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**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK**

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<i>In re:</i>	:	Case No.: 12-12900 (SCC)
Patriot Coal Corporation, et al.,	:	(Jointly Administered)
Debtors.	:	Chapter 11
	:	

**OBJECTION OF FEDERAL INSURANCE COMPANY
TO DEBTORS’ MOTION FOR APPROVAL OF PROCEDURES
FOR THE REJECTION OF EXECUTORY CONTRACTS AND UNEXPIRED
LEASES AND FOR THE ABANDONMENT OF PERSONAL PROPERTY**

Federal Insurance Company (“Federal”), by and through its undersigned counsel, hereby objects to the Debtors’ *Motion for Approval of Procedures for the Rejection of Executory Contracts and Unexpired Leases and for the Abandonment of Personal Property* (the “**Motion**”) (Docket No. 136). In support of its objection, Federal asserts and alleges as follows:

JURISDICTION

1. This Court has jurisdiction over this “core” proceeding pursuant to 28 U.S.C. §§ 157 and 1334.
2. Venue lies properly in this Court pursuant to 28 U.S.C. §§ 1408 and 1409.

FACTUAL BACKGROUND

3. On July 9, 2012, (the "**Petition Date**"), Patriot Coal Corporation and certain of its subsidiaries and affiliates (collectively, the "**Debtors**"), filed petitions for relief under chapter 11 of title 11 of the United States Code, 11 U.S.C. §§101-1330 (as amended, the "**Code**") commencing these proceedings. The Debtors continue to operate their businesses and manage their properties as debtors-in-possession pursuant to §§ 1107(a) and 1108 of the Bankruptcy Code.
4. Prior to the Petition Date, Federal issued reclamation and permit bonds in the total penal amount of approximately \$14 Million on behalf of certain of the Debtors. These bonds were issued on behalf of the Debtors to various States securing for each such State the performance by the Debtors of their obligations under various coal mining permits, including the obligation for reclamation of the mine after the mining activity has ceased at the site.
5. Many of the properties that are being mined by the Debtors and that are subject to the bonded reclamation and permit obligations are leased properties. The bonds issued by Federal are secured by a letter of credit in the face amount of \$8.78 Million.

OBJECTIONS

6. Pursuant to the Motion, the Debtors have proposed procedures to streamline the process of rejecting leases and seek to limit the scope and extent of notice to be provided to parties in interest. However, the limitations proposed by the Debtors are overbroad and are not designed to give adequate notice to all parties, including Federal, that may be affected by a lease rejection.

7. The possible lease rejections encompassed by the Motion include the rejection of leases of real property that are subject to existing mining permits. To the extent that the Debtors are allowed to reject these leases, numerous parties beyond the lessor will be impacted, including the permit-issuing State, and all sureties issuing bonds related to the mining permit. Since many of the sureties issuing such bonds are secured by letters of credit, the lease rejections could result in substantial additional liquidated claims against the bankruptcy estate. In sum, it is critical that any Notice of rejection served pursuant to the terms of the Motion have the appropriate scope and extent to ensure that all potentially affected parties can assess the impact of such proposed rejection and have a legitimate opportunity to object to the rejection.

8. Under the proposed procedures, the Notice to be provided by the Debtors with respect to leases that are to be rejected is not sufficient. Specifically, the proposed Notice does not include any identification of permits and permit numbers that are connected to the lease to be rejected and fails to identify the sureties that have provided bonds securing the Debtors' performance under the applicable permits. Without this information, it would be very difficult, if not impossible in the absence of additional discovery, for Federal or other creditors to determine what impact the proposed rejection will have on their respective rights, the Debtors' reorganization prospects, the environment, or the rights of other creditors.

9. In particular, the bonds issued by Federal reference only the permit number and a general indication of the acreage of the site and the county and state of the site. Consequently, Federal cannot determine whether a particular leased property is covered by one of the Federal bonds in the absence of the Debtors providing information identifying the applicable permit, the affected surety, and the applicable bond number.

10. Federal's objections to the Motion would be resolved, assuming the other provisions of the Debtors' proposed Order granting the Motion remain unchanged, by including the below requirements in any Order approving the Motion:

a. That any Notice of Rejection served, as required under the Motion, include "the category of permit and permit number of any permit issued with respect to the leased property to be rejected or property to be abandoned, the identity of any surety company that has issued a bond securing the Debtors' performance of its obligations under such permit, and the applicable bond number."

b. That the parties on whom the Notice must be served include "any surety identified in the Notice as having issued a bond relating to the leased property to be rejected or property to be abandoned."

11. In the event that the additional disclosures are not made part of the notice process, it is likely that Federal will be required to file an objection to each Notice issued by the Debtors and seek discovery to determine if the proposed rejection affects Federal's bonds and impacts the Debtors' reorganization prospects. Since the Debtors should be evaluating these issues in any event prior to determining whether to abandon property and reject a lease or executory contract, the Debtor should be able to make this additional disclosure in conjunction with the Notice with little, if any, additional cost or delay.

WHEREFORE, Federal Insurance Company respectfully requests that the Motion be denied and that the Court grant such other relief as is appropriate.

Dated: New York, New York
July 27, 2012

Respectfully submitted,

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