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**UNITED STATES BANKRUPTCY COURT**
**SOUTHERN DISTRICT OF NEW YORK**

| | |
|---|---|
| In re: | Case No. 12-12900 (SCC) |
| PATRIOT COAL CORPORATION, *et al.*, | Chapter 11 |
| Debtors. | Jointly Administered |

**MOTION OF CERTAIN INTERESTED SHAREHOLDERS FOR ENTRY OF AN ORDER DIRECTING THE APPOINTMENT OF AN OFFICIAL COMMITTEE OF EQUITY SECURITY HOLDERS PURSUANT TO BANKRUPTCY CODE § 1102(a)(2)**

CompassPoint Partners, L.P., Frank Williams, and Eric Wagoner (collectively, the "Interested Shareholders"), an informal group of holders of common stock of Patriot Coal Corporation ("Patriot Coal" or the "Company"), hereby move this Court (the "Motion") for entry of an order, substantially in the form attached hereto as Exhibit A (the "Proposed

Order"), directing the United States Trustee (the "US Trustee") to appoint an official committee of equity security holders in the bankruptcy cases of the above-captioned debtors and debtors-in-possession (collectively, the "Debtors") pursuant to Bankruptcy Code § 1102(a).[1]

**OVERVIEW**

1. The Interested Shareholders request that the Court order the appointment of an official equity committee in these cases to ensure the integrity of the bankruptcy process for shareholders and to assure their adequate representation in these proceedings. The Debtors' cases are indeed apt for the appointment of an official committee of equity security holders, as the facts demonstrate:

a) Patriot Coal's own numbers indicate that there is meaningful equity value available to the Company's shareholders. On a balance sheet basis, Patriot Coal's book value of its assets exceeds its liabilities by over $495 million: as demonstrated in Exhibit A to Patriot Coal's bankruptcy petition, the Company had $3,568,840,000 in assets and $3,072,248,000 in liabilities as of the petition date. Further, Patriot Coal's latest reported financial statements put total stockholders' equity in the realm of over $188 million.

b) The Debtors also have other sources of value that could substantially increase the value of the reorganized Debtors, leading to the payment of creditors in full and a meaningful recovery to equity; these include, by the Debtors' own admission, consolidated net operating losses approximately $867 million for U.S. federal income tax purposes and a net operating loss for U.S. federal alternative minimum tax purposes of approximately $570 million, which they may carry forward to offset against future income under U.S. tax law.

c) The Interested Shareholders also believe there may be sources of value that the Debtors have not yet disclosed, such as considerable value in their non-Debtor subsidiaries, as well as other potential tax refunds, claims against officers and directors, and other claims. For example, the Interested Shareholders understand that there may be significant fraudulent transfer and other claims against the Debtors' former parent, which spun off Patriot Coal in 2007, saddling it with over a billion dollars in legacy liabilities.

[1] The Interested Shareholders have no intention of forming an *ad hoc* committee at this time.

d) Significantly, there could also be substantial value for equity in these cases depending on the structure of the Debtors' reorganization: employees at various of the Company's mines (including Blue Creek, Campbell's Creek, Paint Creek, and Panther) are not represented by unions and likely have significantly lower operating costs than others, making the subsidiaries that own and operate such mines more valuable than other subsidiaries with higher operating costs. And according to the Debtors' latest 10-Q for the second quarter of 2012, nearly $1.39 billion of "Post Retirement Benefit Obligations" are considered to be liabilities of certain guarantor subsidiaries—not Patriot Coal itself.[2] If the Debtors' estates are not substantively consolidated, equity may be in the money; an official equity committee should be formed so that the Debtors' owners can have a meaningful voice in steering the direction of the Debtors' reorganization to maximize value.

e) Patriot Coal has also historically had meaningful equity value, with a 52-week high stock price prior to the petition date of $24.88 per share. Patriot Coal's stock also traded above $5.00 per share just sixty days prior to the Company's bankruptcy filing and has continued to trade post-petition, albeit understandably at a discount on account of the bankruptcy.

2. Despite every indication that there is meaningful value for equity in these cases, the shareholders of Patriot Coal may—if not adequately represented by an official committee in these cases now—be faced with a dramatic dissipation of their equity value date without having the requisite voice in these cases to preserve value. Under the stewardship of current management, significant equity value may have already vanished pre-petition. Indeed, given the Debtors' 52-week high stock trading price of nearly $25 per share when these cases were filed, over 2.3 billion in value may have evaporated in a less than a year, and perhaps as much as $892 million may have disappeared over the last several months.[3] In light of the Debtors' public financial disclosures to date, the serious decline in equity value raises serious questions as to the current ability of current officers and directors to provide any representation (much less adequate representation) of its shareholders, thereby mandating the appointment of an official

[2] Patriot Coal Corp. Form 10-Q for Quarterly Period Ended June 30, 2012 at 21, a true and correct copy of which is attached hereto as Exhibit B.
[3] Seven months prior to the bankruptcy filing, Patriot Coal's stock traded at $9.88 per share.

3. The Interested Shareholders suspect that the Debtors and Creditors' Committee may argue that the Court should simply postpone the appointment of an official equity committee during the early stages of these cases. Such a "wait and see" approach—especially where the Debtors are likely solvent and there is every indication of a meaningful recovery for shareholders—while convenient for the parties already involved in the case and in control of pertinent financial and other information, can only serve to further prejudice equity holders. Bankruptcy Code § 1102(a) is intended to provide for the creation of official equity committees for precisely such a situation. An official equity committee will have the capability and incentive to identify sources of value for shareholders that other parties may have little incentive to find or to maximize.

4. On the other hand, if sixty or ninety days from now (or more), there were a determination the formation of an official equity committee is appropriate, the shareholders would be prejudiced by the sheer delay in processing information and advancing up the learning curve. Further, any decisions and other actions taken in the interim may place the shareholders at a great disadvantage and, at worst, render the later appointment of an official equity committee meaningless. It is essential that shareholders be properly represented at every stage of this proceeding—every operational, financial and legal decision that impacts value and claims will have a direct impact on the equity value available to them. Shareholders should be at the same table, at the same time, and in the same official capacity as all of the parties-in-interest in these cases.

5. Further, the Interested Shareholders cannot reasonably be expected to act on behalf of all shareholders. Unlike members of an official committee, they do not enjoy the

6. There are also other factors for this Court to consider. These cases are large and complex. The common stock has been (and is) relatively widely held and actively traded. For the reasons stated earlier, the interests of shareholders cannot be represented by the current board of directors, management, or any other party in these cases. The cost of an official equity committee in the context of these proceedings and in the case of a company generating over $2.4 billion in revenues for fiscal year 2011 should not be considered prohibitive.[4] On balance, the costs of an official equity committee do not outweigh the need for the adequate representation of shareholders.

7. Simply put, where, as here, the Debtors are likely quite solvent with considerable enterprise value, it is shareholders that will be funding this restructuring to the extent that equity value is sacrificed, and it will be shareholder value that is impacted first and foremost in these cases. Shareholders should have an official committee to give them a voice to insure that the value of their interests is protected and preserved; they need a meaningful place at the negotiating table now as these cases unfold. If the Court delays ordering the appointment of an official equity committee, the course of the Debtors' restructuring may soon be set, to the

[4] Patriot Coal Corp. Form 10-K/A for Fiscal Year 2011 ("2011 10-K/A") at 64, a true and correct copy of which is attached hereto as Exhibit C.

## JURISDICTION

8. The Court has subject matter jurisdiction to consider this matter pursuant to Judicial Code § 1334. This is a core proceeding pursuant to Judicial Code § 157(b) and may be determined by this Court. Venue is proper before this Court pursuant to Judicial Code §§ 1408 and 1409. The statutory predicate for the relief requested herein is Bankruptcy Code § 1102(a)

## BACKGROUND

9. Patriot Coal is a leading producer of thermal coal in the eastern United States, with operations and coal reserves in the Appalachia and the Illinois Basin coal regions. Patriot Coal is also a leading U.S. producer of metallurgical quality coal. The Company's principal business is the mining and preparation of thermal coal, also known as steam coal, and metallurgical coal. Thermal coal is primarily sold to electricity generators, and metallurgical coal is sold to steel mills and independent coke producers.

10. As of December 31, 2011, the Company's operations consisted of fourteen active mining complexes, and its operations include company-operated mines, contractor-operated mines and coal preparation facilities. The Appalachia and Illinois Basin segments consist of operations in West Virginia and Kentucky, respectively, and the Company controls approximately 1.9 billion tons of proven and probable coal reserves.

11. The Company ships coal to electricity generators, industrial users, steel mills and independent coke producers, and, in 2011, the Company sold 31.1 million tons of coal, of which 76% was sold to domestic and global electricity generators and industrial customers and 24% was sold to domestic and global steel and coke producers.

12. On July 9, 2012 (the "Petition Date"), the Debtors each filed a petition for relief

13. The Debtors continue to manage and operate their businesses as debtors-in-possession pursuant to Bankruptcy Code §§ 1107 and 1108. No trustee or examiner has been appointed in these cases.

14. On July 18, 2012, the US Trustee held a meeting to form the Creditors' Committee. That same day, the Creditors' Committee was appointed in these cases.

15. By letter dated July 18, 2012, the Interested Shareholders requested that the US Trustee appoint an official equity committee in these cases.

16. By letter dated August 24, 2012, the US Trustee denied the Interested Shareholders' request to appoint an official equity committee in these cases.

## <u>RELIEF REQUESTED</u>

17. The Interested Shareholders request that this Court direct the US Trustee to appoint an official committee of equity security holders pursuant to Bankruptcy Code § 1102(a).

## <u>BASIS FOR RELIEF</u>

18. Under Bankruptcy Code § 1102(a)(2), upon request of a party in interest, the Court may order the appointment of a committee of equity security holders if necessary to assure "adequate representation" of equity security holders. Congress created the provision to "counteract the natural tendency of a debtor in distress to pacify large creditors, with whom the debtor would expect to do business, at the expense of small and scattered public investors. S. Rep. No. 989, 95th Cong. 2.d Sess. 10 (1978). Because Section 1102 does not define what constitutes "adequate representation" of equity security holders, adequate representation is

19. To make that determination, courts typically consider (i) the number of shareholders; (ii) the complexity of the case; (iii) the solvency of the debtor; (iv) whether the cost to the estate outweighs the adequate representation interest of shareholders; and (v) whether the interests of shareholders are already represented. *See Exide Techs. v. State of Wis. Inv. Bd. (In re Exide Techs.)*, 2002 U.S. Dist. LEXIS 27210, at *4-5 (D. Del. Dec. 23, 2002); *Wang Labs.*, 149 B.R. at 2; *In re Eastern Me. Elec. Coop.*, 121 B.R. 917, 932 (Bankr. D. Me. 1990); *Albero v. Johns- Manville Corp (In re Johns-Manville)*, 68 B.R. 155, 159 (S.D.N.Y. 1986), *appeal dismissed* 834 F.2d 176 (2d Cir. 1987); *In re Beker Indus. Corp.*, 55 B.R. 945 (Bankr. S.D.N.Y. 1985); *In re Emons Indus., Inc.*, 50 B.R. 692 (Bankr. S.D.N.Y 1985). No one factor is dispositive, and the relative weight that should be accorded to the various factors depends on the circumstances of the particular reorganization case. *In re Kalvar Microfilm, Inc.*, 195 B.R. 599, 600 (Bankr. D. Del. 1996). As demonstrated below, an analysis of each of these factors demonstrates the propriety of—and the need for—an official equity committee in these cases at this time.

