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**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:** **April 23, 2013 at 11:00 a.m.** **(prevailing Central Time)** **Hearing Location:** **Courtroom 7 North** **Re: ECF Nos. 416, 3445, 3446**

DECLARATION OF PAUL P. HUFFARD IN SUPPORT OF THE DEBTORS' OBJECTIONS TO MOTION OF CERTAIN INTERESTED SHAREHOLDERS FOR ENTRY OF AN ORDER DIRECTING THE APPOINTMENT OF AN OFFICIAL COMMITTEE OF EQUITY SECURITY HOLDERS[2]

Paul P. Huffard declares pursuant to 28 U.S.C. § 1746:

1. I am a Senior Managing Director in the Restructuring & Reorganization Group of Blackstone Advisory Services L.P. ("**Blackstone**"), a financial advisory services firm retained by Patriot Coal Corporation and those of its subsidiaries that are debtors and debtors in possession in the above-captioned chapter 11 cases (collectively, "**Patriot**," the "**Company**" or the "**Debtors**") as investment banker to Patriot.

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

[2] Capitalized terms used but not otherwise defined herein shall have the meanings ascribed to such terms in the Objection.

2. I submit this declaration in support of the debtors' objections to the motion of certain interested shareholders for entry of an order directing the appointment of an equity committee.

3. Except as otherwise indicated, all facts set forth in this declaration are based upon my personal knowledge, experience, public information and review of relevant business records and information provided to me by the Debtors, their professionals and Blackstone employees working under my supervision. I am authorized to submit this declaration on behalf of Blackstone, and if called upon to testify, I would testify competently to the facts set forth in this declaration.

4. I hold a Bachelor of Arts in Economics from Harvard College and a Master of Management from the Kellogg Graduate School of Management at Northwestern University.

5. Prior to joining Blackstone in 1995, I was a Vice President of Hellmold Associates, Inc., an investment banking firm specializing in financial restructurings. Prior to working at Hellmold Associates, I was a member of the corporate finance department of Smith Barney, Harris Upham & Co., Inc.

6. I have considerable experience advising distressed companies, including advising both debtors and creditors in chapter 11 restructurings. I have been named one of the country's leading restructuring financial advisors by K&A Restructuring Register in my duties as Senior Managing Director at Blackstone.

7. Blackstone's restructuring and reorganization advisory operation is one of the leading advisory services providers to companies and creditors in restructurings and

bankruptcies. Since 1991, Blackstone has advised on more than 325 distressed situations, both in and out of bankruptcy proceedings, involving approximately $1.3 trillion of total liabilities.[3]

8. Members of my team and I have been working closely with the Debtors since May 2012 when the Debtors retained Blackstone to advise on the Debtors' capital raising, restructuring and reorganization efforts. Blackstone has become intimately familiar with the Debtors' business, affairs, assets and contractual arrangements. Blackstone professionals and I have worked closely with the Debtors' management and other advisors to analyze the Debtors' financial position and to assist the Debtors in evaluating their financial situation, capital structure, valuation issues, and various financing and restructuring alternatives.

9. I have reviewed in detail Mr. Christopher Wu's declaration, its exhibits, and the deposition testimony of Mr. Wu and Mr. Jeffrey Stufsky, an investment banker employed by the KLR Group ("KLR"). In particular, I have reviewed Mr. Stufsky's presentation entitled "Patriot Coal: Indication of Estimated Value to Existing Equity Holders & Discussion" (the "KLR Report"), and Mr. Lloyd S. Foight's letter to Mr. Michael R. Carney dated February 26, 2013 and attached exhibits ("Foight Letter"), upon which Mr. Wu relied to form his opinion.[4]

10. The KLR Report employs three methodologies that purport to produce a range of possible future enterprise values for Patriot: (i) a "Coal Reserves" method, which uses comparable company coal reserve multiples; (ii) an "Operating Results" method, which uses

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[3] For a more detailed description of Blackstone's qualifications, experience and role in these chapter 11 cases, please refer to the Application of the Debtors for Authority to Employ and Retain Blackstone Advisory Partners L.P. as Investment Banker to the Debtors *Nunc Pro Tunc* to the Petition Date, [Dkt. #132], filed on July 19, 2012.

[4] Counsel for the equity holders has informed Patriot that Mr. Wu relied exclusively on the KLR Report and the Foight Letter in forming the opinions he expressed in his Declaration. In addition, Mr. Wu stated at his deposition that he has no independent view as to the value of Patriot aside from that derived from reviewing the KLR Report.

comparable company EBITDA[5] multiples applied to hypothetical Patriot operating results; and (iii) a "Comparable Company Multiples" method, which uses comparable companies' EBITDA multiples applied to those same companies' EBITDA margins (with a hypothetical range of Patriot revenue). KLR then adjusted the enterprise value ranges produced by these three methods to account for Patriot's cash and a small portion of the claims and liabilities against it to calculate a range of possible current equity values.

11. The Foight Letter opines that Patriot's actual exposure to legacy-cost liabilities are overstated and are likely substantially lower than the value at which they are currently booked. However, the Foight Letter does not provide any analysis of why Patriot's legacy-cost liabilities are overstated, by how much they are overstated, or what they may be reduced to. Rather, the claims in the Foight letter consist of vague assumptions that:

(i) the discount rates used to determine the present value of Patriot's post-retirement health care liabilities are "too low," and that rising discount rates will lower the liability;

(ii) Arch and Peabody are jointly and severally liable for certain retirees under the Coal Act;

(iii) the Patient Protection and Affordable Care Act may reduce healthcare costs generally and reduce the expected health care inflation rate; and

(iv) Patriot may reduce medical and death benefits for certain classes of employees.

[5] EBITDA stands for earnings before interest, taxes, depreciation and amortization. It is a common proxy for cash flow available to stakeholders used for valuation purposes.

12. None of these claims, however, are supported by any facts or analysis. While rising discount rates may decrease Patriot's post-retirement health care liability,[6] Mr. Foight offers no support for why, when or by how much he believes interest rates will rise. Further, he does not appear to be qualified to opine on predictions of future interest rates. His conclusion that Arch and Peabody have joint and several liability is a legal conclusion for which his only support is a document prepared by the UMWA. His conjecture that the Patient Protection and Affordable Care Act will decrease healthcare inflation costs is highly suspect; nonetheless, Patriot's health care inflation forecasts incorporate expectations surrounding current legislation, including the Patient Protection and Affordable Care Act. Finally, Mr. Foight's assertion that Patriot could reduce benefits to certain non-union employees and retirees is made without any support regarding which benefits could be amended and by how much. Certainly, Patriot has already amended certain non-union benefits, and those reductions have been reflected in Patriot's latest liability estimates. Given the total lack of analysis or support in the Foight Letter, I will disregard the opinions expressed in the Foight Letter for the remainder of this declaration.

13. With so many outstanding questions associated with the Patriot bankruptcy proceeding, the resolution of which will have a material impact on Patriot's valuation, it would be premature to perform a valuation of the Company at this stage. Therefore, I do not attempt to provide an opinion of what I believe to be the true value of Patriot in this declaration. Instead, I address the purported valuation put forward by KLR, addressing several of the most serious methodological flaws in the KLR Report, namely:

(i) not considering the market value of Patriot's publicly traded debt securities;

[6] Patriot currently uses a long-term discount rate to determine the present value of its post-retirement health care obligations. This discount rate already incorporates increases in forward spot interest rates.

(ii) the use of overly broad valuation methodologies that do not reflect the true operational characteristics of Patriot Coal and fail to accurately reflect Patriot's expected future financial performance;

(iii) increasing the apparent volatility of Patriot's historical financial results by focusing on quarterly, rather than annual, data that becomes skewed by seasonal effects;

(iv) the failure to check the output of analyses against actual results;

(v) the failure to account for several of Patriot's significant liabilities, as well as numerous claims asserted against Patriot, which would need to be satisfied before equity holders could recover any value from Patriot;

(vi) ignoring the fact that amending Patriot's cost structure, in most cases, creates additional liabilities and that those incremental liabilities would need to be satisfied before equity receives a recovery; and

(vii) selecting comparable companies that mine different types of coal and in geographies that have very different economics than Patriot and participate in unrelated businesses with very different valuation characteristics.

