceptable to the Parties, that, among other things, approves the Settlement Documents (the "Approval Order") and contains the releases, covenants not to sue and injunctions set forth herein, which order (i) shall not have been reversed or vacated, or amended or modified without the consent of the Parties, (ii) shall not be subject to a stay and (iii) shall not be subject to any appeal that, factoring in all applicable circumstances, including the probability of success, could, in the event it were to be successful, reasonably be expected to materially and adversely impact Peabody, the enforceability of the Settlement or any of its material terms, or the rights and benefits for which Peabody has bargained under the terms of the Settlement, as determined by Peabody on advice of counsel in its reasonable discretion.

Settlement Motion	<p>Patriot shall file a motion to approve the Settlement Documents under sections 105, 363, 1113 and 1114 of the Bankruptcy Code and Rule 9019 of the Federal Rules of Bankruptcy Procedure with the Bankruptcy Court as promptly as practicable and request that such motion be heard as promptly as practicable.</p> <p>Peabody and the UMWA will have a reasonable opportunity to review the Plan Documents and any motion to approve the Settlement Documents and the Approval Order prior to filing, and the motion to approve the Settlement Documents and the Approval Order will be in form and substance acceptable to Peabody and the UMWA.</p> <p>It is anticipated that, in connection with the request for court approval of the Settlement Documents, the Debtors and the UMWA will obtain any court approval necessary to reflect the settlement described in this Term Sheet, including the exclusion of references to Peabody in the MOU and any related agreements between the Debtors and the UMWA, including the VEBA Funding Agreement.</p>
Effective Date	<p>The date that the Approval Order is entered by the Bankruptcy Court and all conditions to effectiveness have been satisfied; <i>provided, however</i>, that all terms in this Term Sheet shall be <i>void ab initio</i> if the Parties are unable to agree to definitive documentation with respect to the proposed settlement set forth herein or a plan of reorganization that is consistent with this Term Sheet, in either case, is not effective by March 31, 2014.</p>
Plan Support	<p>Peabody shall not object to the confirmation of any plan of reorganization proposed by the Debtors, <i>provided</i> that such plan is consistent with, and does not breach or alter the terms of, the Settlement Documents or the Approval Order and the plan contains as a condition to its effectiveness the entry of the Approval Order.</p>
Fees and Expenses	<p>The Parties shall each be responsible for their respective fees and expenses in connection with the settlement described in this Term Sheet.</p>
No Admissions	<p>Nothing in this Term Sheet, the Settlement Documents, the Plan Documents or the Approval Order shall be construed as an admission of liability or fault by the Parties, which liability and fault are expressly denied.</p>
Cooperation	<p>Patriot will comply with its litigation cooperation obligations under section 5.02 of the Separation Agreement, and Peabody will bear all reasonable out-of-pocket costs and expenses in connection therewith.</p>

2004 Discovery and Other Litigation	<p>Upon execution of this Term Sheet (and with the consent of the Creditors' Committee, which shall be obtained by the Debtors), 2004 discovery will be suspended and, upon the Effective Date, all materials previously produced by Peabody, Duff & Phelps and Morgan Stanley will be returned, and none of the Debtors nor the UMWA, for itself or as the authorized representative of the UMWA Employees and the UMWA Retirees, will support any efforts by any other party to obtain 2004 discovery from any Peabody Released Party, including Morgan Stanley and Duff & Phelps, relating in any way to the Spinoff.</p> <p>Upon execution of this Term Sheet, the Parties will seek to suspend the adversary proceeding captioned Patriot Coal Corp., et al. v. Peabody Holding Co., et al. (In re. Patriot Coal Corp., et al.), Adv. No. 13-04067 (Bankr. E.D. Mo.) and the related appeal captioned Patriot Coal Corp., et al. v. Peabody Holding Co., et al. (In re. Patriot Coal Corp., et al.), Case No. 13-3051 (8th Cir.), and within two days of the Effective Date, all documents to effectuate the dismissal with prejudice of the appeal of the dismissal of the Lowe Case shall have been filed with the appropriate court.</p> <p>Upon execution of this Term Sheet, the statute of limitations on any of the Debtors' Causes of Action against Peabody, the UMWA's Causes of Action against Peabody or Peabody's Causes of Action against the Debtors or the UMWA shall be tolled until the earlier of March 31, 2014, the Effective Date or the date that this Term Sheet otherwise terminates and notice shall have been given thereof; <u>provided, however</u>, that nothing in this paragraph shall operate to revive or extend the time for filing any Cause of Action that is now time barred or barred by any applicable statute or period of limitations, statute of repose, waiver, laches or other time-based limitation or defense as of the execution of this Term Sheet.</p>
Notice of Settlement	<p>Notice of the settlement contemplated by this term sheet will be provided to all UMWA Employees and the Debtors' UMWA-represented retirees, including all individuals identified on Attachment A, and any surviving spouse of such retirees, and the UMWA will assist in providing such notice. Such notice will be reasonably acceptable to Peabody and the UMWA and, at a minimum, will disclose that, if the settlement contemplated by this term sheet is approved, any Causes of Action held by such parties against the Peabody Released Parties, will be released, and such parties will be enjoined from asserting any Causes of Action against the Peabody Released Parties, including without limitation any Causes of Action under the Acknowledgment and Assent Agreement, ERISA or in any way relating to any benefit plan, collective bargaining agreement or retiree benefits (as defined in section 1114(a) of the Bankruptcy Code).</p>