**<u>Patriot Coal Is Not Hopelessly Insolvent</u>**

20. The threshold legal standard courts consider in determining whether to appoint an official equity committee is whether the debtor appears to be "not hopelessly insolvent": that is, where a debtor does not appear to be hopelessly insolvent, courts generally will appoint an official committee to represent the interests of the debtor's shareholders after considering various other factors. *Exide*, 2002 U.S. Dist. LEXIS 27210, at *4; *Wang Labs.*, 149 B.R. at 2 (Bankr. D. Mass. 1992); *Emons Indus.*, 50 B.R. at 694; *Beker*, 55 B.R. at 948-49.

21. The test is not whether recovery to the Debtors' shareholders is guaranteed. *E.g.*, *Emons Indus.*, 50 B.R. at 694 (equity committee appointed where views on the debtor's insolvency differed and there was "the possibility of a squeeze play against outside equity holders of a sort that the court thought outside equity holders might wish to consider before abandoning their interests."). The initial question is rather whether the Interested Shareholders have presented *credible evidence* that the Debtors are *not hopelessly* insolvent. *Exide*, 2002 U.S. Dist. LEXIS at *5-6; *see also Wang Labs.*, 149 B.R. at 7-8. Indeed, in *Wang Laboratories*, even though "[t]he Court cannot determine from the record and arguments of counsel either what definition of insolvency is appropriate, or if the debtor is insolvent under the applicable test," the court nevertheless appointed an equity committee, among other reasons, because "[i]n any event, the debtor remains in operation at present, albeit at a loss, and is not *hopelessly* insolvent, which is the *Emons* test." *Wang Labs.*, 149 B.R. at 7-8.

22. As mentioned above, Patriot Coal is not a case where the debtors are hopelessly insolvent and shareholders are clearly "out of the money." In its filings with the SEC before the Petition Date, the Company indicated substantial equity value of nearly $190 million.[5] Further, on a balance sheet basis on the date of filing, Patriot Coal's book value of its assets exceeded its liabilities by approximately $495 million.[6] The Debtors also have represented the existence of net operating losses of over $1.4 billion that they may carry forward to offset against future income under U.S. tax law, thereby significantly increasing the overall value of the reorganized Debtors, which, in turn, indicates a substantial possibility of a meaningful distribution to equity

[5] Patriot Coal Corp. Form 10-Q for Quarterly Period Ended June 30, 2012 at 3.

[6] Patriot Coal Corp. Chapter 11 Petition [ECF No. 1], Exhibit A.

in these cases.[7]

23. There are also other potential sources of value, discussed above, including, without limitation, potential claims against third parties and other potential tax refunds, described above, that could provide significant value to the Debtors estates, indicating a meaningful recovery for equity. Again, the Interested Shareholders understand that there may be significant fraudulent transfer and other claims against the Debtors' former parent, which spun off Patriot Coal in 2007, saddling it with over a billion dollars in legacy liabilities; under N.Y. Debt. & Cred. Law §§ 270-281 and N.Y. C.P.L.R. § 213, made applicable to this matter by Bankruptcy Code § 544, the fraudulent conveyance look-back period is six years, so fraudulent conveyance claims related to the spin-off could still be brought under Section 544.

24. Here, all economic and other market indicators demonstrate that the Debtors are solvent and that there is value in Patriot Coal for shareholders. In addition, it is apparent to the Interested Shareholders (and the Interested Shareholders will demonstrate at any evidentiary hearing on the Motion) that the likely reason for this bankruptcy is to restructure the Debtors' secured and unsecured debt—and perhaps to improve operations and to lower costs. While bankruptcy may be useful for any short-term liquidity issues, there appears to be sufficient value in the Debtors to pay all creditors in full and distribute value for the benefit of equity holders.

25. In any event, in the absences of current, audited financial information, the Debtors' solvency is at best subject to good faith dispute. The interests of numerous public shareholders therefore should neither be left unrepresented nor simply relegated to reacting at a later date once the Debtors and creditors determine what, if any, value to assign to equity, based

[7] *Debtors' Motion for an Order Establishing Notification Procedures and Approving Restrictions on Certain Transfers of Claims Against and Interest in the Debtors' Estates* [ECF No. 22] ¶ 6.

on untested and unreliable numbers. *See In re Mansfield Ferrous Castings, Inc.*, 96 B.R. 779, 781 (Bankr. N.D. Ohio 1988) (rejecting insolvency as barring appointment of an equity committee and stating that the court will be guided by all the facts and not just the issue of solvency).

26. Further, solvency, even if marginal, is but one factor in the Court's decision to appoint an equity committee. Where the debtor is even marginally solvent, as the Debtors here clearly are when considering their own numbers, shareholders have a meaningful interest in the outcome of the case and should have the benefit of an equity committee representing their interests. *Wang Labs.*, 149 B.R. at 3; *Beker*, 55 B.R. at 950-51.

**The Debtor's Other Constituencies and the Creditors' Committee Cannot Adequately Protect the Interests of Shareholders**

27. The Debtors and the Creditors' Committee will likely argue that an equity committee will be redundant because of the fiduciary responsibility corporate debtors' directors and management owe to look after shareholders' interests. Yet many of the Debtors' current officers and directors were at the Company's helm as Patriot Coal's share price significantly declined over the past year, severely damaging shareholder value. As mentioned above, shares were trading at a 52-week high of nearly $25 per share, down to $5 per share sixty days prior to the bankruptcy filing, obviously adversely impacting equity value. As current management presided over an evaporation of such an enormous amount of equity value without providing any adequate explanation, it would be patently unfair to require that shareholders should now be forced to rely on these same parties to protect their interests in the bankruptcy proceedings.

28. As discussed above, the potentially significant disparity among, *inter alia*, the liabilities, operational costs, and assets of the Company and certain of its subsidiaries *vis-à-vis* others strongly suggests that whether equity receives any distribution in these cases will depend,

29. Accordingly, shareholders cannot take comfort in the fact that the Debtors' officers and directors—or, indeed, the Creditors' Committee, which owes its fiduciary duty solely to unsecured creditors—would constitute suitable shareholder advocates. Neither the Debtors' officers and directors nor the Creditors' Committee can substitute as adequate representatives of shareholders; they need an official committee for that.

**<u>The Interested Shareholders Are Not Fiduciaries for All Shareholders</u>**

30. The Interested Shareholders cannot protect the rights of all shareholders because they owe no fiduciary duty to the entire group. They are not a substitute for an official committee, and the fact that they were able to come together and file this Motion should not be used as a reason to deny them official committee status. As the court in *Beker* noted:

> The position that some members of the [investor] class may have resources sufficient to protect their interest is of little significance, in our judgment, at least where the security is widely held. They do not have the fiduciary duty to represent their fellow security holders.

*Beker*, 55 B.R. at 949. The Interested Shareholders, absent official status, do not owe a fiduciary duty to other shareholders to protect the interests of the entire group of equity holders. Even though other shareholders may assume that the Interested Shareholders will act in the best interest of equity holders generally, there is no obligation for them to do so. Consequently, absent the appointment of an official equity committee, individual, smaller, or non-institutional shareholders may be left unprotected.

**<u>Patriot Coal's Shares Are Publicly Traded and Are Held by Numerous Shareholders</u>**

31. When the shares of a debtor are widely held, official equity committee

[8] which implicates a significantly higher number of beneficial holders.

32. Here, adequate shareholder representation through individuals is highly impractical, if not impossible. Individuals will not and cannot be expected to expend significant time, energy, and money without the official status to protect the interests of the shareholder class. Furthermore, the holdings of most shareholders are relatively small and it is not cost-effective for each individual shareholder to individually hire professionals to participate in this large and complex case.

**<u>These Cases Are Large and Complex</u>**

33. These are clearly large and complex bankruptcy cases. The Court itself has designated these “Mega” cases. Further, the size and complexity of the Debtors’ cases are further highlighted by considering their corporate structure and workforce. Specifically, the Debtors—which principal entity, Patriot Coal, is publicly traded—are leading producers and marketers of coal in the United States, supplying coal to various customers across the country and internationally, shipping 31.1 million tons of coal in 2011 alone.[9] Among other factors, the Debtors (i) employ approximately 4,000 people, 42% of whom are unionized employees

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[8] *Declaration of Mark N. Schroeder Pursuant to Local Bankruptcy Rule 1007-2* [ECF No. 4] ¶ 16.
[9] *Id.* at ¶¶ 11, 16.

covered by collective bargaining agreements;[10] (iii) have estimated revenues of approximately $2.4 billion for fiscal year 2011;[11] (iv) have a book value of assets and liabilities of approximately $3.57 billion and $3.07 billion, respectively;[12] (v) have engaged sophisticated counsel and restructuring advisors to address potentially significant operational and financial issues at the Company; and, among other things, (vi) likely have significant pension and multi-employer pension obligations that need to be evaluated. Based on the foregoing, it is evident that these cases are large and complex.

**The Cost of an Official Equity Committee to the Bankruptcy**
**Estates Does Not Outweigh the Adequate Representation Interests of Shareholders**

34. Because the fundamental purpose of Bankruptcy Code § 1102(a)(2) is to provide adequate resources and a level playing field for equity holders, there will be costs. But such additional cost must be weighed against the need for adequate representation of equity holders generally. *See Wang Labs.*, 149 B.R. 4; *Beker*, 55 B.R. at 95-52; *Emons Indus.*, 50 B.R. at 964. At this time, the US Trustee has appointed the Creditors' Committee and no other official committee. In light of the Debtors' historical revenue relative to its debt burden post-filing, the cost associated with an official equity committee will not unduly burden this bankruptcy estate.

35. The appointment of an official equity committee also will neither delay these cases nor impose undue expense on the estates. These cases remain in their preliminary stages, with no indication that a plan of reorganization is forthcoming. The Court's oversight of

[10] *Debtors' Motion for an Order Authorizing (i) Debtors to (a) Pay Prepetition Wages, Salaries, Employee Benefits and Other Compensation and (b) Maintain Employee Benefits Programs and Pay Related Administrative Obligations, (ii) Employees and Retirees to Proceed with Outstanding Workers' Compensation Claims and (iii) Financial Institutions to Honor and Process Related Checks and Transfers* [ECF No. 9] ¶ 7.

[11] 2011 10-K/A at 64.