These errors cause the range of possible equity values stated in the KLR Report to be dramatically inflated. While I do not agree with certain of the valuation methodologies used by KLR, simply correcting these errors within KLR's framework results in negative equity values.

14. Section I of this declaration discusses the numerous publicly disclosed claims and liabilities of Patriot that were not included in KLR's analysis. Section II analyzes the market value of Patriot's unsecured debt, which is currently trading at much less than its face value; this suggests that the market does not believe that there is any equity value in Patriot. Sections III-V

analyze KLR's three valuation methodologies and demonstrate what range of possible equity values would be predicted by each methodology if not for the methodological flaws employed in the KLR Report. Section VI summarizes my conclusions in this report, which is that the KLR Report's methods do not demonstrate a positive equity value for Patriot once they have been corrected to account for these methodological flaws.

I. Claims and Other Liabilities

15. Enterprise value represents the value of a business available to its debt and equity stakeholders. Depending upon the methodology used to calculate it, enterprise value may represent a value available to other non-financial stakeholders as well (i.e., the beneficiaries of environmental obligations, post-retirement health care payments, workers' compensation payments, etc.). KLR calculates "current equity value" by calculating a possible range of enterprise values, and then subtracting current outstanding funded debt and trade payables and adding balance sheet cash. This calculation produces a significantly inflated range of equity values because it does not account for (i) the claims that have been filed against the estate or disclosed by Patriot and which, under the absolute priority rule, must be paid in full before there can be any recovery to equity, and (ii) the various liabilities that will be reinstated upon emergence and which need to be deducted from enterprise value to calculate equity value.[7]

16. The approximately $1.4 billion of liabilities included in the KLR Report are only a subset of the liabilities disclosed in Patriot's public SEC filings and claims register[8] that must be satisfied upon emergence. Notably, KLR does not consider $1.5 billion of post-retirement

[7] Mr. Stufsky acknowledged at his deposition that his approach was an "above the line" approach that did not consider these various liabilities and claims, and acknowledged that the purpose of his report was not to determine whether there was a likelihood of recovery for equity holders, but instead to determine whether Patriot was "a potentially viable coal operating company." (Stufsky Dep. at 61:11-17.)

[8] Patriot's case register can be found online at patriotcaseinfo.com.

health care claims disclosed in Patriot's SEC filings. This claim is in respect to post-retirement health care costs for active employees and retirees whose benefits are being amended pursuant to Patriot's bankruptcy proceedings. Although the Foight Letter dismisses the Company's quantification of these claims, it offers no rebuttal other than general conjecture. The Company's estimates are at this point the best quantification of these future claims given the inherent uncertainty of the future. KLR also does not consider $1.0 billion of UMWA pension and benefit claims filed on Patriot's claims register. This is a contingent claim (and is, therefore, not in Patriot's GAAP financials) related to Patriot's withdrawal from the 1974 Multi-Employer Pension Plan and the 1993 Benefit Fund pursuant to Patriot's Section 1113 proposal. While Patriot is considering many potential alternatives to satisfy this claim, it will almost certainly need to receive a full recovery if Patriot is deemed a solvent debtor and distributes value to equity holders. Both of these claims must be accounted for to properly calculate potential equity recoveries.

17. In addition to claims against the estate that are potentially subject to compromise, Patriot also has several large liabilities related to its current and past mining activities. Many of these liabilities generally are not amendable within bankruptcy and will be reinstated upon emergence. Because KLR has not accounted for some or all the costs of servicing these obligations in its calculations of Patriot's enterprise value,[9] these liabilities must, like debt, be deducted from Patriot's enterprise value to determine the value of the business remaining for equity holders.

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[9] As explained in more detail below, KLR's first and third methodologies do not account for the cost of servicing Patriot's past mining obligations and asset retirement obligations, and its second methodology does not account for the cost of servicing Patriot's asset retirement obligations. Furthermore, with regard to KLR's second methodology, KLR has improperly failed to account for the cost of servicing Patriot's post-retirement health care, workers' compensation, pension, and other past mining obligations, even though it has accounted for those costs in its valuation of comparable companies.

18. Table 1 below illustrates the claims outstanding against Patriot as they exist today. These do not include (i) wholly unliquidated claims for which no specific damages have been asserted; or (ii) claims expected to arise from the continued rejection of executory contracts. Patriot may also choose to contest certain claims. As such, these estimates are subject to change over time.

Table 1: Patriot Liabilities		Patriot		
($ in millions)	KLR Report	Patriot	Source	Comments
Claims				
DIP Facility	$ 802	$ 729	2012 10-K	Letters of credit capacity not fully used
Senior Notes	250	250	2012 10-K	
Convertible Senior Notes	200	200	2012 10-K	
Retiree Healthcare	–	1,517	2012 10-K	
UMWA Pension & Benefit Claims	–	1,043	Claims registry	Contingent liability
Unsecured Trade Payables	101	52	Claims registry	Source of KLR data is unclear
Other Filed Claims	–	121	Claims registry	
Subtotal	**1,353**	**3,912**		
Reinstated Liabilities				
Asset Retirement Obligations & Selenium	$ –	$ 732	2012 10-K	Reinstated upon emergence
Coal Act Obligations	–	135	2012 10-K	Reinstated upon emergence
Workers' Compensation	–	279	2012 10-K	Reinstated upon emergence
Subtotal	**–**	**1,145**		
Total	**$ 1,353**	**$ 5,058**		
Memo: Cash	*$ 383*	*$ 242*	Feb. '13 MOR	KLR uses 9/30/12 10-Q

II. Market Value of Patriot's Debt

19. Patriot's convertible notes, as of March 27, 2013, trade at a price of 10.5%, reflecting a discount to face value of $179 million. Patriot's senior notes trade at a price of 47.5%, suggesting a discount to face value of $131 million.[10] The senior notes are issued by Patriot Coal Corporation, but have guarantees from nearly all of Patriot's subsidiaries. As such, it is likely that the senior notes will receive a greater percentage recovery than other claims filed against Patriot. The convertible notes have been issued at Patriot Coal Corporation and do not have any subsidiary guarantees. They may, therefore, receive a lower recovery relative to other

[10] Pricing data sourced from CapitalIQ.

claims at Patriot's subsidiaries. If you assume, however, that Patriot's untraded claims are valued somewhere in the range between Patriot's convertible notes and senior notes, then that would imply a total discount to face value of $1.7 billion to $$2.8 billion.[11] Relative recoveries with respect to Patriot's liabilities will ultimately be subject to Plan of Reorganization negotiations and, while it is generally illustrative, assuming values between those of the convertible notes and senior notes may not be an accurate assumption in all scenarios.

III. Coal Reserve Multiples

20. KLR's first valuation methodology involves using Enterprise Value to Coal Reserve multiples of companies that it considers to be comparable to Patriot. KLR calculates the enterprise value of other coal companies, divides that value by the company's total coal reserves, and applies an average of those multiples to Patriot's reserves. While the use of comparable company multiples is a common methodology for valuations, it is more traditional and precise to use multiples applied to future cash flow metrics, like EBITDA or earnings. The Enterprise Value/Coal Reserve multiple has two significant weaknesses that invalidate it as an accurate predictor of value.

21. First, a static measure of coal reserve tons does not determine a Company's future cash flow generation, which is what actually determines a Company's value. At its core, a valuation is the present value of the sum of all future cash flows that a set of assets are expected to generate. While "EBITDA multiple" methodologies make the assumption that $1 of EBITDA has the same value across comparable companies, a coal reserve multiple assumes that 1 ton of coal reserves has the same enterprise value across comparable companies. For example, if there

[11] Assumes total untraded claims of $2.7 billion (excluding DIP Facility). Patriot's other claims do not have readily observable market values. See Table 1 for further details.

are two companies with an equal number of coal reserves, applying a comparable company multiple will yield the same enterprise value for both companies. However, if only one of these two companies is able to mine its tons profitably, than it would be illogical to conclude that both companies have equivalent enterprise values. Clearly, the Company that can mine profitably today is worth more than the one that cannot mine its coal profitably. Differences in profitability between various reserve types can be dramatic and can be influenced by a large number of variables, including, but not limited to, coal type and grade, seam geology, operating cost structure, transportation costs, coal sales contracting price, etc.