<p>Communications Regarding Settlement Post-Agreement in Principle and Prior to the Effective Date</p>	<p>Upon execution of this Term Sheet, the Parties will coordinate and have an opportunity to review each other's disclosures and press releases regarding the settlement, which will be released on a coordinated basis. With respect to the initial disclosure of, and press releases relating to, the term sheet, such disclosure and releases will be coordinated to take place prior to or after the close of public markets.</p>
<p>Non-Disparagement (Patriot)</p>	<p>Upon execution of this Term Sheet, each of Patriot and Peabody agree that other than what is necessary and appropriate for inclusion in formal court submissions in conjunction with seeking court approval of the settlement, it will not make or cause or encourage others to make statements, written or oral, (i) concerning the settlement or any of the disputed claims resolved by the settlement except to say that the settlement is a (acceptable/good/satisfactory/sound/significant, or words of similar import) resolution for the estate of the matters encompassed by the settlement, or (ii) defaming, disparaging or criticizing the reputation, practices or conduct of the other party or its present or former directors, officers, employees or agents in relation to the Spinoff, the Chapter 11 Cases or any matter, transaction or activity related thereto.</p> <p>Each of Patriot and Peabody further agree that it will not materially encourage or materially assist any other person or entity, including but not limited to the United Mine Workers of America 1974 Pension Trust, United Mine Workers of America Combined Fund, the United Mine Workers of America 1992 Benefit Plan and the United Mine Workers of America 1993 Benefit Plan, in developing, commencing, maintaining or prosecuting any claims or causes of action against the other party or such other party's present or former directors, officers, employees or agents relating in any way to the Spinoff, the Chapter 11 Cases or any matter, transaction or activity related thereto.</p> <p>Each of Patriot and Peabody agree that the foregoing paragraphs do not apply to circumstances in which either party is compelled to provide information in response to legal process that it has not solicited, in the form of regulatory request or demand, deposition, subpoena or similar process, provided such party shall provide the other party with prompt written notice of any such event so that the other party shall have the opportunity to oppose or otherwise contest any such process.</p> <p>These non-disparagement provisions are material provisions of the settlement, the breach of which would be material and would cause irreparable harm to the non-breaching party.</p>
<p>Non-Disparagement (UMWA)</p>	<p>Upon execution of this Term Sheet, the UMWA and its officers, employees and agents agree to cease the corporate campaign, including strikes, picketing, handbilling, bannering and other forms of organized activities, directed against Peabody and its officers and directors, and</p>

the UMWA and Peabody agree not to disparage, defame or criticize the reputation, practices or conduct of the other party and the other party's present or former directors, officers, employees or agents in relation to the Spinoff, the Chapter 11 Cases or any matter related thereto, including the allegations asserted in the Lowe case; notwithstanding the foregoing, the UMWA and its officers and Peabody and its officers, as applicable, may make representations that are necessary and appropriate for inclusion in any formal court submissions in conjunction with seeking court approval of the settlement, or to terminate other litigation, or to engage in reporting of this settlement to its membership or to governmental bodies in pursuit of further remedies for affected retirees so long as such representations are limited to the terms of the settlement and otherwise comport with the requirements of this non-disparagement provision.