[12] Patriot Coal Chapter 11 Petition, Exhibit A.

professional fees also operates as a check against an official equity committee undertaking unreasonable activities, vexatious positions, or fruitless litigation. As one court has put it, "[t]he potential added cost is not sufficient in itself to deprive the creditors of the formation of an additional committee if one is otherwise appropriate." *In re Interco, Inc.*, 141 B.R. 422, 424 (Bankr. E.D. Mo. 1992). *See also In re McLean Indus., Inc.*, 70 B.R. 852, 860 (Bankr. S.D.N.Y. 1987) ("Costs alone cannot and should not deprive public debt and security holders of representation"); *Beker*, 55 B.R. at 951 (same).

36. An equity committee will focus solely on issues that impact recoveries for equity security holders. The committee should work in tandem with other estate professional, and existing and investigative materials can and should be shared to avoid unnecessary duplication of effort. Sharing of investigative efforts and work product between the committees, the Debtors, and any examiner or trustee that may be appointed will ensure that the equity committee does not impose undue cost. The incremental cost of professionals employed by an official equity committee will be modest relative to the costs already being incurred by the existing creditors' committee and other estate professionals. Such costs would be negligible compared to the magnitude of losses and potential claims in issue and the overall assets and liabilities involved in these cases.

**Shareholders Need an Official Equity Committee to Participate in These Cases Meaningfully**

37. Official status for a committee of equity security holders is essential. The Debtors, their pre- and post-petition lenders, and the Creditors' Committee are already (or will shortly be) making decisions charting the course of these cases that may adversely impact shareholders, perhaps to the point of eviscerating shareholder value in its entirety, despite the fact that there is every indication of a meaningful shareholder recovery here, as demonstrated

38. In sum, shareholders deserve a place at the table in these cases now as the stakeholders with the most to lose at this juncture. This Court should therefore order the appointment of an official committee of equity security holders to advance and to protect the interests of shareholders.[13]

**NOTICE**

39. Notice of this Motion will be provided to (i) counsel for the Debtors; (ii) the US Trustee; (iii) counsel for the Creditors' Committee; (iv) counsel for the agents for the Debtors' pre- and post-petition lenders, (v) counsel for the SEC and other regulatory agencies; (vii) the Debtors' noticing and claims agent; (vi) counsel for the indenture trustees for the Debtors' senior and convertible unsecured notes; and (vii) all parties requesting notice pursuant to Bankruptcy Rule 2002. The Interested Shareholders submit that no other or further notice need be provided under the circumstances.

**MOTION PRACTICE**

40. This Motion includes citations to the applicable rules and statutory authorities upon which the relief requested herein is predicated, as well as a discussion of their application

[13] Courts in this District have, recently and historically, appointed official equity committees in cases such as this where the debtor was not hopelessly insolvent and, *inter alia*, the interests of shareholders could not be adequately represented by others. *See, e.g.*, *In re Chemtura Corp.*, Case No. 09-11233 (Bankr. S.D.N.Y); *In re Gen. Growth Props.*, Inc., Case No. 09-11977 (Bankr. S.D.N.Y.); *In re Tronox Inc.*, Case No. 09-10156 (Bankr. S.D.N.Y.); *In re Oneida Ltd.*, Case No. 06-10489 (Bankr. S.D.N.Y ); *In re Calpine Corp., Inc.*, Case No. 05-60200 (Bankr. S.D.N.Y.); *In re Delphi Corp.*, Case No. 05-44481 (Bankr. S.D.N.Y.); *In re Loral Space & Commc'ns Ltd.*, Case

Footnote Continued on Next Page

to this Motion. Accordingly, the Debtors submit that this Motion satisfies Local Bankruptcy Rule 9013-1(a).

## NO PRIOR REQUEST

41. The Interested Shareholders have made no prior request for the relief requested herein to this or any other court.

**WHEREFORE**, the Interested Shareholders respectfully request that this Court enter an order, substantially in the form of the Proposed Order, (i) directing the US Trustee to appoint an official committee of equity security holders pursuant to Bankruptcy Code § 1102(a)(2) of the Bankruptcy Code and (ii) granting such other and further relief as this Court deems just and proper under the circumstances.

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Footnote Continued from Previous Page

No. 03-41710 (Bankr. S.D.N.Y.); *In re Solutia Inc.*, Case No. 03-17949 (Bankr. S.D.N.Y.); *In re Adelphia Commc'ns Corp.*, Case No. 02-41729 (Bankr. S.D.N.Y.).

Dated: August 24, 2012
New York, New York

Respectfully submitted,

**MCKOOL SMITH, P.C.**

By: /s/ *Michael R. Carney*
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*Counsel for Certain Interested Shareholders*

## CERTIFICATE OF SERVICE

I hereby certify that I have cause a true and correct copy of the foregoing to be sent by electronic delivery to all parties consenting to service through the Court's CM/ECF system this the 24th day of August, 2012.

/s/ Michael R. Carney
Michael R. Carney

# EXHIBIT A

**Proposed Order**

**UNITED STATES BANKRUPTCY COURT**
**SOUTHERN DISTRICT OF NEW YORK**

| | | |
|---|---|---|
| In re: | ) | Case No. 12-12900 (SCC) |
| PATRIOT COAL CORPORATION, *et al.*, | ) | Chapter 11 |
| Debtors. | ) | Jointly Administered |

**ORDER GRANTING MOTION OF CERTAIN INTERESTED SHAREHOLDERS FOR ENTRY OF AN ORDER DIRECTING THE APPOINTMENT OF AN OFFICIAL COMMITTEE OF EQUITY SECURITY HOLDERS PURSUANT TO BANKRUPTCY CODE § 1102(a)(2)**

Upon consideration of the motion (the "Motion")[14] of the Interested Shareholders for Entry of an Order Directing the Appointment of an Official Committee of Equity Security Holders Pursuant to Bankruptcy Code § 102(a)(2); and the Court having jurisdiction to consider the Motion and the relief requested therein pursuant to Judicial Code § 1334; and consideration of the Motion and the relief requested therein being a core proceeding pursuant to Judicial Code § 157(b); and venue being proper before this Court pursuant to Judicial Code §§ 1408 and 1409; and upon the record of these Chapter 11 cases and any hearings held to consider the Motion; and the Court having found that good and sufficient cause exists for granting the Motion; and it appearing that the relief requested in the Motion is appropriate in the context of these cases and is in the best interest of the Debtors, their estates, and all other parties-in-interest; and it appearing that notice of the Motion was adequate and proper under the circumstances of these cases, and it appearing that no other or further notice need be given; it is hereby

ORDERED that the Motion is granted to the extent set forth herein; and it is further

[14] Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Motion.

ORDERED that the US Trustee is directed to appoint an official committee of equity security holders within five (5) days following the entry of this Order; and it is further

ORDERED that the terms and conditions of this Order shall be effective and enforceable immediately upon its entry; and it is further

ORDERED this Court shall retain jurisdiction with respect to all matters arising from or related to the interpretation and implementation of this Order.

Dated: New York, New York
_______________, 2012

HONORABLE SHELLEY C. CHAPMAN
UNITED STATES BANKRUPTCY JUDGE

# EXHIBIT B

**Patriot Coal Corp. Form 10-Q for Quarterly Period Ended June 30, 2012**

# Patriot Coal CORP (PCXCQ)

## 10-Q

Quarterly report pursuant to sections 13 or 15(d)
Filed on 08/09/2012
Filed Period 06/30/2012

# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, D.C. 20549**

# FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended June 30, 2012**

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from _________ to _________**

**Commission File Number: 001-33466**

# PATRIOT COAL CORPORATION

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Delaware** | **20-5622045** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| **12312 Olive Boulevard, Suite 400<br>St. Louis, Missouri** | **63141** |
| (Address of principal executive offices) | (Zip Code) |

**(314) 275-3600**

(Registrant's telephone number, including area code)

**Not Applicable**

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☐ No ☑

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☑ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

| | |
|---|---|
| Large accelerated filer ☑ | Accelerated filer ☐ |
| Non-accelerated filer ☐ (Do not check if a smaller reporting company) | Smaller reporting company ☐ |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

There were 92,706,525 shares of common stock with a par value of $0.01 per share outstanding on August 3, 2012.

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PART I - FINANCIAL INFORMATION

**PART I - FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**PATRIOT COAL CORPORATION**
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2012 | 2011 Restated [1] | 2012 | 2011 Restated [1] |
| | (Dollars in thousands, except share and per share data) | | | |
| **Revenues** | | | | |
| Sales | $ 518,273 | $ 623,902 | $ 1,002,611 | $ 1,194,280 |
| Other revenues | 15,792 | 8,258 | 34,032 | 14,904 |
| Total revenues | 534,065 | 632,160 | 1,036,643 | 1,209,184 |
| **Costs and expenses** | | | | |
| Operating costs and expenses | 477,223 | 560,269 | 932,559 | 1,076,108 |
| Depreciation, depletion and amortization | 45,138 | 46,370 | 86,524 | 91,072 |
| Asset retirement obligation expense | 325,474 | 72,356 | 358,241 | 87,423 |
| Sales contract accretion | — | (15,815) | (11,628) | (34,425) |
| Restructuring and impairment charge | 9,597 | 137 | 42,458 | 284 |
| Selling and administrative expenses | 16,575 | 14,060 | 30,130 | 26,604 |
| Net gain on disposal or exchange of assets | (1,157) | (9,372) | (2,668) | (9,415) |
| Income from equity affiliates | (720) | (2,998) | (1,700) | (2,920) |
| **Operating loss** | (338,065) | (32,847) | (397,273) | (25,547) |
| Interest expense and other | 16,309 | 16,583 | 32,507 | 39,443 |
| Interest income | (54) | (52) | (163) | (98) |
| **Loss before income taxes** | (354,320) | (49,378) | (429,617) | (64,892) |
| Income tax provision | — | 218 | — | 613 |
| **Net loss** | $ (354,320) | $ (49,596) | $ (429,617) | $ (65,505) |
| **Weighted average shares outstanding, basic and diluted** | 92,847,229 | 91,284,418 | 92,349,430 | 91,284,370 |
| **Loss per share, basic and diluted** | $ (3.82) | $ (0.54) | $ (4.65) | $ (0.72) |

[1] See Note 18, Restatement of Financial Statements, in the Notes to Unaudited Condensed Consolidated Financial Statements.

See accompanying notes to unaudited condensed consolidated financial statements.

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**PATRIOT COAL CORPORATION**

**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2012 | 2011 Restated[1] | 2012 | 2011 Restated[1] |
| | (Dollars in thousands) | | | |
| **Net loss** | $ (354,320) | $ (49,596) | $ (429,617) | $ (65,505) |
| Accumulated actuarial loss and prior service credit realized in net loss | 13,714 | 10,749 | 27,432 | 21,494 |
| Net change in fair value of diesel fuel hedge | (5,781) | (1,387) | (1,377) | 350 |
| Other comprehensive income | 7,933 | 9,362 | 26,055 | 21,844 |
| **Comprehensive loss** | $ (346,387) | $ (40,234) | $ (403,562) | $ (43,661) |

[1] See Note 18, Restatement of Financial Statements, in the Notes to Unaudited Condensed Consolidated Financial Statements.