22. Second, the coal reserve methodology assumes that all coal reserves have the same value. This is simply incorrect. For example, thermal coal and metallurgical coal – the two broadest categories of coal – are sold to different customers in completely different end use markets for dramatically different prices. Likewise, coal reserves in Australia differ from those in the Appalachian region, which in turn differ from those in the Illinois Basin or Powder River Basin. CONSOL has natural gas reserves which have very different values from coal reserves and are not even factored into the coal reserve figures. Reserves of different resources, coal types and in different geographies have different geologies and economics associated with mining them and do not, therefore, have a similar value per ton. The KLR Report does not take any of these differences into account in valuing Patriot using coal reserve multiples.

23. KLR acknowledges these shortcomings of the Coal Reserve approach when he cites the many issues that this methodology does not account for, including (i) in-hand permitting and approvals; (ii) actual cash operating costs; (iii) transportation costs; and (iv) terminal markets, among other factors. Nonetheless, Mr. Stufsky compares Patriot to a variety of coal companies with reserve profiles that differ dramatically from Patriot's.

Table 2: Comparable Company Reserves

	Geography						
Company	**Appalachia**	**Illinois Basin**	**Powder River**	**Southwest**	**Canada**	**Australia**	**Other**
James River Coal	88%	12%	–	–	–	–	–
Alpha Natural Resources	84%	–	16%	–	–	–	–
CONSOL Energy [(1)]	76%	17%	3%	–	–	–	3%
Walter Energy	72%	–	–	–	27%	–	1%
Alliance Resource Partners	28%	72%	–	–	–	–	–
Arch Coal	25%	–	74%	–	–	–	1%
Cloud Peak	–	–	100%	–	–	–	–
Peabody Energy	–	40%	32%	12%	–	13%	3%
Patriot	**63%**	**37%**	**–**	**–**	**–**	**–**	**–**

(1) Does not incude CONSOL's natural gas reserves, which generate more than 13% of CONSOL's revenue.

24. While I do not believe that the coal reserve multiple is an accurate methodology for valuing Patriot, there are obvious mistakes that KLR made in its analysis that it should have corrected even if one were to accept their methodology. Namely, KLR should have (i) reduced the list of comparable companies to those with reserve profiles that are comparable to Patriot's, (ii) properly reflected the fair market value of the liabilities of the comparable companies when calculating the Enterprise Value of the comparable companies, (iii) factored in various liabilities of comparable companies which are important to include in order to get an apples to apples comparison, and (iv) deducted liabilities for various obligations of Patriot that are not accounted for in this valuation methodology.

25. KLR's coal reserve analysis was based on a variety of coal companies that, while all in the coal industry, have reserve profiles with very different characteristics. While the Coal Reserve methodology has many inherent flaws, if one is going to use that methodology, you must, at the very least, use companies with comparable reserves. Based on Patriot's reserve position in Appalachian thermal coal, Alpha Natural Resources ("Alpha") and James River Coal ("James River") are the only two companies with reserves comparable to those held by Patriot. CONSOL should also be excluded because it has substantial natural gas reserves that account for a considerable portion of its enterprise value. 84% of Walter's reserves are high-quality

metallurgical coal, which sell for a significantly higher price than thermal coal (most of Patriot's reserves are thermal coal) and is therefore not a good measure. Other companies (Alliance Resource Partners, Arch Coal, Cloud Peak and Peabody Energy) are excluded because of their relatively low exposure to the Appalachian coal region, Patriot's primary reserve source, each with less than 30% of its reserves in Appalachia.

26. In addition, the KLR Report failed to account for the financial distress at James River in its calculation of James River's enterprise value. Due to its recent poor financial results, James River's debt is trading at materially depressed levels. In this situation, it is inaccurate to use, as KLR did, the book value of the debt in calculating enterprise value. Rather, the market value of the debt must be used to reflect the market's views of the value of James River's assets. Using the book value of debt overstates enterprise value and inflates its Coal Reserve and EBITDA multiples. KLR also ignores that James River publicly disclosed repurchasing debt after September 30, 2012. Table 3 illustrates the difference between the book value and market value of debt at James River.

Table 3: James River Coal Debt Value

($ in millions)	Book	Repurchase	Total	Price	Market
Senior Notes due 2019	$ 270	–	$ 270	51%	$136
Convertible Senior Notes due 2015	144	(3)	141	35%	49
Convertible Senior Notes due 2018	210	(5)	205	28%	56
Convertible Discount	(75)	NA	NA	NA	NA
Total	**$ 549**				**$ 242**

Market Data: Capital IQ as of 2/24/13.

27. In addition to overvaluing the debt at James River, KLR neglected to include several liabilities in its comparable company enterprise value calculation, including (i) workers' compensation; (ii) reclamation obligations; (iii) post-retirement health care obligations; and (iv) pension and other benefit obligations. The impact of these omissions is to assume, incorrectly, that Patriot has the same liabilities per ton as other companies. This is not the case, however, as

Patriot has a significantly higher amount of these liabilities per ton of reserves than the other companies KLR uses in its analysis (except Walter).

28. This greatly impacts Patriot's implied enterprise and equity values. To calculate the enterprise value of comparable companies, you must add (i) equity value and (ii) liability value and subtract (iii) cash. The enterprise value of the comparable companies is, therefore, increased by including liabilities that were excluded by KLR. This enterprise value is then divided by each company's coal reserves to calculate an enterprise value per ton. Patriot's enterprise value can be estimated by multiplying these values by Patriot's reserves. Patriot's equity value is then implied by deducting the value of Patriot's liabilities from its estimated enterprise value. Table 4 shows the enterprise value to coal reserve ratio that would result from correcting these errors.

Table 4: Adjusted Reserve Multiples
($ in millions except stock price)

	James River		Alpha Natural Resources		Patriot	
	KLR	Adjusted	KLR	Adjusted	KLR	Adjusted
Debt	$ 549	$ 242	$ 3,386	$ 3,386	$ 1,252	$ 1,179
Healthcare	–	NA	–	1,006	–	1,517
ARO	–	107	–	857	–	732
Workers' Compensation	–	134		322	–	279
Coal Act Obligations	–	NA	–	NA	–	135
Unsecured Trade Payables	–	–	–	–	101	52
Other Filed Claims	–	–	–	–	–	121
Less: Short Term Investments	–	–	(297)	(297)	–	–
Less: Cash	(151)	(151)	(731)	(731)	–	(242)
Net Liabilities	**398**	**332**	**2,358**	**4,543**	**1,353**	**3,773**
Stock Price	$ 2.66	$ 2.66	$ 8.15	$ 8.15	NA	NA
Shares (mm)	34.9	34.9	219.3	219.3	NA	NA
Market Capitalization	**$ 93**	**$ 93**	**$ 1,787**	**$ 1,787**	**$ 724**	**$ (1,424)**
Enterprise Value (TEV)	**$ 490**	**$ 425**	**$ 4,145**	**$ 6,330**	**$ 2,077**	**$ 2,349**
Tons of Reserves (mm)	363	363	4,600	4,600	1,844	1,844
$ TEV per Ton of Reserves	$ 1.4	$ 1.2	$ 0.9	$ 1.4	$ 1.1	$ 1.3

Note: Patriot's $ TEV per Ton Reserves multiples are based on the average of those calculated for James River and Alpha Natural Resources.
Market Data: Capital IQ as of 2/25/13.

29. Focusing on James River and Alpha's comparable reserve bases and fixing KLR's errors in James River's coal reserve multiple yields a range of values from $1.2 per ton to $1.4 per ton.

30. In addition to using a very wide range of inflated multiples, KLR also uses a significantly inflated range of reserve tons of between 1.8 and 2.0 billion tons. Despite having access to Patriot's December 31, 2012 10-K filing, KLR used Patriot's proven and probable reserves as of December 31, 2011 (approximately 1.9 billion tons) instead of its proven and probable reserves as of December 31, 2012 (approximately 1.8 billion tons). The recent reduction in Patriot's proven and probable reserves was caused, in large part, by the shutting down of certain mining complexes that Patriot determined were unprofitable to mine.