The UMWA and its officers and Peabody and its officers will not make or cause or encourage others to make statements, written or oral, concerning the settlement or any of the disputed claims resolved by the settlement except to accurately state the VEBA contribution schedule provided herein and number of dollars to be contributed to the VEBA in accordance with such schedule and to state that the settlement proceeds will be utilized for the sole purpose of delivering healthcare to the VEBA participants and to state that the settlement is a (acceptable/good/satisfactory/sound/significant, or words of similar import) resolution of the matters encompassed by the settlement. Each of the UMWA and its officers and Peabody and its officers further agree that they will not encourage or assist any other person or entity, including but not limited to the United Mine Workers of America 1974 Pension Trust, United Mine Workers of America Combined Fund, the United Mine Workers of America 1992 Benefit Plan and the United Mine Workers of America 1993 Benefit Plan, in developing, commencing, maintaining or prosecuting any claims or causes of action against the other party or such other party's present or former directors, officers, employees or agents relating in any way to the Spinoff, the Chapter 11 Cases or any matter, transaction or activity related thereto, including any Causes of Action released pursuant to this term sheet; provided, however, that the UMWA may assist UMWA Retirees in obtaining any benefits payable by Peabody under the Coal Industry Retiree Health Benefits Act of 1992, 26 U.S.C. §§ 9701-9722.

The foregoing paragraph does not apply to circumstances in which the UMWA or Peabody is required or compelled to provide information in response to legal process that it has not solicited, law or regulation, whether in the form of regulatory requirement, request or demand, deposition, subpoena or similar process, provided the UMWA or Peabody, as applicable, shall provide the other party with prompt written notice of any such event so that such party shall have the opportunity to oppose or otherwise contest any such process, except

where such disclosure relates to Peabody securities.

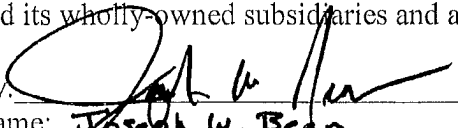
It is understood that the UMWA expects to support current or future legislative or rule-making activity to address matters involving pension and healthcare funding and benefit issues that may include matters resulting from the Patriot bankruptcy. UMWA advocacy and other statements in such efforts may refer to the Patriot bankruptcy and the impact upon the funding of benefits and the benefits paid to beneficiaries and may refer to the Patriot bankruptcy and matters relating to the reduction of health care liabilities in connection therewith, but shall otherwise comport with the requirements of this non-disparagement provision. From and after the date of execution of this Term Sheet, Peabody and the UMWA agree to (a) discuss areas of potential cooperation on legislation regarding healthcare benefits for Patriot retirees, and (b) support legislation on which they mutually agree.

These non-disparagement provisions are material provisions of the settlement, the breach of which would be material and would cause irreparable harm to the non-breaching party.

IN WITNESS WHEREOF, each of the Parties has caused this Term Sheet to be executed and delivered as of the last date set forth below.

Remainder of Page Left Intentionally Blank

Patriot Coal Corporation, on behalf of itself
and its wholly-owned subsidiaries and affiliates

By: 
Name: Joseph W. Bean
Title: Senior Vice President - Law & Administration
Date: October 4, 2013

Peabody Energy Corporation, on behalf of itself
and its subsidiaries and affiliates

By: _____
Name:
Title:
Date:

United Mine Workers of America, on behalf of itself

By: _____
Name:
Title:
Date:

The UMWA Employees, by and through the United Mine Workers of America
as their authorized representative

By: _____
Name:
Title:
Date:

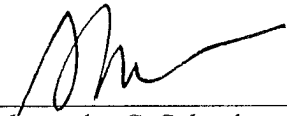
The UMWA Retirees, by and through the United Mine Workers of America
as their authorized representative to the full extent permitted
by section 1114 of the Bankruptcy Code

By: _____
Name:
Title:
Date:

Patriot Coal Corporation, on behalf of itself
and its wholly-owned subsidiaries and affiliates

By: _____
Name:
Title:
Date:

Peabody Energy Corporation, on behalf of itself
and its subsidiaries and affiliates

By:  _____
Name: Alexander C. Schoch
Title: Executive Vice President, Chief Legal Officer & Secretary
Date: October 4, 2013

United Mine Workers of America, on behalf of itself

By: _____
Name:
Title:
Date:

The UMWA Employees, by and through the United Mine Workers of America
as their authorized representative

By: _____
Name:
Title:
Date:

The UMWA Retirees, by and through the United Mine Workers of America
as their authorized representative to the full extent permitted
by section 1114 of the Bankruptcy Code

By: _____
Name:
Title:
Date:

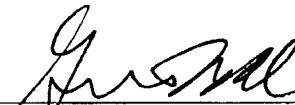
Patriot Coal Corporation, on behalf of itself
and its wholly-owned subsidiaries and affiliates

By: _____
Name:
Title:
Date:

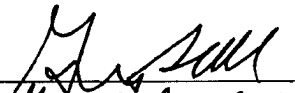
Peabody Energy Corporation, on behalf of itself
and its subsidiaries and affiliates

By: _____
Name:
Title:
Date:


United Mine Workers of America, on behalf of itself

By: 
Name: Grant Conradi
Title: General Counsel
Date: 10/4/13

The UMWA Employees, by and through the United Mine Workers of America
as their authorized representative

By: 
Name: Grant Conradi
Title: General Counsel
Date: 10/4/13

The UMWA Retirees, by and through the United Mine Workers of America
as their authorized representative to the full extent permitted
by section 1114 of the Bankruptcy Code

By: 
Name: Grant Conradi
Title: General Counsel
Date: 10/4/13

**UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF MISSOURI
EASTERN DIVISION**

In re:

PATRIOT COAL CORPORATION, *et al.*,

Debtors.¹

Chapter 11

**Case No. 12-51502-659
(Jointly Administered)**

Hearing Date:

**November 6, 2013 at 10:00 a.m.
(prevailing Central Time)**

Hearing Location:

Courtroom 7 North

NOTICE OF UMWA SETTLEMENT WITH PATRIOT AND PEABODY

PLEASE TAKE NOTICE that the United Mine Workers of America (the “UMWA”), as your authorized representative, has reached a settlement with Patriot Coal Corporation and its subsidiaries and affiliates (collectively, “Patriot”) and Peabody Energy Corporation and its subsidiaries and affiliates (collectively, “Peabody”). As part of this settlement, more than \$400 million will be contributed by Patriot and Peabody to the Patriot Retirees Voluntary Employee Benefit Association (the “VEBA”) over the next four years. In exchange for this VEBA funding, the UMWA, on your behalf, has agreed to release any and all claims or causes of action that you or they might have against Peabody or Patriot, including any claims or causes of action in any way relating to any benefit plan, collective bargaining agreement or retiree benefits. The UMWA has also agreed, on behalf of itself and the other plaintiffs in the case captioned *Lowe et al. v.*

¹ The Debtors are the entities listed on Schedule 1 attached hereto. The employer tax identification numbers and addresses for each of the Debtors are set forth in the Debtors’ chapter 11 petitions.

Peabody Holding Company, LLC, et al., Civil Action 2:12-cv-06925, to dismiss the appeal of this case. If the settlement is approved by the Court and Patriot meets certain other conditions, the settlement will become effective, and an order will be entered barring you from suing on or pursuing any claim or cause of action against Patriot or Peabody and any of Patriot's or Peabody's current or former professionals, employees, advisors, officers and directors, including any claim or cause of action under ERISA and/or in any way relating to any benefit plan, collective bargaining agreement or retiree benefits.

PLEASE TAKE FURTHER NOTICE that the hearing to consider approval of the settlement is scheduled for November 6, 2013 at 10:00 a.m. (prevailing Central Time) in Courtroom 7 North of the Thomas F. Eagleton United States Courthouse, 111 South Tenth Street, St. Louis, Missouri 63102, before the Honorable Kathy A. Surratt-States, Chief United States Bankruptcy Judge. The deadline to object to the settlement is October 30, 2013. A copy of the motion to approve the settlement is available at www.patriotcaseinfo.com or www.umwa.org. It contains additional detail and the procedures for objecting to the settlement. The hearing may be adjourned or canceled by Patriot by notice filed with the Bankruptcy Court, which notice will be made available at www.patriotcaseinfo.com. or by announcement at the November 6, 2013 hearing.