See accompanying notes to unaudited condensed consolidated financial statements.

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**PATRIOT COAL CORPORATION**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

| | June 30, 2012 (Unaudited) | December 31, 2011 |
|---|---|---|
| | (Dollars in thousands) | |
| **ASSETS** | | |
| Current assets | | |
| Cash and cash equivalents | $ 46,009 | $ 194,162 |
| Accounts receivable and other, net of allowance for doubtful accounts of $138 as of June 30, 2012 and December 31, 2011 | 120,220 | 177,695 |
| Inventories | 137,640 | 98,366 |
| Prepaid expenses and other current assets | 33,767 | 28,191 |
| Total current assets | 337,636 | 498,414 |
| Property, plant, equipment and mine development | | |
| Land and coal interests | 2,934,707 | 2,935,796 |
| Buildings and improvements | 518,291 | 504,275 |
| Machinery and equipment | 785,274 | 735,207 |
| Less accumulated depreciation, depletion and amortization | (1,063,451) | (973,157) |
| Property, plant, equipment and mine development, net | 3,174,821 | 3,202,121 |
| Investments and other assets | 67,096 | 63,203 |
| Total assets | $3,579,553 | $ 3,763,738 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current liabilities | | |
| Accounts payable and accrued expenses | $ 418,395 | $ 513,123 |
| Below market sales contracts acquired | 10,948 | 44,787 |
| Current maturities of long-term debt (including debt in default of $464.0 million at June 30, 2012) | 465,722 | 1,182 |
| Total current liabilities | 895,065 | 559,092 |
| Long-term debt, less current maturities | 7,832 | 441,064 |
| Asset retirement obligations | 737,644 | 424,974 |
| Workers' compensation obligations | 235,410 | 231,585 |
| Postretirement benefit obligations | 1,383,896 | 1,387,317 |
| Obligation to industry fund | 33,738 | 35,429 |
| Below market sales contracts acquired, noncurrent | 59,184 | 46,217 |
| Other noncurrent liabilities | 38,399 | 45,218 |
| Total liabilities | 3,391,168 | 3,170,896 |
| Stockholders' equity | | |
| Common stock ($0.01 par value; 300,000,000 shares authorized; 92,745,837 and 91,885,338 shares issued and outstanding at June 30, 2012 and December 31, 2011, respectively) | 927 | 919 |
| Preferred stock ($0.01 par value; 10,000,000 shares authorized; no shares issued and outstanding at June 30, 2012 and December 31, 2011) | — | — |
| Series A Junior Participating Preferred Stock ($0.01 par value; 1,000,000 shares authorized; no shares issued and outstanding at June 30, 2012 and December 31, 2011) | — | — |
| Additional paid-in capital | 976,267 | 977,169 |
| Retained deficit | (429,834) | (216) |
| Accumulated other comprehensive loss | (358,975) | (385,030) |
| Total stockholders' equity | 188,385 | 592,842 |
| Total liabilities and stockholders' equity | $3,579,553 | $ 3,763,738 |

See accompanying notes to unaudited condensed consolidated financial statements.

**PATRIOT COAL CORPORATION**

**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

| | Six Months Ended June 30, 2012 | Six Months Ended June 30, 2011 Restated [1] |
|---|---|---|
| | (Dollars in thousands) | |
| **Cash Flows From Operating Activities** | | |
| Net loss | $ (429,617) | $ (65,505) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Depreciation, depletion and amortization | 86,524 | 91,072 |
| Amortization of deferred financing costs | 3,986 | 3,651 |
| Amortization of debt discount | 5,076 | 4,673 |
| Sales contract accretion | (11,628) | (34,425) |
| Loss on early repayment of notes receivable | — | 5,868 |
| Impairment charge | 41,903 | — |
| Net gain on disposal or exchange of assets | (2,668) | (9,415) |
| Income from equity affiliates | (1,700) | (2,920) |
| Distributions from equity affiliates | 2,842 | 1,259 |
| Stock-based compensation expense | (1,825) | 6,791 |
| Changes in current assets and liabilities: | | |
| Accounts receivable | 53,485 | (45,100) |
| Inventories | (39,275) | (6,510) |
| Other current assets | (5,796) | (900) |
| Accounts payable and accrued expenses | (90,849) | 14,236 |
| Asset retirement obligations | 306,147 | 72,088 |
| Workers' compensation obligations | 3,464 | 5,050 |
| Postretirement benefit obligations | 24,189 | 28,335 |
| Obligation to industry fund | (1,508) | (1,481) |
| Federal black lung collateralization | — | (14,990) |
| Other, net | (1,347) | (2,093) |
| Net cash provided by (used in) operating activities | (58,597) | 49,684 |
| **Cash Flows From Investing Activities** | | |
| Additions to property, plant, equipment and mine development | (96,761) | (67,822) |
| Additions to advance mining royalties | (11,268) | (12,163) |
| Acquisition of Coventry Mining Services, LLC | (2,530) | — |
| Net cash paid in litigation settlement and asset acquisition | — | (14,787) |
| Proceeds from disposal or exchange of assets | 2,941 | 2,411 |
| Proceeds from notes receivable | — | 115,679 |
| Other | (369) | — |
| Net cash provided by (used in) investing activities | (107,987) | 23,318 |
| **Cash Flows From Financing Activities** | | |
| Short-term borrowing under Pre-Petition Credit Agreement | 25,000 | — |
| Long-term debt payments | (1,182) | (2,116) |
| Deferred financing costs | (6,317) | (1,815) |
| Proceeds from employee stock programs | 930 | 962 |
| Net cash provided by (used in) financing activities | 18,431 | (2,969) |
| Net increase (decrease) in cash and cash equivalents | (148,153) | 70,033 |
| Cash and cash equivalents at beginning of period | 194,162 | 193,067 |
| Cash and cash equivalents at end of period | $ 46,009 | $ 263,100 |

[1] See Note 18, Restatement of Financial Statements, in the Notes to Unaudited Condensed Consolidated Financial Statements.

See accompanying notes to unaudited condensed consolidated financial statements.

**(1) Chapter 11 Reorganization Filings**

***Description of Business***

Patriot Coal Corporation (Patriot, we, our or the Company) is engaged in the mining and preparation of thermal coal, also known as steam coal, for sale primarily to electricity generators, and metallurgical coal, for sale to steel and coke producers. Our mining complexes and coal reserves are located in the eastern and midwestern United States (U.S.), primarily in West Virginia and Kentucky.

***Chapter 11 Reorganization Filings***

On July 9, 2012 (the Petition Date), Patriot Coal Corporation, as a stand-alone entity, and substantially all of its wholly-owned subsidiaries (the Filing Subsidiaries and, together with Patriot, the Debtors) filed voluntary petitions for reorganization (the Chapter 11 Petitions) under Chapter 11 of Title 11 of the U.S. Code (the Bankruptcy Code) in the Bankruptcy Court for the Southern District of New York (the Bankruptcy Court). The Debtors' Chapter 11 cases are being jointly administered under the caption In re: Patriot Coal Corporation, *et al.* (Case No. 12-12900) (the Bankruptcy Case). None of our joint ventures were included in the filing and certain of our other subsidiaries were not included in the filing.

Effective July 10, 2012, the New York Stock Exchange (NYSE) suspended trading of our common stock and commenced proceedings to delist our common stock. On August 6, 2012, our common stock was delisted from the NYSE. Our stock is now traded under the ticker symbol “PCXCQ” on the OTCQB marketplace, operated by OTC Markets Group Inc. (the OTC Markets).

At June 30, 2012, we were not in compliance with certain financial covenants of our pre-petition debt agreements. In addition, the filing of the Chapter 11 Petitions constituted an additional event of default under substantially all of our pre-petition debt agreements, and all principal, interest and other amounts due thereunder became immediately due and payable. Accordingly, the accompanying condensed consolidated balance sheet as of June 30, 2012 includes the reclassification of $439.0 million of our outstanding long-term debt in default to current liabilities. Any actions to enforce such payment obligations are stayed as a result of filing the Chapter 11 Petitions.

The Debtors are operating as "debtors-in-possession" under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code. In general, the Debtors are authorized to, and continue to, operate as an ongoing business, but may not engage in transactions outside of the ordinary course of business without the approval of the Bankruptcy Court.

***Debtor-In-Possession (DIP) Financing***

In connection with filing the Chapter 11 Petitions, the Debtors filed a motion seeking, among other things, Bankruptcy Court authorization for us to obtain post-petition financing, and for each Filing Subsidiary (other than EACC Camps, Inc.) and for Patriot Ventures LLC (collectively, the DIP Guarantors) to guaranty our obligations in connection with the DIP Facilities, up to an aggregate principal amount of $802.0 million, consisting of (a) a revolving credit loan in an amount not to exceed $125.0 million (First Out Revolving Credit Loan), (b) a term loan in the amount of $375.0 million (First Out Term Loan, and together with the First Out Revolving Credit Loan, the First Out Facility), and (c) a roll up (the "L/C Roll Up") of obligations under the Amended and Restated Credit Agreement, dated May 5, 2010 (the Pre-Petition Credit Agreement) in respect to outstanding letters of credit, inclusive of any obligations as to reimbursement, renewal and extension of the same issued in the aggregate amount of $300.8 million as of the Petition Date (the Second Out Facility and, together with the First Out Facility, the DIP Facilities).

On July 11, 2012, the Bankruptcy Court entered an interim order (the Interim DIP Order) that, among other things, authorized us to borrow money and obtain letters of credit pursuant to the DIP Facilities and to guaranty such borrowings and our obligations with respect to such letters of credit, up to an aggregate principal or face amount of $677.0 million (plus interest, fees and other expenses and amounts), consisting of borrowings of up to an aggregate principal or face amount of $125.0 million under the First Out Revolving Credit Loan, $250.0 million under the First Out Term Loan, and up to $302.0 million under the Second Out Facility, in accordance with the terms of the Interim DIP Order. On August 3, 2012, the Bankruptcy Court entered a final order (the Final DIP Order) that, among other things, authorized us to borrow the full amount under the DIP Facilities in accordance with the terms of the Final DIP Order. The maturity date of the DIP Facilities is October 4, 2013, but may be extended to December 31, 2013 provided certain conditions are met.

For additional information on the DIP Facilities, see Note 10 - Debt and Credit Facilities.

***Reorganization Process***

The Bankruptcy Court has approved payment of certain of our pre-petition obligations, including employee wages, salaries and certain benefits, shippers and critical vendors. The Debtors can continue to pay vendors and other providers in the ordinary course for goods and services received after the filing of the Chapter 11 Petitions and certain other business-related payments necessary to maintain the operation of our business. We have retained legal and financial professionals to advise us on the bankruptcy proceedings. From time to time, we may seek the Bankruptcy Court's approval for the retention of additional professionals.