31. Moreover, KLR assumed (with no reasonable basis for doing so) that Patriot's proven and probable reserves might increase to 2 billion tons. This assumption is entirely unjustified.[12] As noted above, the recent trend has been a reduction in Patriot's proven and probable reserves, not an increase.

32.

33. While I do not believe a Coal Reserve methodology is appropriate in the case of Patriot, a coal reserve multiple extrapolates enterprise value based on coal reserves. However, it

[12] The KLR Report does not provide an explanation for this assumption, and Mr. Stufsky conceded at his deposition that the ranges were chosen "to surround potential outcomes" and not "to serve as a projection of likelihood." (Stufsky Dep. at 94:23-25.)

does not incorporate costs associated with Patriot's liabilities. Therefore, past mining obligations and other liabilities must be capitalized and deducted from implied enterprise value in order to calculate Patriot's equity value. As shown below, once these liabilities are deducted and Patriot's cash is added in, Patriot's implied equity value is negative.

[Table Redacted]

IV. Operating Results

34. KLR's second valuation approach applies an EBITDA multiple range for comparable companies to a range of theoretical Patriot operating results. The KLR Report, calculated a range of potential future coal prices per ton, subtracted a range of potential future operating costs per ton (albeit one that assumes Patriot's costs will not increase from their current levels despite historically increasing costs) and subtracted an estimate of Patriot's general and administrative costs to arrive at an estimate of Patriot "Adjusted EBITDA."[13]

35. This approach has numerous significant flaws. First, KLR calculated a significantly inflated range of potential operating revenues because it makes several faulty assumptions in predicting both Patriot's coal prices and level of coal tons sold. Second, KLR did not accurately account for Patriot's more recent operating costs, which have steadily increased. Third, KLR improperly compared predicted future prices with historical costs to arrive at a range of EBITDAs that is significantly inflated. Fourth, KLR did not account for all of Patriot's liabilities, including asset reclamation and selenium water treatment liabilities.

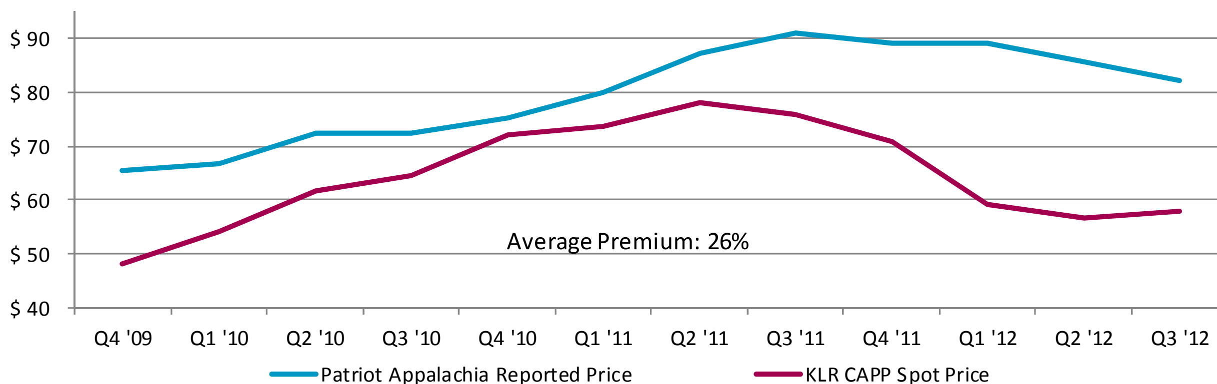
[13] As defined in the KLR Report, Adjusted EBITDA is calculated as operating revenue less operating costs less SG&A costs. Adjusted EBITDA excludes other operating expenses such as asset retirement obligations and legal settlements. KLR incorrectly eliminated past mining obligations from its calculation of operating costs for Patriot, though it included similar expenses in calculating EBITDA for comparable companies.

Operating Revenue

36. KLR makes several significant errors in the way it calculates Patriot's potential operating revenue. First, KLR used a range of potential coal prices that is significantly inflated because it does not consider the various types of coal that Patriot mines or the fact that Patriot sells most of its coal using coal supply agreements (as opposed to spot market sales). Second, KLR used an inflated level of coal tons sold that is inconsistent with both Patriot's historical coal tons sold and forecasted 2013-2016 coal sales. Because KLR calculates Patriot's operating revenues by multiplying the range of potential coal prices with the range of coal tons sold, these errors compound to predict potential operating revenues for Patriot that are grossly inflated.

37. KLR's analysis of the price that Patriot will receive for its coal tons sold is based on a so-called historical "premium" that KLR claims Patriot has received on its coal sales relative to spot prices for Central Appalachian ("CAPP") thermal coal. As shown in Graph 1, KLR calculated this so-called "premium" by comparing CAPP thermal spot prices from the fourth quarter of 2009 through the third quarter of 2012 to Patriot's disclosed quarterly Appalachian ("APP") sales prices for the same period (which include both CAPP thermal and metallurgical coal, as well as Northern Appalachian thermal coal).

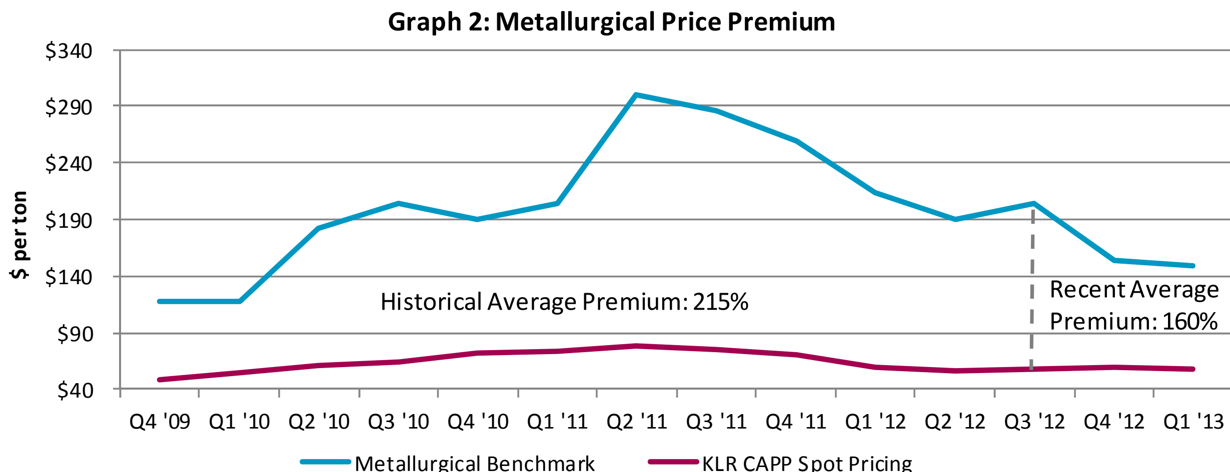
Graph 1: Patriot's Appalachia Premium to CAPP Spot Pricing



Source: Patriot SEC Filings and KLR pricing data.

38. For Patriot's APP coal, this so-called "premium" is largely the result of conditions in the coal industry over the last several years that may not to persist to the same degree going forward. Patriot's product mix in the Appalachian region, which is a mix of thermal coal and metallurgical coal. Because metallurgical coal has historically sold for a significantly higher price than thermal coal, any comparison of CAPP thermal spot prices to the prices Patriot has received for its APP thermal and metallurgical coal will suggest that Patriot has received above-market prices for its coal. But this so-called "premium" will only persist if metallurgical prices maintain a consistent premium over thermal prices. Recent spot prices for thermal and metallurgical coal suggest that this is highly unlikely to happen. Over the past six months, the magnitude of the pricing differential between metallurgical coal and thermal coal has significantly decreased. From the fourth quarter of 2009 through the third quarter of 2012, the metallurgical "benchmark"[14] has priced at an average 215% premium to spot thermal prices. Since September 30, 2012, however, that premium has declined to an average of 160%. This will significantly decrease any apparent "premium" Patriot receives relative to CAPP spot pricing.

