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

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

**STATEMENT OF DIP LENDERS IN SUPPORT
OF DEBTORS' PLAN OF REORGANIZATION¹**

The DIP Lenders,² by counsel, support the Fourth Amended Joint Plan of Reorganization Pursuant to Chapter 11 of the Bankruptcy Code [Docket No. 1332] (the "Plan") in the above

¹ This Statement is filed in support of the Fourth Amended Joint Plan of Reorganization, as the same may be amended so long as the DIP Lenders find such amendments acceptable. Capitalized terms used but not otherwise defined herein are used as defined in the Fourth Amended Plan and/or Disclosure Statement for the Fourth Amended Plan [Docket Nos. 1332, 1333], as applicable.

² The term "DIP Lenders" means certain funds and/or accounts managed or advised by Knighthead Capital Management, LLC (collectively, "Knighthead Capital"), certain funds and/or accounts managed or advised by

captioned bankruptcy cases (“Debtors” or “Patriot”), and in response to certain objections to the Plan respectfully represent as follows:

1. The DIP Lenders leave to the Debtors a point-by-point rebuttal of the objections to confirmation of the Plan; they file this Statement in Support solely to rebut the unsupported, false, and defamatory accusations of bad faith that various objectors have leveled at the DIP Lenders.³

2. The DIP Lenders are accused of orchestrating the first Patriot chapter 11 and the second Patriot chapter 11 to extract value from the Debtors for their own benefit. These accusations were utterly without foundation when made, and there is not a scintilla of evidence to support them in the discovery obtained and depositions taken by objectors.

3. Thomas Wagner, a co-founder of Knighthood Capital, is now sought as a Confirmation Hearing witness by Cortland Capital Market Services LLC (“Cortland”), agent for the Prepetition Term Loan Facility, and the Debtors. As Mr. Wagner’s testimony will show, the facts are as DIP Lenders’ counsel represented them to be at the status conference on September 16, 2015.⁴ The DIP Lenders individually or collectively received nothing on account of the \$75 million in their unsecured notes in Patriot’s first bankruptcy and are receiving only an unsecured recovery on account of their holdings of (i) 53% of the \$247 million first-lien second-out

Caspian Capital LP, Davidson Kempner Capital Management LP, on behalf of funds and accounts managed by it (including Midtown Acquisitions L.P.), and Hudson Bay Absolute Return Credit Opportunities Master Fund Ltd., in their respective capacities (i) as debtor in possession (“DIP”) facility lenders and (ii) holders of a majority of the Debtors’ outstanding Prepetition Term Loan Facility and Prepetition Notes (collectively, the “DIP Lenders”).

³ This Statement does not respond to objections filed by the West Virginia Department of Environmental Protection (“WVDEP”); the DIP Lenders may file an amended statement in support with respect to those objections.

⁴ See Hr’g Tr. at 30:22–36:11 Sept. 16, 2015.

Prepetition Term Loan Facility and (ii) 75% of Patriot's \$306 million 15% second lien Prepetition Notes.⁵

4. Receiving only unsecured treatment on account of their prepetition secured investments, the DIP Lenders nevertheless were the only parties willing to provide Patriot with the \$100 million DIP Facility necessary to prosecute this chapter 11 case (which they have agreed may be paid over five years if certain conditions are met⁶ and the Blackhawk transaction is consummated) and remain the only creditors providing additional new capital in the \$130 million of total exit financing to fund a reorganization.

5. Time and again, objectors were offered (and continue to be offered) the opportunity to participate in providing the capital Patriot desperately needed. When Patriot entered bankruptcy, the banks who hold either the Prepetition ABL Facility or the Prepetition LC Facility were asked to provide or participate in DIP Financing. They offered at most \$30 million and then refused to participate even to that extent in the DIP Financing eventually provided by the DIP Lenders.

6. When Patriot asked for another \$30 million to fund exit costs, the Prepetition LC Lenders were asked to participate. They declined. Holders of the Prepetition Term Loan Facility (other than the DIP Lenders) were asked to participate. They declined. When the Blackhawk Transaction needed another \$57 million to close – because Blackhawk's own lenders demanded cash rather than rolling their loans into loans of the combined Blackhawk/Patriot entity – the Prepetition LC Lenders and Prepetition Term Lenders again declined to participate.

⁵ See Statement Pursuant to Federal Rule of Bankruptcy Procedure 2019 (“2019 Statement”) [Docket No. 184].

⁶ The conditions include, without limitation, the final documentation (in form and substance satisfactory to the DIP Lenders) of the Debtors' agreement in principle with the WVDEP and the execution, consummation and effectiveness of such documentation.

7. None of these financings benefitted the DIP Lenders' own prepetition holdings in any way (as noted, the DIP Lenders are receiving only unsecured treatment on account of their prepetition investments) and the objectors do not even allege otherwise.

8. The objectors' complaints reduce to the following:

- representatives of certain DIP Lenders attended board meetings prepetition, corresponded with board members, participated in discussions about major corporate transactions and tried to maintain good relations between the board and management (as is not uncommon for major investors),
- the DIP Lenders' original DIP Facility was determined by the Debtors to be insufficient in size (ignoring that no other lender was offering more), and/or
- the Debtors' counsel once represented certain of the DIP Lenders.

9. These facts are immaterial and irrelevant. No objector has or can produce any document, any testimony or any evidence that any of the DIP Lenders' activities either increased the DIP Lenders' recoveries on any of their claims or damaged any other creditor.⁷

CONCLUSION

10. As set forth above, the DIP Lenders have done nothing but lose money on Patriot for the benefit of every Patriot constituency other than the DIP Lenders. To recap, the DIP Lenders' prepetition claims are now virtually worthless; the \$100 million DIP Facility will not be repaid any time in the near future; and the DIP Lenders are the only creditors participating in the \$130 million additional financing needed to consummate the Plan. It is reckless and counter-factual for any objector to allege that any of the DIP Lenders "planned" serial chapter 11 cases to the detriment of other creditor constituencies.

⁷ Cortland complains that the DIP Lenders terminated a Transaction Support Agreement ("TSA") to the detriment of the Term Loans. The DIP Lenders were within their rights to terminate; they did so only after it became clear that the Debtors and Blackhawk were \$87 million short of cash needed to consummate the Blackhawk Transaction. As noted above, the DIP Lenders hold 53% of the Term Loans for which Cortland acts as agent, so that the DIP Lenders took a greater loss from the termination than all the other Term Lenders combined. The other Term Lenders were offered the opportunity to shoulder the burden of filling the cash hole; they have declined to do so.

11. The DIP Lenders have opened their checkbooks for the last time. There is no more money or appetite for investment. The only alternative before the Court is a cash sale of assets to the Debtors' backup bidder, Coronado Mining, LLC, in which case the DIP Lenders will be paid, the rest of the cash goes into a pot to be fought over for the foreseeable future, there is no deal with the United Mineworkers, and some or all Patriot employees lose their jobs.

WHEREFORE, the DIP Lenders respectfully request that the Court overrule the objections to and confirm the Plan.

Dated: October 5, 2015

McGUIREWOODS LLP

/s/ Dion W. Hayes

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