Immediately after filing the Chapter 11 Petitions, we began notifying all known current or potential creditors of the Debtors of the bankruptcy filings. Subject to certain exceptions under the Bankruptcy Code, the filing of the Chapter 11 Petitions automatically enjoined, or stayed, the continuation of any judicial or administrative proceedings or other actions against the Debtors or their property to recover, collect or secure a claim arising prior to the filing of the Chapter 11 Petitions. Thus, for example, most creditor actions to obtain possession of property from us, or to create, perfect or enforce any lien against our property, or to collect on monies owed or otherwise exercise rights or remedies with respect to a pre-petition claim are enjoined unless and until the Bankruptcy Court lifts the automatic stay.

As required by the Bankruptcy Code, the United States Trustee for the Southern District of New York appointed an official committee of unsecured creditors (the Creditors' Committee). The Creditors' Committee and its legal representatives have a right to be heard on all matters that come before the Bankruptcy Court.

On July 18, 2012, the United Mine Workers of America (UMWA) filed a motion requesting that the venue for our Chapter 11 filing be transferred to the Bankruptcy Court for the Southern District of West Virginia. On August 7, 2012, several surety companies filed a separate motion requesting the same transfer. The Company will be contesting these motions, which are expected to be ruled on by the Bankruptcy Court in September 2012.

Under Section 365 and other relevant sections of the Bankruptcy Code, we may assume, assume and assign, or reject certain executory contracts and unexpired leases, including leases of real property and equipment, subject to the approval of the Bankruptcy Court and certain other conditions.

In order to successfully exit Chapter 11, we will need to propose and obtain confirmation by the Bankruptcy Court of a plan of reorganization that satisfies the requirements of the Bankruptcy Code. A plan of reorganization, among other things, would resolve our pre-petition obligations, set forth the revised capital structure of the newly reorganized entity and provide for corporate governance subsequent to emerging from bankruptcy.

We have the exclusive right for 120 days after the filing of the Chapter 11 Petitions to file a plan of reorganization. We will likely file one or more motions to request extensions of this exclusivity period, which are routinely granted up to 18 months in bankruptcy cases of this size and complexity. If our exclusivity period lapses, any party-in-interest would be able to file a plan of reorganization. In addition to being voted on by holders of impaired claims and equity interests, a plan of reorganization must satisfy certain requirements of the Bankruptcy Code and must be approved, or confirmed, by the Bankruptcy Court in order to become effective.

Our timing for filing a plan of reorganization will depend on the timing and outcome of numerous other ongoing matters in the Chapter 11 proceedings. There can be no assurance at this time that a plan of reorganization will be confirmed by the Bankruptcy Court or that any such plan will be implemented successfully.

Under the priority rankings established by the Bankruptcy Code, unless creditors agree otherwise, pre-petition liabilities and post-petition liabilities must be satisfied in full before stockholders are entitled to receive any distribution or retain any property under a plan of reorganization. The ultimate recovery to creditors and/or stockholders, if any, will not be determined until confirmation of a plan of reorganization. No assurance can be given as to what values, if any, will be ascribed to each of these constituencies or what types or amounts of distributions, if any, they would receive. A plan of reorganization could result in holders of certain liabilities and/or securities, including common stock, receiving no distribution on account of their interests and cancellation of their holdings. Because of such possibilities, there is significant uncertainty regarding the value of our liabilities and securities, including our common stock. At this time, there is no assurance we will be able to restructure as a going concern or successfully propose or implement a plan of reorganization.

For periods subsequent to filing the Chapter 11 Petitions, we will apply the Financial Accounting Standards Board Accounting Standards Codification 852, "Reorganizations" (ASC 852), in preparing the consolidated financial statements. ASC 852 requires that the financial statements distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business. Accordingly, certain revenues, expenses, realized gains and losses and provisions for losses that are realized or incurred in the bankruptcy proceedings will be recorded in a reorganization line item on the consolidated statements of operations. In addition, pre-petition obligations that may be impacted by the bankruptcy reorganization process will be classified on the consolidated balance sheet in liabilities subject to compromise. These liabilities are reported at the amounts expected to be allowed by the Bankruptcy Court, even if they may be settled for lesser amounts.

***Going Concern Matters***

The accompanying consolidated financial statements and related notes have been prepared assuming we will continue as a going concern, although the Bankruptcy Case and weak industry conditions and financial markets raise substantial doubt about our ability to continue as a going concern. The accompanying unaudited condensed consolidated financial statements do not include any adjustments related to the recoverability and classification of recorded assets or to the amounts and classification of liabilities or any other adjustments that might be necessary should we be unable to continue as a going concern. Our ability to continue as a going concern is dependent upon, among other things, market conditions and our ability to improve profitability, obtain financing to replace the DIP Facilities and restructure our obligations in a manner that allows us to obtain confirmation of a plan of reorganization by the Bankruptcy Court. In order to improve profitability, we are taking actions to further reduce operating expenses and continuing to align our production to meet market demand. As a result of the Bankruptcy Case, the realization of assets and the satisfaction of liabilities are subject to uncertainty. While operating as debtors-in-possession pursuant to the Bankruptcy Code, we may sell or otherwise dispose of or liquidate assets or settle liabilities, subject to the approval of the Bankruptcy Court or as otherwise permitted in the ordinary course of business (and subject to restrictions contained in the DIP Facilities), for amounts other than those reflected in the accompanying consolidated financial statements. Further, any plan of reorganization could materially change the amounts and classifications of assets and liabilities reported in the historical consolidated financial statements.

**(2) Basis of Presentation**

The accompanying condensed consolidated financial statements include the accounts of Patriot and its subsidiaries. All significant transactions, profits and balances have been eliminated between Patriot and its subsidiaries. Patriot operates in two domestic coal segments: Appalachia and the Illinois Basin. See Note 11 for our segment disclosures.

On May 8, 2012, we amended our Annual Report on Form 10-K for the year ended December 31, 2011. See Note 18, Restatement of Financial Statements, for detailed information on the effect of this restatement on the statements of operations for the three and six months ended June 30, 2011 and the statements of cash flows for the six months ended June 30, 2011.

On August 9, 2012, we filed (i) an amendment to our Form 10-K/A for the year ended December 31, 2011 as filed on May 8, 2012 for the purpose of revising Item 9A. Controls and Procedures and (ii) an amendment to our Form 10-Q for the period ended March 31, 2012 as filed on May 9, 2012 for the purpose of revising Item 4. Controls and Procedures, in each case in response to comments received from the staff of the Securities and Exchange Commission (SEC). There was no impact on our previously issued financial statements from these August 2012 amendments.

The accompanying condensed consolidated financial statements as of June 30, 2012 and for the three and six months ended June 30, 2012 and 2011, and the notes thereto, are unaudited. However, in the opinion of management, these financial statements reflect all normal, recurring adjustments necessary for a fair presentation of the results for the periods presented. Operating results for the three and six months ended June 30, 2012 may not necessarily be indicative of the results for the year ending December 31, 2012.

**(3) New Accounting Pronouncements**

In June 2011, the Financial Accounting Standards Board (FASB) issued authoritative guidance which requires entities to report components of comprehensive income in either a continuous statement of comprehensive income or two separate but consecutive statements. We adopted this guidance effective January 1, 2012. This guidance does not affect our results of operations or financial condition.

**(4) Net Gain on Disposal or Exchange of Assets and Other Transactions**

In the normal course of business, we enter into certain asset sales and exchange agreements, which involve swapping non-strategic coal mineral rights or other assets for cash, other assets or coal mineral rights that are strategic to our operations.

In March 2012, we sold certain non-strategic Appalachia gas and oil rights to a third party for $1.5 million.

In June 2011, we entered into an agreement to exchange certain non-strategic Appalachia coal mineral rights for coal mineral rights contiguous to our Highland mining complex in the Illinois Basin. We recognized a gain of $7.3 million on this transaction. Also in June 2011, we entered into an agreement allowing a right of way at our Kanawha Eagle mining complex to a third party for compensation of $2.1 million. We have no future obligation related to this agreement.

The exchange transactions above were recorded at fair value. The valuations primarily utilized Level 3 inputs, as defined by authoritative guidance, in a discounted cash flows model including assumptions for future coal sales prices and operating costs. Level 3 inputs were utilized due to the lack of an active, quoted market for coal reserves and due to the inability to use other transaction comparisons because of the unique nature and location of each coal seam.

***Other Transactions***

Effective March 1, 2012, we acquired Coventry Mining Services, LLC, and its subsidiaries, which employs the workforce for our Kanawha Eagle mining complex. The purchase price of $2.5 million was recorded as an intangible asset in accordance with asset acquisition authoritative guidance. The intangible asset will be amortized over the life of the mine where the workforce is located, currently expected to be approximately 10 years.

Effective March 27, 2012, we entered into an amendment to a below-market coal supply agreement, which originated in 2003 and was obtained in the July 2008 Magnum Coal Company (Magnum) acquisition. The amendment provides Patriot a monthly option to be relieved of delivery of the remaining coal committed under the original contract in exchange for a specified buyout amount. In aggregate, over the next six years, the maximum potential buyout amount totals approximately $64 million if Patriot makes no deliveries during that period. The liability reflecting this option is represented on our balance sheet in "Below market sales contracts acquired" and will be relieved as monthly option payments are made.

“Other revenues” includes payments from customer settlements, royalties related to coal lease agreements and farm income. During the first half of 2012, certain customers requested to cancel or delay shipment of coal contracted for 2012 and 2013 deliveries. In certain situations, we agreed to release the customers from their commitments in exchange for a cash settlement. In the three and six months ended June 30, 2012, we recognized revenue of $13.5 million and $20.5 million, respectively, related to these cash settlements. Additionally, in the six months ended June 30, 2012, we received $8.3 million related to the settlement of a customer contract dispute concerning coal deliveries in prior years that was settled through mediation in the first quarter of 2012. In the three and six months ended June 30, 2011, we recognized $2.4 million and $5.1 million, respectively, of income as underlying tons were shipped from a coal purchase option sold in a prior year. Additionally, we monetized future coal reserve royalty payments for $2.2 million in the second quarter of 2011.

We were a defendant in litigation involving Peabody Energy Corporation (Peabody), in relation to their negotiation and June 2005 sale of two properties previously owned by two of our subsidiaries, which was filed prior to our 2007 spin-off from Peabody. In May 2011, this litigation was settled. As part of the settlement, we made a payment of $14.8 million and ownership of the related assets and liabilities reverted back to us. The assets include coal reserves at the former Tygart River mine site in West Virginia and surface land related to the former Will Scarlet mine site in Illinois. The liabilities include the reclamation obligations related to these assets. The assets were recorded at the value of the settlement consideration, which included $17.6 million of estimated reclamation liabilities assumed, resulting in no significant impact to our results of operations in the second quarter of 2011.