[14] Benchmark metallurgical coal pricing is determined quarterly based on negotiated coal supply agreements to sell Peak Downs hard coking coal, a premium, low-volatility metallurgical coal out of Australia. It is often used as a guide to pricing trends throughout the industry. It differs from spot coal pricing, which reflects daily spot trades rather than longer-term coal supply agreements.



Source: News reports and KLR pricing data.

39. In addition, comparing Patriot's realized prices to spot coal prices also ignores Patriot's contracting strategy. Patriot, like most coal companies, sells much of its coal pursuant to long-term coal supply agreements. This creates a lag effect in pricing that will make it appear as if Patriot's prices are higher than spot in a declining market, but lower than spot in an improving market. As demonstrated in Graph 1, as spot prices increased in 2010 the "premium" decreased, and when spot prices declined in 2011 and 2012, the "premium" widened. If you believe, as KLR does, that the forward curve implies increasing spot prices, it is likely that Patriot's observed price "premium" will again decrease.[15]

40. KLR then applied this "premium" to the CAPP thermal forward curve to forecast the sale prices for <u>all</u> of Patriot's coal sales. As explained above, this method leads to a significantly inflated sales price for Patriot's APP coal due to the declining price of metallurgical coal and Patriot's use of long-term contracts. For Patriot's APP coal, there is at least a kernel of underlying logic to the method KLR employs. KLR's use of this so-called "premium" to predict

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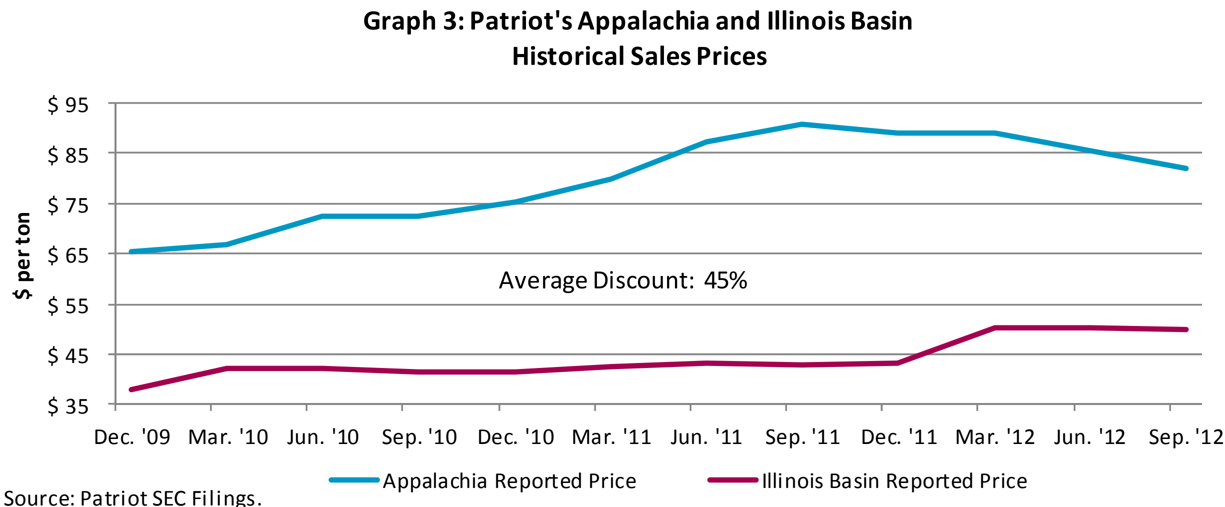
[15] Long-term coal supply agreements generally attempt to account for future coal price expectations. It may be more accurate to say that long-term contracts will generate a premium when spot prices are declining faster than anticipated, and a discount when spot prices are increasing faster than anticipated.

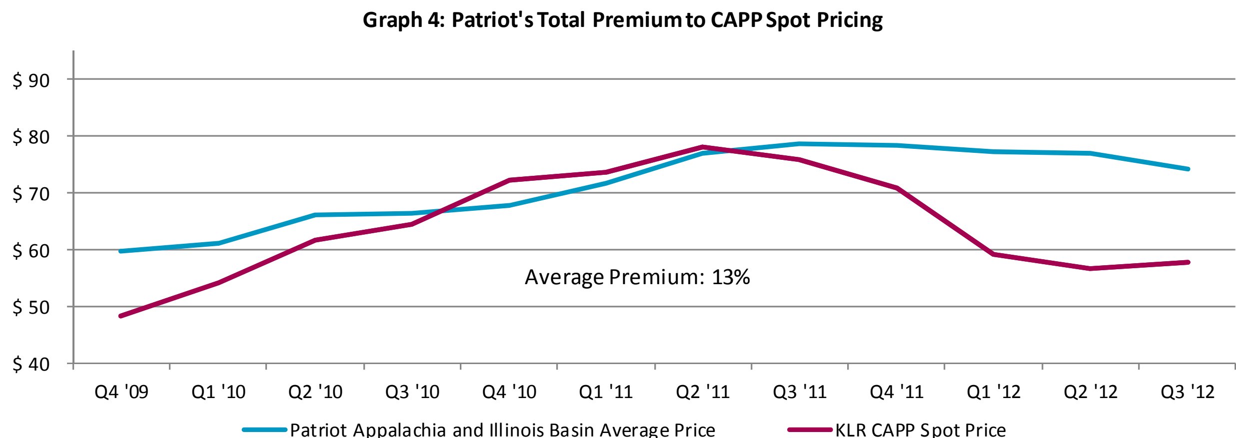
prices Patriot will receive for its Illinois Basin ("ILB") coal, however, is entirely baseless and leads to absurdly inflated sales prices for Patriot's ILB coal, which represented over 25% of Patriot's tons sold in 2012.

41. It is inappropriate to assume that Patriot will receive a premium over the CAPP thermal price for its ILB coal. ILB coal has historically been (and continues to be) a lower-priced product when compared to Patriot's APP coal. As shown in Graph 3 below, Patriot's ILB sales per ton have averaged a 45% discount relative to Patriot's APP sales per ton from the fourth quarter of 2009 through the third quarter of 2012.



42. As a result of these two factors, Patriot will almost certainly receive a price for its ILB thermal coal that is significantly below the CAPP spot price, as opposed to a premium above the CAPP thermal spot price as KLR predicts.[16] As shown in Graph 4, a historical "premium" analysis that includes both Patriot's Appalachian and Illinois Basin products yields a "premium" of only 13%, putting aside the timing issues caused by longer term sales contracts and the recent decrease in metallurgical relative to thermal coal pricing.

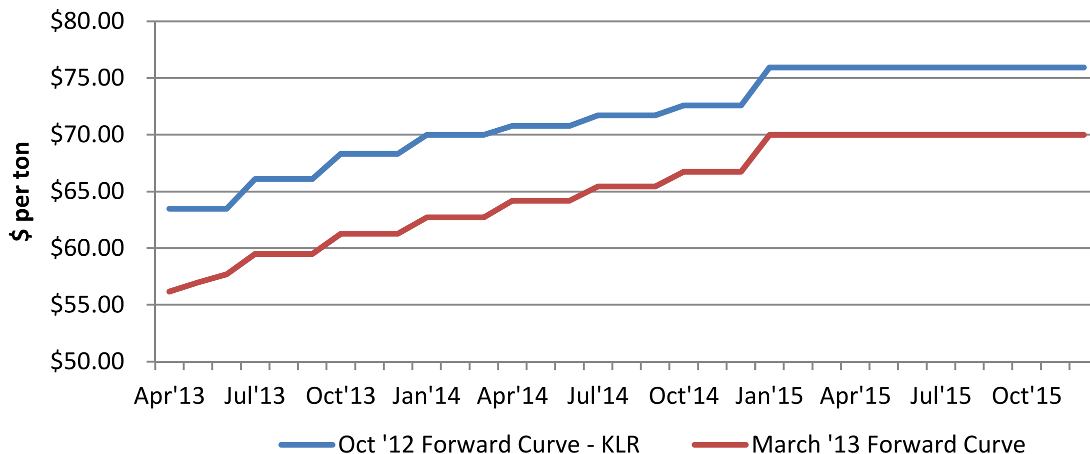
[16] The KLR Report does not provide any rationale for assuming that Patriot will receive a premium over the CAPP thermal spot price for its ILB thermal coal.