Dated: October 16, 2013
New York, New York

Respectfully submitted,

DAVIS POLK & WARDWELL LLP

/s/ Michelle M. McGreal

Marshall S. Huebner
Elliot Moskowitz
Brian M. Resnick
Michelle M. McGreal
450 Lexington Avenue
New York, New York 10017
Telephone: (212) 450-4000
Facsimile: (212) 607-7983

*Counsel to the Debtors
and Debtors in Possession*

-and-

BRYAN CAVE LLP
Lloyd A. Palans, #22650MO
Brian C. Walsh, #58091MO
Laura Uberti Hughes, #60732MO
One Metropolitan Square
211 N. Broadway, Suite 3600
St. Louis, Missouri 63102
Telephone: (314) 259-2000
Facsimile: (314) 259-2020

*Local Counsel to the Debtors
and Debtors in Possession*

SCHEDULE 1
(Debtor Entities)

1. Affinity Mining Company
2. Apogee Coal Company, LLC
3. Appalachia Mine Services, LLC
4. Beaver Dam Coal Company, LLC
5. Big Eagle, LLC
6. Big Eagle Rail, LLC
7. Black Stallion Coal Company, LLC
8. Black Walnut Coal Company
9. Bluegrass Mine Services, LLC
10. Brody Mining, LLC
11. Brook Trout Coal, LLC
12. Catenary Coal Company, LLC
13. Central States Coal Reserves of Kentucky, LLC
14. Charles Coal Company, LLC
15. Cleaton Coal Company
16. Coal Clean LLC
17. Coal Properties, LLC
18. Coal Reserve Holding Limited Liability Company No. 2
19. Colony Bay Coal Company
20. Cook Mountain Coal Company, LLC
21. Corydon Resources LLC
22. Coventry Mining Services, LLC
23. Coyote Coal Company LLC
24. Cub Branch Coal Company LLC
25. Dakota LLC
26. Day LLC
27. Dixon Mining Company, LLC
28. Dodge Hill Holding JV, LLC
29. Dodge Hill Mining Company, LLC
30. Dodge Hill of Kentucky, LLC
31. EACC Camps, Inc.
32. Eastern Associated Coal, LLC
33. Eastern Coal Company, LLC
34. Eastern Royalty, LLC
35. Emerald Processing, L.L.C.
36. Gateway Eagle Coal Company, LLC
37. Grand Eagle Mining, LLC
38. Heritage Coal Company LLC
39. Highland Mining Company, LLC
40. Hillside Mining Company
41. Hobet Mining, LLC
42. Indian Hill Company LLC
43. Infinity Coal Sales, LLC
44. Interior Holdings, LLC
45. IO Coal LLC
46. Jarrell's Branch Coal Company
47. Jupiter Holdings LLC
48. Kanawha Eagle Coal, LLC
49. Kanawha River Ventures I, LLC
50. Kanawha River Ventures II, LLC
51. Kanawha River Ventures III, LLC
52. KE Ventures LLC
53. Little Creek LLC
54. Logan Fork Coal Company
55. Magnum Coal Company LLC
56. Magnum Coal Sales LLC
57. Martinka Coal Company, LLC
58. Midland Trail Energy LLC
59. Midwest Coal Resources II, LLC
60. Mountain View Coal Company, LLC
61. New Trout Coal Holdings II, LLC
62. Newtown Energy, Inc.
63. North Page Coal Corp.
64. Ohio County Coal Company, LLC
65. Panther LLC
66. Patriot Beaver Dam Holdings, LLC
67. Patriot Coal Company, L.P.
68. Patriot Coal Corporation
69. Patriot Coal Sales LLC
70. Patriot Coal Services LLC
71. Patriot Leasing Company LLC
72. Patriot Midwest Holdings, LLC
73. Patriot Reserve Holdings, LLC
74. Patriot Trading LLC
75. Patriot Ventures LLC
76. PCX Enterprises, Inc.
77. Pine Ridge Coal Company, LLC
78. Pond Creek Land Resources, LLC
79. Pond Fork Processing LLC
80. Remington Holdings LLC
81. Remington II LLC
82. Remington LLC
83. Rivers Edge Mining, Inc.
84. Robin Land Company, LLC
85. Sentry Mining, LLC
86. Snowberry Land Company
87. Speed Mining LLC
88. Sterling Smokeless Coal Company, LLC
89. TC Sales Company, LLC
90. The Presidents Energy Company LLC
91. Thunderhill Coal LLC
92. Trout Coal Holdings, LLC
93. Union County Coal Co., LLC
94. Viper LLC
95. Weatherby Processing LLC
96. Wildcat Energy LLC
97. Wildcat, LLC
98. Will Scarlet Properties LLC
99. Winchester LLC
100. Winifrede Dock Limited Liability Company
101. Yankeetown Dock, LLC