In February 2011, outstanding notes receivable related to the 2006 and 2007 sales of coal reserves and surface land were repaid for $115.7 million prior to the scheduled maturity date. The early repayment resulted in a loss of $5.9 million, which is reflected in “Interest expense and other” on the condensed consolidated statement of operations.

**(5) Restructuring, Impairment and Other Charges**

In accordance with ASC 360, "Impairment and Disposal of Long-Lived Assets," long-lived assets held and used by the Company are reviewed for impairment when events or changes in circumstances indicate that their carrying value may not be recoverable. In the second quarter of 2012, as a result of weaker industry fundamentals and coal demand, and the significant decline in value of our equity securities and debt instruments, we performed an impairment review. Recoverability of long-lived assets was assessed based on the carrying value of these assets compared to the sum of the undiscounted cash flows expected to result from the use and eventual disposal of the asset, as well as specific appraisal in certain circumstances. An impairment loss is recognized when the carrying amount is not considered to be recoverable and exceeds fair value. As a result of this impairment review, at June 30, 2012, we recorded a $1.4 million impairment charge on certain coal reserves located in our Appalachia segment.

In June 2012, we idled our Freedom Mine at the Bluegrass mining complex, which is reported in our Illinois Basin segment, due to the continued weakened demand for thermal coal. The Freedom Mine produced approximately 1.2 million tons of thermal coal in 2011. We also adjusted certain mining plans at our Kanawha Eagle mining complex which resulted in the early closure of one of our thermal coal mines at this mining complex. The Kanawha Eagle mining complex is reported in our Appalachia segment. In the second quarter of 2012, we recorded an $8.2 million restructuring and impairment charge related to these two mines, which primarily consisted of the write-off of infrastructure, mine development and certain equipment. We also recorded a $4.1 million charge to asset retirement obligation expense to adjust the liability for the accelerated closure and to write-off the related asset.

In February 2012, we closed the Big Mountain mining complex, which is reported in our Appalachia segment, due to the weakened demand for thermal coal experienced in late 2011 and early 2012. Prior to the closure, the complex had two active mines and one preparation plant. The complex produced 1.8 million tons of thermal coal in 2011. In the first quarter of 2012, we recorded a $32.8 million restructuring and impairment charge related to the closure, which mainly consisted of the write-off of infrastructure, mine development and certain equipment. We also recorded a $17.5 million charge to asset retirement obligation expense to adjust the asset retirement obligation liability for the accelerated closure and write-off the related asset.

In the second quarter of 2010, we recorded a $14.8 million restructuring and impairment charge related to the early closure of the Harris No. 1 mine and further rationalization of our operations at the Rocklick mining complex, which included a $12.0 million restructuring component for payment of remaining operational contracts to be made with no future economic benefit. In each of the three and six months ended June 30, 2012, we recorded accretion of $0.1 million and $0.2 million, respectively, related to the discounted future payment obligation. In each of the three and six months ended June 30, 2011, we recorded accretion of $0.1 million and $0.3 million, respectively, related to the discounted future payment obligation. At June 30, 2012 and December 31, 2011, the restructuring liability totaled $5.8 million, of which $2.3 million was the current portion, and $10.1 million, of which $4.5 million was the current portion, respectively.

**(6) Postretirement Benefit Costs**

Net periodic postretirement benefit costs included the following components:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | (Dollars in thousands) | | | |
| Service cost for benefits earned | $ 1,383 | $ 1,400 | $ 2,765 | $ 2,805 |
| Interest cost on accumulated postretirement benefit obligation | 18,208 | 19,269 | 36,415 | 38,538 |
| Amortization of actuarial losses | 14,007 | 10,988 | 28,015 | 21,365 |
| Amortization of prior service credit | (202) | (202) | (405) | (405) |
| Net periodic postretirement benefit costs | $ 33,396 | $ 31,455 | $ 66,790 | $ 62,303 |

**(7) Income Tax Provision**

For the three and six months ended June 30, 2012, we recorded no income tax provision. For the three and six months ended June 30, 2011, we recorded an income tax provision of $0.2 million and $0.6 million, respectively, primarily related to certain state taxes. We anticipate a tax net operating loss for the year ending December 31, 2012 for which no benefit will be recognized.

**(8) Earnings per Share**

Basic earnings per share is computed by dividing net income by the number of weighted average common shares outstanding during the reporting period. Diluted earnings per share is calculated to give effect to all potentially dilutive common shares that were outstanding during the reporting period.

The effect of dilutive securities excludes certain stock options, restricted stock units and convertible debt-related shares because the inclusion of these securities was antidilutive to earnings per share. For the three and six months ended June 30, 2012 and 2011 , no common stock equivalents were included in the computation of the diluted loss per share because we reported a net loss.

Accordingly, 1.8 million shares for the three and six months ended June 30, 2012 and 3.3 million shares for the three and six months ended June 30, 2011 related to stock-based compensation awards were excluded from the diluted loss per share calculation. In addition, 3.0 million common shares related to the convertible notes were excluded from the diluted loss per share calculation for both periods.

**(9) Inventories**

Inventories consisted of the following:

| | June 30, 2012 | December 31, 2011 |
|---|---|---|
| | (Dollars in thousands) | |
| Materials and supplies | $ 56,469 | $ 62,474 |
| Saleable coal | 58,349 | 23,806 |
| Raw coal | 22,822 | 12,086 |
| Total | $ 137,640 | $ 98,366 |

Materials, supplies and coal inventory are valued at the lower of average cost or market. Saleable coal represents coal stockpiles that will be sold in current condition. Raw coal represents coal stockpiles that may be sold in current condition or may be further processed prior to shipment to a customer. Coal inventory costs include labor, supplies, equipment, operating overhead and other related costs. The increase in saleable and raw coal from December 31, 2011 to June 30, 2012 was primarily due to weakened demand for thermal and metallurgical coal driven by low natural gas prices, mild weather and weaker international and domestic economies in the first half of 2012.

**(10) Debt and Credit Facilities**

At June 30, 2012 and December 31, 2011, both prior to our Chapter 11 Petitions, our total indebtedness consisted of the following:

| | June 30, 2012 | December 31, 2011 |
|---|---|---|
| | (Dollars in thousands) | |
| 8.25% Senior Notes due 2018 | $248,685 | $ 248,573 |
| 3.25% Convertible Senior Notes due 2013 | 190,342 | 185,379 |
| Short-term borrowings | 25,000 | — |
| Capital leases | 2,415 | — |
| Promissory notes | 7,112 | 8,294 |
| Total long-term debt | 473,554 | 442,246 |
| Less current maturities of long-term debt (including debt in default of $464.0 million at June 30, 2012) | (465,722) | (1,182) |
| Long-term debt, less current maturities | $ 7,832 | $ 441,064 |

On May 5, 2010, we entered into a $427.5 million Pre-Petition Credit Agreement with a maturity date of December 31, 2013. The Pre-Petition Credit Agreement provided for the issuance of letters of credit and direct borrowings. In January 2011 and 2012, we entered into amendments to the Pre-Petition Credit Agreement which, among other things, modified certain limits and minimum requirements of our financial covenants.

In March 2010, we entered into a $125 million accounts receivable securitization program, which provided for the issuance of letters of credit and direct borrowings. Trade accounts receivable are sold, on a revolving basis, to a wholly-owned bankruptcy-remote entity (facilitating entity), which then sells an undivided interest in all of the trade accounts receivable to the creditors as collateral for any borrowings. Available liquidity under the program fluctuates with the balance of our trade accounts receivable. The outstanding trade accounts receivable balance was $117.2 million and $171.0 million as of June 30, 2012 and December 31, 2011, respectively.

***Default of Pre-Petition Financing***

At June 30, 2012, we were not in compliance with certain financial covenants of our pre-petition debt agreements. In addition, the filing of the Chapter 11 Petitions constituted an additional event of default under the following debt agreements, each of which provides that, as a result of the events of default, all principal, interest and other amounts due thereunder became immediately due and payable:

- the Pre-Petition Credit Agreement, with respect to outstanding letters of credit in an aggregate principal amount of $300.8 million as of June 30, 2012 and the Petition Date, plus accrued and unpaid interest thereon and borrowings in an aggregate principal amount of $25.0 million as of June 30, 2012 and the Petition Date, plus accrued and unpaid interest thereon;
- the Indenture dated as of May 28, 2008 with respect to an aggregate principal amount of $200.0 million of 3.25% Convertible Senior Notes due 2013 plus accrued and unpaid interest thereon;
- the Indenture dated as of May 5, 2010 with respect to an aggregate principal amount of $250.0 million of 8.25% Senior Notes due 2018 plus accrued and unpaid interest thereon; and
- the $125.0 million accounts receivable securitization program with respect to outstanding letters of credit in an aggregate principal amount of $51.8 million as of June 30, 2012 and the Petition Date, plus accrued and unpaid interest thereon.

The ability of the creditors to seek remedies to enforce their rights under these pre-petition debt agreements is automatically stayed as a result of the filing of the Chapter 11 Petitions, and the creditors' rights of enforcement are subject to the applicable provisions of the Bankruptcy Code.

As a result of the defaults under the pre-petition debt agreements, the accompanying condensed consolidated balance sheet as of June 30, 2012 includes the reclassification of $439.0 million of our outstanding long-term debt in default to current liabilities. In the second quarter of 2012, we incurred legal and professional fees totaling $4.7 million related to the DIP Facilities. These costs were capitalized as of June 30, 2012 and will be expensed with the other fees associated with this financing arrangement in the third quarter of 2012.

***DIP Financing***

In connection with filing the Chapter 11 Petitions, the Debtors filed a motion seeking, among other things, Bankruptcy Court authorization for us to obtain the DIP Facilities, and for the DIP Guarantors to guaranty our obligations in connection with the DIP Facilities, up to an aggregate principal amount of $802.0 million, consisting of (a) a First Out Revolving Credit Loan in an amount not to exceed $125.0 million, (b) a First Out Term Loan in the amount of $375.0 million, and (c) a roll up of obligations under the Pre-Petition Credit Agreement in respect to outstanding letters of credit, inclusive of any obligations as to reimbursement, renewal and extension of the same issued in the aggregate amount of $300.8 million as of the Petition Date (the Second Out Facility).

On July 11, 2012, the Bankruptcy Court entered the Interim DIP Order that, among other things, authorized us to borrow money and obtain letters of credit pursuant to the DIP Facilities and to guaranty such borrowings and our obligations with respect to such letters of credit, up to an aggregate principal or face amount of $677.0 million (plus interest, fees and other expenses and amounts), consisting of borrowings of up to an aggregate principal or face amount of $125.0 million under the First Out Revolving Credit Loan, $250.0 million under the First Out Term Loan, and up to $302.0 million under the Second Out Facility, in accordance with the terms of the Interim DIP Order and the DIP Facilities. On August 3, 2012, the Bankruptcy Court entered the Final DIP Order that, among other things, authorized us to borrow the full amount under the DIP Facilities in accordance with the terms of the Final DIP Order and the DIP Facilities. The Final DIP Order amended certain provisions of the DIP Facilities, including, among other things, the definition of “Applicable Rate” in the First Out DIP Credit Agreement.