Source: Patriot SEC Filings and KLR pricing data.

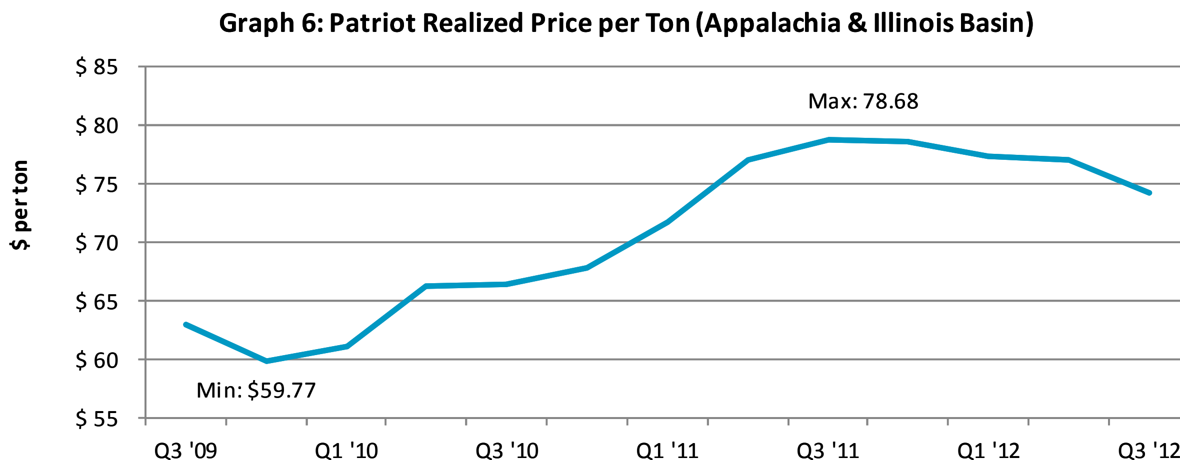
43. The KLR Report compounds these errors to generate a range of potential prices from $77 per ton to $96 per ton. These numbers are also based, however, on a forward curve that is out of date. Based on our review of backup material provided by KLR, it appears the forward curve they are using is as of October 2012. More recent forward curves imply thermal CAPP coal prices that are approximately $6-7 per ton lower. Please see Graph 5 below for a comparison of the forward curve used by KLR to a more recent forward curve as of March 21, 2013.[17]

[17] Source: CME Group.



44. By simply correcting for the methodological errors described above, the so-called "premium" decreases to 13% over the spot price for CAPP thermal coal. Applying a 13% premium to the updated forward curve for CAPP thermal coal predicts a range of potential prices from $63 to $79.[18]

[18] This price range likely remains overstated due to (i) the recent drop in metallurgical prices relative to CAPP thermal prices and (ii) the pricing impact of Patriot's long-term contracting strategy.



Source: Patriot SEC Filings.

45. The range of operating revenues in the KLR Report is further inflated because KLR used a range of potential coal sales (24 million to 33 million tons per annum) that is unrealistically high relative to both Patriot's recent results and forecasted coal sales. In 2012, Patriot sold only 24.9 million tons of coal, and expects to sell even fewer tons in 2013-2016 due to lower demand and downsized operations.

46. Figure 1 below shows a sensitivity of potential revenues based on a variety of coal price scenarios and tons sold. While I do not agree that this methodology produces an accurate forecast of Patriot's potential revenues, I have adjusted the ranges to fix the errors in KLR's analysis described in this section. By simply correcting each of the mistakes described above, KLR's operating results methodology would predict Patriot's annual operating revenue to be between approximately $1.6 billion and $2.2 billion, rather than the $1.8 billion to $3.2 billion calculated by KLR.

Figure 1: Operating Revenue *($ in millions)*

***Adjusted to Reflect Lower Prices and Tons Sold**

		Coal Tons Sold (mm)				
		22.9	23.9	24.9	25.9	26.9
	$ 70.00	$1,603	$1,673	$1,743	$1,813	$1,883
Coal	72.50	1,660	1,733	1,805	1,878	1,950
Prices	75.00	1,718	1,793	1,868	1,943	2,018
($ / ton)	77.50	1,775	1,852	1,930	2,007	2,085
	80.00	1,832	1,912	1,992	2,072	2,152

Operating Costs

47. KLR then applied against its inflated range of operating revenues an unrealistically low range of operating costs per ton. The values KLR uses range from $53 per ton to $65 per ton. KLR justifies the extreme width of its range by citing Patriot's average segment operating cost for the last three years ($59.58 per ton), its costs in the second quarter of 2012 ($53.12 per ton) and its costs in the third quarter of 2012 ($64.93 per ton). These costs are calculated as the total segment operating expenses divided by the total tons sold, as disclosed in Patriot's public SEC filings.

48. This range is entirely unjustified because KLR appears to have made an unexplained error in its calculation of Patriot's second quarter 2012 costs per ton. The correct value of Patriot's second quarter 2012 operating costs per ton is $63.97 per ton, not $53.12 per ton as KLR listed in the KLR Report. Once this value is corrected, KLR's alleged basis for using such a wide range of potential costs per ton disappears.

49. KLR further adds significant unjustified volatility into Patriot's costs by focusing on quarterly, rather than annual, data. Quarterly data can fluctuate dramatically due to a number of factors, including (i) holidays; (ii) weather patterns; and (iii) one-time operational issues that can become magnified because of the small time period being analyzed, among other things. A more appropriate way to look at Patriot's costs would have been to look at, at the end of each quarter, the operating costs per ton over the last twelve months.

50. The KLR Report also ignores the dramatic change to the Company's cost structure in mid-2011 – the ratification of the 2011 National Bituminous Coal Wage Agreement ("2011 NBCWA"). Averaging historical results that include costs prior to that agreement misstates Patriot's current expense structure. Therefore, more weight must be given to Patriot's costs from the third quarter of 2011 onwards. The 2011 NBCWA raised costs at most of Patriot's UMWA-represented mines through changes to the collective bargaining agreement such as:

(i) immediate $1.00/hour wage increase, with additional $1.00/hour wage increases at the beginning of each new calendar year (versus $0.50/hour wage increases in the several years prior);

(ii) increasing wages for afternoon and midnight shift work by an additional $0.10/hour;

(iii) instituting new retiree bonus trust funded by $1.50/hour contributions;

(iv) making supplemental pension contributions of $1.00/hour for New Inexperienced Miners and active miners with 20 or more years of service into the UMWA Cash Deferred Savings Plan;

(v) increasing contributions to the 1993 Benefit Plan by $0.60/hour;

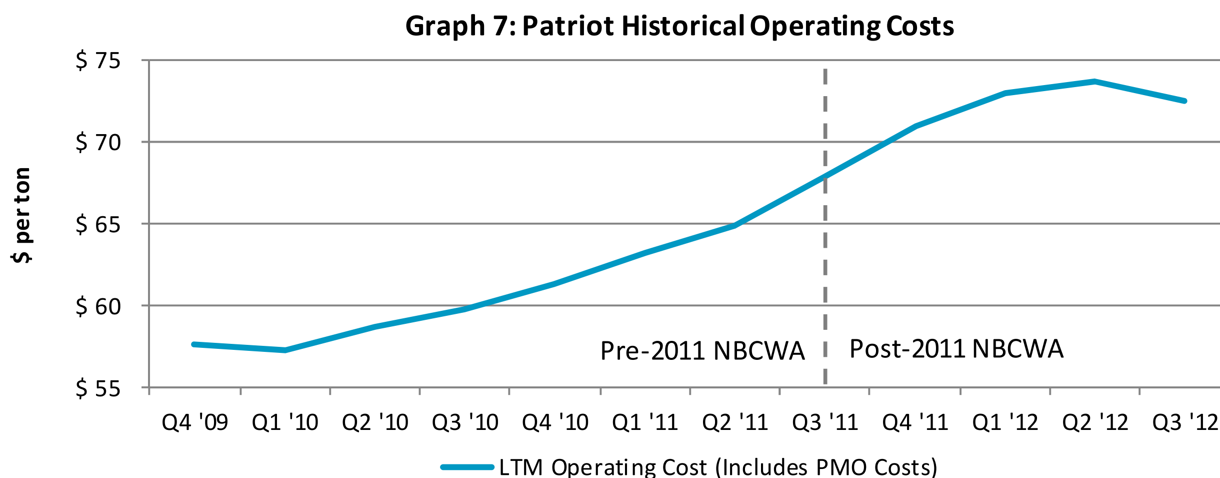
(vi) extending children's health care benefits to up to 26 years old;

(vii) adding a personal and sick leave day and reduced the service requirement to earn graduated vacation days; and

(viii) increasing other fringe benefits at a significant cost to Patriot.