*First Out Facility*

On July 9, 2012, Patriot and the DIP Guarantors entered into a Superpriority Secured Debtor-in-Possession Revolving and Term Loan Credit Agreement (the First Out DIP Credit Agreement). Our obligations under the First Out DIP Credit Agreements are guaranteed by each DIP Guarantor. On July 11, 2012, the conditions precedent to closing and the initial borrowing were satisfied and the First Out DIP Credit Agreement became effective.

First Out Revolving Credit Loans will bear interest at a rate per annum equal to the Eurocurrency Rate (as defined in the First Out DIP Credit Agreement) plus 3.25% or the Base Rate (as defined in the First Out DIP Credit Agreement) plus 2.25%. First Out Term Loans will bear interest at a rate per annum equal to the Eurocurrency Rate plus 7.75% or the Base Rate plus 6.75%. In addition, a commitment fee of 0.75% per annum is required for unutilized commitments under the First Out Facility. Upon the occurrence and during the continuance of an event of default under the First Out DIP Credit Agreement, the interest rate increases by 2.00% per annum.

On July 11, 2012, we received proceeds of $250 million under the First Out Term Loan and utilized a portion of the funds to repay pre-petition debt of $25 million and pay DIP Facilities fees of $30 million. Letters of credit of $53 million were issued under the First Out Revolving Credit Loan to replace pre-petition letters of credit outstanding under the accounts receivable securitization program that was cancelled. On August 6, 2012, we received the remaining proceeds of $125 million under the First Out Term Loan and utilized a portion of the funds to pay additional DIP Facilities fees of $1.6 million.

Borrowings under the First Out Facility are to be repaid on the earlier of (i) the date that is 450 days after the closing date (the Initial Maturity Date, which is October 4, 2013) provided that the Initial Maturity Date can be extended until December 31, 2013 subject to certain specified conditions, (ii) prepayment by Patriot of all outstanding principal and accrued but unpaid interest, (iii) the date of termination of the commitment of each lender and of the obligation of the L/C Issuers (as defined in the First Out DIP Credit Agreement) to make letter of credit extensions pursuant to the First Out DIP Credit Agreement, (iv) the date that is 30 days (or in certain specified circumstances, 45 days) after July 11, 2012 if the Bankruptcy Court has not entered a final order prior to such date or such later date as approved by the required lenders, (v) the date of the substantial consummation of a reorganization plan that is confirmed pursuant to an order of the Bankruptcy Court and (vi) the date of dismissal of the Bankruptcy Case by the Bankruptcy Court. An extension fee of 0.25% of the Revolving Credit Commitments and Term Loans is due if we elect to extend the maturity date of the First Out Facility.

The First Out DIP Credit Agreement provides for representations and warranties by Patriot and the DIP Guarantors that are customary for facilities of this type. The First Out DIP Credit Agreement further provides for affirmative and negative covenants applicable to Patriot and its subsidiaries, including affirmative covenants requiring Patriot to provide financial information, 13-week projections and other information including, upon request, environmental or mining site assessments or audit reports to the administrative agent under the First Out DIP Credit Agreement (the First Out DIP Agent), and negative covenants restricting the ability of Patriot and its subsidiaries to incur additional indebtedness, grant liens, dispose of assets, pay dividends or take certain other actions. The First Out DIP Credit Agreement also provides financial covenants applicable to Patriot and its subsidiaries, including compliance with requirements relating to minimum consolidated EBITDA, maximum capital expenditures and minimum liquidity.

The First Out DIP Credit Agreement provides for certain customary events of default, including events of default resulting from non-payment of principal, interest or other amounts when due, material breaches of Patriot's and the DIP Guarantors' representations and warranties, breaches by Patriot or the DIP Guarantors of their covenants in the First Out DIP Credit Agreement or ancillary loan documents, cross-defaults under other agreements or instruments, the entry of material judgments against Patriot or its subsidiaries, or revocation of the intercreditor and priority of payment provisions contained in the Pledge and Security and Intercreditor Agreement (as defined below). The First Out DIP Credit Agreement also includes customary events of default that may arise in connection with the Chapter 11 Petitions, including dismissal or conversion of the Debtors' cases.

*Second Out Facility and Second Out Guarantee*

We entered into an Amended and Restated Superpriority Secured Debtor-in-Possession Credit Agreement dated as of July 11, 2012 (the Second Out DIP Credit Agreement). Our obligations under the Second Out DIP Credit Agreement are guaranteed by the DIP Guarantors pursuant to the Amended and Restated Guarantee (the Second Out Guarantee) dated as of July 11, 2012, made by Patriot and the DIP Guarantors in favor of the administrative agent under the Second Out DIP Credit Agreement (the Second Out DIP Agent). On July 13, 2012, the conditions precedent to closing were satisfied and the Second Out DIP Credit Agreement and the Second Out Guarantee became effective.

Letter of credit fees under the Second Out Facility will be paid at a rate equal to 4.50% per annum. The letter of credit borrowings under the Second Out Facility will bear interest at a rate per annum equal to the Eurocurrency Rate plus 8.00% or the Base Rate plus 7.00% per annum. Upon the occurrence and during the continuance of an event of default under the Second Out DIP Credit Agreement, the interest rate will increase by 2.00% per annum. On July 13, 2012, letters of credit of $302 million were issued under the Second Out Facility and used to replace pre-petition letters of credit outstanding under the Pre-Petition Credit Agreement.

All letter of credit borrowings under the Second Out Facility are to be repaid on the earlier of (i) the Initial Maturity Date provided that the Initial Maturity Date can be extended until December 31, 2013 subject to certain specified conditions, (ii) the date on which the obligation of the letter of credit issuers to permit the extension of the expiry date of any letter of credit is terminated upon direction from the Second Out DIP Agent in the case of an event of default, (iii) the date that is 30 days (or in certain specified circumstances, 45 days) after July 11, 2012 if the Bankruptcy Court has not entered a final order prior to such date or such later date as approved by the required lenders, (iv) the date of the substantial consummation of a reorganization plan that is confirmed pursuant to an order of the Bankruptcy Court and (v) the date of dismissal of the Bankruptcy Case by the Bankruptcy Court.

The Second Out DIP Credit Agreement provides for representations and warranties by Patriot and the DIP Guarantors, affirmative and negative covenants applicable to Patriot and its subsidiaries and events of default that are substantially similar to the representations, warranties, covenants and events of default under the First Out DIP Credit Agreement.

*Pledge, Security and Intercreditor Agreement*

On July 11, 2012, Patriot and the DIP Guarantors entered into a Debtor-in-Possession Pledge and Security and Intercreditor Agreement (the Pledge, Security and Intercreditor Agreement) with the First Out DIP Agent and Second Out DIP Agent. The obligations of Patriot and the DIP Guarantors under the DIP Facilities are secured by a lien covering substantially all of the assets, rights and properties of Patriot and the DIP Guarantors, subject to certain exceptions set forth in the Pledge, Security and Intercreditor Agreement. The Pledge, Security and Intercreditor Agreement also sets forth the seniority and priority of the respective liens on Patriot's and the DIP Guarantors' assets for the benefit of the lenders under the First Out Revolving Credit Loan, the First Out Term Loan and the Second Out Facility.

**(11) Segment Information**

We report our operations through two reportable operating segments, Appalachia and Illinois Basin. The Appalachia and Illinois Basin segments primarily consist of our mining operations in West Virginia and Kentucky, respectively. The principal business of the Appalachia segment is the mining and preparation of thermal coal, sold primarily to electricity generators, and metallurgical coal, sold to steel and coke producers. The principal business of the Illinois Basin segment is the mining and preparation of thermal coal, sold primarily to electricity generators. For the six months ended June 30, 2012 and 2011, our sales to electricity generators were 78% and 76% of our total volume, respectively. Our sales to steel and coke producers were 22% and 24% of our total volume for the six months ended June 30, 2012 and 2011, respectively. For the six months ended June 30, 2012 and 2011, our export sales were 47% and 30% of our total volume, respectively. For the six months ended June 30, 2012 and 2011, our revenues attributable to foreign countries, based on where the product was shipped, were $491.2 million and $456.3 million, respectively. For the six months ended June 30, 2012, there are no material revenues attributable to any individual foreign country for which we can determine the final destination of the shipment. For certain sales made in 2012 through third-party arrangements, it is impracticable to determine sales by individual foreign country. For the six months ended June 30, 2011, there are no material revenues attributable to any individual foreign country.

We utilize underground and surface mining methods and produce coal with high and medium Btu content. Our operations have relatively short shipping distances from the mine to most of our domestic utility customers and certain metallurgical coal customers. “Corporate and Other” in the tables below includes selling and administrative expenses, net gains on disposal or exchange of assets and costs associated with past mining obligations.

Our chief operating decision makers use Adjusted EBITDA as the primary measure of segment profit and loss. We believe that in our industry such information is a relevant measurement of a company's operating financial performance. Adjusted EBITDA is defined as net income (loss) before deducting interest income and expense; income taxes; asset retirement obligation expense; depreciation, depletion and amortization; restructuring and impairment charge; and sales contract accretion. Segment Adjusted EBITDA is calculated the same as Adjusted EBITDA but excludes “Corporate and Other” as defined above. Because Adjusted EBITDA and Segment Adjusted EBITDA are not calculated identically by all companies, our calculation may not be comparable to similarly titled measures of other companies.