51. KLR's analysis is even further misleading, however, because Patriot's segment operating costs exclude operating expenses of the Company related to mines that were

previously active but are now closed, collectively referred to as past mining obligations ("PMO"). As disclosed in Patriot's SEC filings, these obligations consist of postretirement benefit obligations, workers' compensation obligations and multi-employer healthcare and pension plans. These costs cannot be ignored in any analysis based on Patriot's past operating results, especially not when you consider that KLR has included these costs in its EBITDA calculations for the comparable companies. The multiples derived from these comparable company calculations serve as the basis for the EBITDA multiples applied in Patriot's enterprise value analysis and it is important that they be calculated on an apples to apples basis with the calculation of Patriot's EBITDA. For the purpose of this analysis, we have excluded only reclamation and selenium expenses, collectively known as asset retirement obligations ("ARO").[19] As demonstrated below, adding the missed PMO costs to KLR's calculations materially increases the operating costs at Patriot.



Souce: Patriot SEC Filings.

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[19] As explained below, this liability is accounted for in converting Patriot's enterprise value to equity value. It is treated differently than Patriot's past mining obligations because (i) KLR specifically excludes ARO from its Adjusted EBITDA, and we are attempting to match KLR's methodology, other than correcting its most significant errors; and (ii) Patriot experienced a $307 million charge related to a revision in its selenium spending estimates in the second quarter of 2012 that would unfairly skew its enterprise value downward.

52. Figure 2 below shows, according to KLR's methodology, a range of potential future operating costs. I do not believe that this is an accurate portrayal of Patriot's forecasted operating costs, but have adjusted KLR's operating cost per ton range to fix the errors described above, including (i) correcting KLR's calculation of operating cost per ton in the second quarter of 2012; (ii) minimizing the volatility and seasonality of quarterly cost data by using "last twelve months" data; (iii) placing greater weight on recent operating costs due to the signing of the 2011 NBCWA in the third-quarter of 2011; and (iv) adding costs for past mining obligations to KLR's analysis. The resulting range of operating costs ranges from $1.5 billion to $2.0 billion.

Figure 2: Annual Operating Cost *($ in millions)*

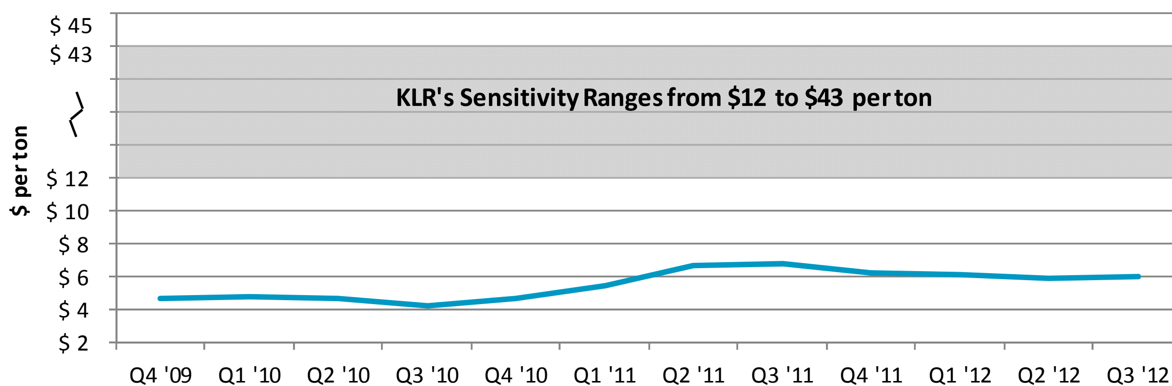
		Coal Tons Sold (mm)				
		22.9	23.9	24.9	25.9	26.9
	$ 65.0	$1,489	$1,554	$1,619	$1,684	$1,749
Operating	67.5	1,546	1,613	1,681	1,748	1,816
Cost	70.0	1,603	1,673	1,743	1,813	1,883
($ / ton)	72.5	1,660	1,733	1,805	1,878	1,950
	75.0	1,718	1,793	1,868	1,943	2,018

Gross Margin

53. KLR's next step takes the extremes of its revenue and cost tables to generate a range of potential annual gross profit. Again, this is a misguided approach that increases the perceived volatility in Patriot's profits. Many operating costs are variable to some degree, and tend to rise when revenues rise, including, among other things, (i) royalty payments and add-on taxes are fixed percentages of revenue; (ii) workers' demand and receive higher compensation when revenues are higher (and, with the recent downturn in coal pricing, Patriot has cut pay throughout its workforce); and (iii) maintenance and repairs are often delayed until a company can afford to incur those costs. Therefore, it is unlikely that Patriot will generate very high pricing while, at the same time, incurring very low operating costs. To determine an appropriate range of gross profit per ton, KLR should have, in addition to its analysis, looked at Patriot's

actual historical gross profit per ton (again, presented on a "last twelve months" basis). If KLR had compared the output of its flawed theoretical analysis with Patriot's actual historical gross profit, it would have realized that its gross profit range was absurdly high and unlike anything Patriot had ever experienced. As you can see in Graph 8 below, Patriot has not recorded gross profit above $7 per ton in the period since late 2009. Nonetheless, the gross profit used in the KLR Report ranged from $12 to $43 per ton. While some grades of Patriot coal, in a strong market, could deliver margins of $12 to $43 per ton, Patriot has not recorded these margins on average.

Graph 8: Patriot LTM Gross Margin per Ton



Note: Margin reflects both segment costs and PMO costs.
Source: Patriot SEC Filings.

54. Figure 3 below shows a more reasonable range of potential gross profits for Patriot. This is based on KLR's methodology, though the gross profit per ton range has been adjusted to reflect the correction of the errors described above in KLR's calculation of revenue and operating cost and reflects a range consistent with Patriot's historical results. Implied gross profit ranges from $92 million to $215 million.

Figure 3: Gross Profit *($ in millions)*

		Coal Tons Sold (mm)				
		22.9	23.9	24.9	25.9	26.9
	$ 4.0	$92	$96	$100	$104	$108
Gross	5.0	115	120	125	130	135
Margin	6.0	137	143	149	155	161
($ / ton)	7.0	160	167	174	181	188
	8.0	183	191	199	207	215

Enterprise and Equity Value

55. KLR then subtracted selling, general and administrative ("SG&A") costs, which are approximately $50 million per year, from the high and low gross profits calculated to determine a range of potential EBITDAs. EBITDAs calculated under KLR's approach would range from $41 million to $165 million, as recalculated at more reasonable gross profit levels in line with historical performance as shown in Figure 3.

56. These EBITDAs are then multiplied by a range of EBITDA multiples based on comparable coal companies. Although I disagree with KLR's methodology and its comparable company calculations, I have not, for the sake of simplicity, adjusted KLR's comparable company EBITDA multiples. Figure 4 below illustrates the resulting enterprise values once the corrections described in this section are made.

Figure 4: Enterprise Value - Operating Results *($ in millions)*

		Adjusted EBITDA ($mm)				
		$41	$72	$103	$134	$165
	4.5x	$185	$324	$463	$602	$741
EBITDA	5.0x	206	360	515	669	824
Multiple	5.5x	226	396	566	736	906
	6.0x	247	432	618	803	989
	6.5x	268	468	669	870	1,071

57. Unlike the Coal Reserves methodology, when using a historical operating results methodology to calculate Patriot's enterprise value, it would be inappropriate to deduct all of the claims against Patriot to calculate recovery to equity holders. This is because the costs to service some of those claims are already included in Patriot's operating results. It would "double-count"

the impact of these expenses to both (i) include the cost in EBITDA, thereby reducing the enterprise value calculated when applying an EBITDA multiple; and (ii) also deduct the full value of the liability from enterprise value to calculate equity value. The enterprise value has already been reduced because of that liability.

58. For example, post-retirement health care expense has been included as part of Patriot's operating costs per ton. It is therefore inappropriate to further deduct its claim to calculate equity value. ARO, on the other hand, has not been factored into the EBITDA calculation and, therefore, its liability must be considered to correctly estimate potential equity recoveries.

59. Table 6 uses KLR's methodology to calculate a range of potential value to current shareholders based on Patriot's historical operating results. While I do not endorse this methodology as an appropriate way to calculate Patriot's potential enterprise and equity value, I have corrected KLR's most obvious errors.

Table 6: Equity Value - Operating Results		
($ in millions)	**Low**	**High**
Enterprise Value	$ 185	$ 1,071
DIP Facility	(729)	(729)
Senior Notes	(250)	(250)
Convertible Senior Notes	(200)	(200)
Retiree Healthcare	NA	NA
UMWA Pension & Benefit Claims	NA	NA
Unsecured Trade Payables	(52)	(52)
Other Filed Claims	(121)	(121)
Asset Retirement Obligations & Selenium	(732)	(732)
Coal Act Obligations	NA	NA
Workers' Compensation	NA	NA
Cash	242	242
Equity Value	**$ (1,657)**	**$ (771)**

Note: While retiree health care, UMWA pension and benefit claims, Coal Act obligations and workers' compensation payments remain liabilities of Patriot, it is inappropriate to include them in this equity valuation because the cost of servicing those obligations has already been incorporated into Enterprise Value.

V. Comparable Company Multiples

60. KLR's final valuation methodology assumes that Patriot, through its bankruptcy reorganization process, can achieve EBITDA margins in line with other coal companies upon its emergence. This approach is overly simplistic because it only considers one aspect of Patriot's actual operations (namely, Patriot's revenue from coal sales). While I do not believe that this methodology is appropriate to calculate Patriot's enterprise or equity value, once applied to the corrected revenue figures from Figure 1 (see paragraph 46) it nevertheless leads to negative equity value.

61. Figure 5 below is an illustration of potential Adjusted EBITDA under this approach using the corrected revenue range calculated in Figure 1, and without changing KLR's calculated comparable company EBITDA margins.

Figure 5: Adjusted EBITDA *($ in millions)*

		Revenue				
		$ 1,603	$ 1,740	$ 1,878	$ 2,015	$ 2,152
	14.0%	$224	$244	$263	$282	$301
Adjusted	15.0%	240	261	282	302	323
EBITDA	16.5%	264	287	310	332	355
Margin	18.0%	289	313	338	363	387
	19.0%	305	331	357	383	409

62. The EBITDA calculated in Figure 5 can then be multiplied by KLR's comparable company EBITDA multiples to estimate a range of enterprise values. Figure 6 below shows the enterprise values that result from performing KLR's calculations with the results from Figure 5.[20]

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[20] The KLR Report focused only on the 14.0% EBITDA margin row, not the entire range of Adjusted EBITDA margins listed on the chart. Based on KLR's earlier methodologies, I believe this was done in error. For consistencies sake, I will use the maximum EBITDA on the sensitivity table as the maximum EBITDA used for valuation. KLR also improperly deducted SG&A costs from Patriot's EBITDA to calculate the EBITDA used in the valuation sensitivity. I do not believe it is appropriate to subtract Patriot's SG&A costs from its EBITDA, as the EBITDA margins used are based on comparable company margins that already include SG&A costs. For purposes of correcting KLR's analysis, I have not deducted SG&A costs from Patriot's EBITDA. Both of these corrections actually serve to increase the range of equity values for Patriot predicted by the third methodology. However, once KLR's other methodological errors are corrected, the third methodology still predicts a negative range of equity values.
(…continued)

Figure 6: Enterprise Value - Comparable Company Multiples *($ in millions)*

		Adjusted EBITDA ($mm)				
		$224	$271	$317	$363	$409
EBITDA Multiple	4.5x	$1,010	$1,217	$1,425	$1,632	$1,840
	5.0x	1,122	1,353	1,583	1,814	2,044
	5.5x	1,234	1,488	1,742	1,995	2,249
	6.0x	1,347	1,623	1,900	2,177	2,453
	6.5x	1,459	1,758	2,058	2,358	2,658

63. Reducing Patriot's cost structure, however, will create claims in addition to all of Patriot's existing liabilities that will be senior in priority to equity holders. Therefore, it is important to deduct the value of all of the approximately $3.9 billion of estimated bankruptcy claims, as described in Table 1, filed against Patriot to determine any residual equity value.

64. Many reinstated expenses are, however, included in KLR's calculation of comparable companies' EBITDA margins. Based on our review of the KLR Report, it appears that Coal Act obligations, workers' compensation costs and black lung expenses are all included as costs in calculating EBITDA margins. It would, therefore, "double-count" those liabilities if they were deducted from enterprise value to calculate equity value in this analysis. ARO obligations, however, are not included in KLR's definition of Adjusted EBITDA and, therefore, that liability must be taken into account when calculating potential equity recoveries.

65. As shown in Table 7 below, once the value of the bankruptcy claims filed against Patriot are deducted from the enterprise value calculated using the comparable companies multiple methodology, the range of resulting equity values is negative.

[Table Redacted]

(continued…)

I have also reduced KLR's top EBITDA multiple to 6.5x to be consistent with the multiples used in the operating results valuation. I believe KLR's use of 6.6x was a typographical error.

VI. Conclusions

66. Mr. Wu has opined that, based on his experience, the KLR Report, and the Ross letter, he believes that there is a greater than 50% likelihood that Patriot's equity holders will receive value in the bankruptcy cases. As demonstrated in this declaration, the KLR Report is based on several errors and flawed assumptions, including:

(i) not considering the market value of Patriot's publicly traded debt securities;

(ii) the use of overly broad valuation methodologies that do not reflect the true operational characteristics of Patriot Coal and fail to accurately reflect Patriot's expected future financial performance;

(iii) increasing the apparent volatility of Patriot's historical financial results by focusing on quarterly, rather than annual, data that becomes skewed by seasonal effects;

(iv) the failure to check the output of analyses against actual results;

(v) the failure to account for several of Patriot's significant liabilities, as well as numerous claims asserted against Patriot, which would need to be satisfied before equity holders could recover any value from Patriot;

(vi) ignoring the fact that amending Patriot's cost structure, in most cases, creates additional liabilities and that those incremental liabilities would need to be satisfied before equity receives a recovery; and

(vii) selecting comparable companies that mine different types of coal and in geographies that have very different economics than Patriot and participate in unrelated businesses with very different valuation characteristics.

67. While I do not believe KLR's methodologies are appropriate to calculate Patriot's enterprise and equity value, they nevertheless demonstrate that it is highly unlikely that there will be any recovery for equity, after the application of the absolute priority rule, once these errors are accounted for; in any event, there is currently no basis to conclude that there is a likelihood that current equity holders will get a recovery under a Patriot Plan of Reorganization. Table 8 summarizes the equity value derived from each methodology after adjusting the data for the flaws in KLR's work. The negative equity values calculated are generally in line with the implied market discount of Patriot's liabilities of $1.7 billion to $2.8 billion calculated in paragraph 19.

[Table Redacted]

68. It is unclear in what way, if at all, Mr. Wu relied on information other than the KLR Report. According to his testimony, he has "no independent view as to the value of Patriot aside from that derived from reviewing the KLR Report" (Wu Dep. at 84:25-85:2.) Given the conclusions generated after correcting the analyses in that report, I do not believe that Mr. Wu has any legitimate basis for concluding that it is more likely than not that equity will receive value in the Patriot bankruptcy cases.

I, Paul P. Huffard, declare under penalty of perjury that the foregoing is true and correct.

Dated: New York, New York
March 29, 2013

/s/ Paul P. Huffard
Paul P. Huffard
Senior Managing Director
Blackstone Advisory Services L.P.