Operating segment results for the three and six months ended June 30, 2012 and 2011 were as follows:

| | Three Months Ended June 30, 2012 | | | | Six Months Ended June 30, 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| | Appalachia | Illinois Basin | Corporate and Other | Total | Appalachia | Illinois Basin | Corporate and Other | Total |
| | (Dollars in thousands) | | | | | | | |
| Revenues | $ 452,091 | $ 81,974 | $ — | $534,065 | $ 859,508 | $ 177,135 | $ — | $1,036,643 |
| Adjusted EBITDA | 94,236 | 8,838 | (60,930) | 42,144 | 178,034 | 21,737 | (121,449) | 78,322 |
| Additions to property, plant, equipment and mine development | 49,113 | 10,459 | — | 59,572 | 83,029 | 13,719 | 13 | 96,761 |
| Income from equity affiliates | 720 | — | — | 720 | 1,700 | — | — | 1,700 |

| | Three Months Ended June 30, 2011 Restated[1] | | | | Six Months Ended June 30, 2011 Restated[1] | | | |
|---|---|---|---|---|---|---|---|---|
| | Appalachia | Illinois Basin | Corporate and Other | Total | Appalachia | Illinois Basin | Corporate and Other | Total |
| | (Dollars in thousands) | | | | | | | |
| Revenues | $ 551,394 | $ 80,766 | $ — | $632,160 | $1,053,718 | $ 155,466 | $ — | $1,209,184 |
| Adjusted EBITDA | 120,306 | (653) | (49,452) | 70,201 | 223,099 | 1,767 | (106,059) | 118,807 |
| Additions to property, plant, equipment and mine development | 33,205 | 5,560 | 334 | 39,099 | 59,156 | 8,000 | 666 | 67,822 |
| Income from equity affiliates | 2,998 | — | — | 2,998 | 2,920 | — | — | 2,920 |

A reconciliation of Adjusted EBITDA to net loss follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2012 | 2011 Restated [1] | 2012 | 2011 Restated [1] |
| | (Dollars in thousands) | | | |
| Total Adjusted EBITDA | $ 42,144 | $ 70,201 | $ 78,322 | $ 118,807 |
| Depreciation, depletion and amortization | (45,138) | (46,370) | (86,524) | (91,072) |
| Asset retirement obligation expense | (325,474) | (72,356) | (358,241) | (87,423) |
| Sales contract accretion | — | 15,815 | 11,628 | 34,425 |
| Restructuring and impairment charge | (9,597) | (137) | (42,458) | (284) |
| Interest expense and other | (16,309) | (16,583) | (32,507) | (39,443) |
| Interest income | 54 | 52 | 163 | 98 |
| Income tax provision | — | (218) | — | (613) |
| Net loss | $ (354,320) | $ (49,596) | $ (429,617) | $ (65,505) |

[1] See Note 18, Restatement of Financial Statements, in the Notes to Unaudited Condensed Consolidated Financial Statements.

**(12) Derivatives**

We utilize derivative financial instruments to manage exposure to certain commodity prices. We recognize derivative financial instruments at fair value on the condensed consolidated balance sheets. For derivative instruments that are eligible and designated as cash flow hedges, the periodic change in fair value is recorded in "Accumulated other comprehensive loss" until the hedged transaction occurs or the relationship ceases to qualify for hedge accounting. For derivatives that are not designated as hedges, the periodic change in fair value is recorded directly to earnings in "Operating costs and expenses" in the condensed consolidated statements of operations. In addition, if a portion of the change in fair value of a cash flow hedge is deemed ineffective during a reporting period, the ineffective portion of the change in fair value is recorded directly to earnings.

We have commodity price risk related to our diesel fuel purchases. To manage a portion of this risk, we enter into heating oil and ultra low sulfur diesel swap contracts with financial institutions. The changes in diesel fuel prices and the prices of these financial instruments are highly correlated, thus allowing the swap contracts to be designated as cash flow hedges of anticipated diesel fuel purchases. We expect to purchase approximately 24 million gallons of diesel fuel annually across all operations in 2012. As of June 30, 2012, the notional amounts outstanding for the swaps included 6.6 million gallons of heating oil expiring throughout 2012, as well as 4.0 million gallons of ultra low sulfur diesel expiring in 2013. For the three and six months ended June 30, 2012 we recognized a net gain of $0.1 million and $1.1 million in earnings on settled contracts, respectively. For the three and six months ended June 30, 2011, we recognized a net gain of $1.6 million and $2.6 million in earnings on settled contracts, respectively. The portion of the fair value for the cash flow hedges deemed ineffective for the three and six months ended June 30, 2012 and 2011 was immaterial.

The following table presents amounts related to our fuel derivative instruments and hedging activities included in the condensed consolidated balance sheets. See Unaudited Condensed Consolidated Statements of Comprehensive Income for the impact of our fuel hedges on comprehensive loss.

| | June 30, 2012 | December 31, 2011 |
|---|---|---|
| | (Dollars in thousands) | |
| Fair value of current fuel contracts (Prepaid expenses and other current assets) | $ — | $ 251 |
| Fair value of noncurrent fuel contracts (Investments and other assets) | — | 112 |
| Fair value of current fuel contracts (Accounts payable and accrued expenses) | 1,068 | 168 |
| Fair value of noncurrent fuel contracts (Other noncurrent liabilities) | 125 | 11 |

We utilized New York Mercantile Exchange (NYMEX) quoted market prices for the fair value measurement of these contracts, which reflect a Level 2 fair value input.

**(13) Fair Value of Financial Instruments**

Fair value is a market-based measurement that should be determined based on the assumptions that market participants would use in pricing an asset or liability. Authoritative guidance establishes a three-level fair value hierarchy for fair value to be measured based on the observability of the inputs utilized in the valuation. The levels are: Level 1 - inputs from quoted prices in an active market, Level 2 - inputs other than quoted prices that are directly or indirectly observable through market corroborated inputs and Level 3 - inputs that are unobservable and require assumptions about pricing by market participants.

Cash and cash equivalents, accounts receivable, accounts payable and accrued expenses have carrying values which approximate fair value due to the short maturity or the financial nature of these instruments.

The following table summarizes the fair value of our remaining financial instruments:

| | June 30, 2012 | December 31, 2011 |
|---|---|---|
| | (Dollars in thousands) | |
| Assets: | | |
| Fuel contracts, cash flow hedges | $ — | $ 363 |
| Liabilities: | | |
| Fuel contracts, cash flow hedges | 1,193 | 179 |
| $200 million of 3.25% Convertible Senior Notes due 2013 | 52,028 | 183,000 |
| $250 million of 8.25% Senior Notes due 2018 | 87,500 | 239,468 |

All of the instruments above were valued using Level 2 inputs. The fair value of the Convertible Senior Notes and the 8.25% Senior Notes was estimated using the last traded value on the last day of each period, as provided by a third party.

**(14) Commitments and Contingencies**

***The Bankruptcy Case***

On July 9, 2012, the Debtors filed voluntary petitions for reorganization under the Bankruptcy Code in the Bankruptcy Court. The Debtors' Chapter 11 cases are being jointly administered under the caption In re: Patriot Coal Corporation, *et al.* (Case No. 12-12900) (the Bankruptcy Case). The Debtors will continue to operate their businesses as “debtors-in-possession” under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Bankruptcy Court. As a result of the Chapter 11 Petitions, much of the pending litigation against the Debtors is stayed. Subject to certain exceptions and approval by the Bankruptcy Court, during the Chapter 11 process, no party can take further actions to recover pre-petition claims against the Debtors.

***Commitments***

As of June 30, 2012 , purchase commitments for equipment totaled $66.9 million primarily related to our build out of metallurgical coal production. Of this amount, we have equipment totaling $41.9 million scheduled for delivery in 2012, with the remainder in subsequent years. We typically finance a significant portion of equipment through leasing arrangements; however, our ability to enter into new agreements during bankruptcy may be more difficult.

***Other***

On occasion, we become a party to claims, lawsuits, arbitration proceedings and administrative procedures in the ordinary course of business. Our material legal proceedings are discussed below.

***Clean Water Act Permit Issues***

The federal Clean Water Act (CWA) and corresponding state and local laws and regulations affect coal mining operations by restricting the discharge of pollutants, including dredged or fill materials, into waters of the United States. In particular, the CWA requires effluent limitations and treatment standards for wastewater discharge through the National Pollutant Discharge Elimination System (NPDES) program. NPDES permits, which we must obtain for both active and historical mining operations, govern the discharge of pollutants into water, require regular monitoring and reporting and set forth performance standards. States are empowered to develop and enforce water quality standards, which are subject to change and must be approved by the Environmental Protection Agency (EPA). Water quality standards vary from state to state.

Environmental claims and litigation in connection with our various NPDES permits, and related CWA requirements that were assumed in the Magnum acquisition, include the following:

*Hobet West Virginia Department of Environmental Protection (WVDEP) Action*

In 2007, Hobet Mining, LLC (Hobet), one of our subsidiaries, was sued for exceedances of effluent limits contained in four of its NPDES permits in state court in Boone County, West Virginia by the WVDEP. We refer to this case as the Hobet WVDEP Action. The Hobet WVDEP Action was resolved by a settlement and consent order entered in the Boone County Circuit Court on September 5, 2008. The settlement required us, among other things, to complete supplemental environmental projects, to gradually reduce selenium discharges from our Hobet Job 21 surface mine, to achieve full compliance with our NPDES permits by April 2010 and to study potential treatment alternatives for selenium.

On October 8, 2009, a motion to enter a modified settlement and consent order in the Hobet WVDEP Action was submitted to the Boone County Circuit Court. This motion to modify the settlement and consent order was jointly filed by Patriot and the WVDEP. On December 3, 2009, the Boone County Circuit Court approved and entered a modified settlement and consent order (the December 2009 Consent Order) to, among other things, extend coverage of the September 5, 2008 settlement and consent order to two additional permits and extend the date to achieve full compliance with our NPDES permits from April 2010 to July 2012. One of the two additional permits subject to such extension, Hobet Surface Mine No. 22, was subsequently addressed in the September 1, 2010 U.S. District Court Ruling, as further discussed below.

In May 2012, a draft modification to the December 2009 Consent Order in the Hobet WVDEP Action was submitted to the Boone County Circuit Court. WVDEP and Hobet jointly requested an extension of the July 2012 compliance date while further refinements to the consent decree were discussed. The Boone County Circuit Court approved an extension of the compliance date from July 1, 2012 to August 30, 2012.

*Selenium Matters*

*Federal Apogee Case and Federal Hobet Case*

In 2007, Apogee Coal Company, LLC (Apogee), one of our subsidiaries, was sued in the U.S. District Court by the Ohio Valley Environmental Coalition, Inc. (OVEC) and another environmental group (pursuant to the citizen suit provisions of the CWA). We refer to this lawsuit as the Federal Apogee Case. This lawsuit alleged that Apogee had violated water effluent limits for selenium set forth in one of its NPDES permits. The lawsuit sought compliance with the effluent limits of the NPDES permit, fines and penalties as well as injunctive relief prohibiting Apogee from further violating laws and its permit.

In 2008, OVEC and another environmental group filed a lawsuit against Hobet and WVDEP in the U.S. District Court (pursuant to the citizen suit provisions of the CWA). We refer to this case as the Federal Hobet Case and it is very similar to the Federal Apogee Case. Additionally, the Federal Hobet Case involved the same four NPDES permits that were the subject of the original Hobet WVDEP Action in state court. However, the Federal Hobet Case focused exclusively on selenium exceedances in permitted water discharges, while the Hobet WVDEP Action addressed all effluent limits, including selenium, established by the permits.

On March 19, 2009, the U.S. District Court approved two separate consent decrees, one between Apogee and the plaintiffs and the other between Hobet and the plaintiffs. The consent decrees extended the deadline to comply with effluent limits for selenium with respect to the permits covered by the Federal Apogee Case and the Federal Hobet Case to April 5, 2010 and added interim reporting requirements up to that date. We agreed to, among other things, undertake pilot projects at Apogee and Hobet involving reverse osmosis technology along with interim reporting obligations and to comply with our NPDES permits' effluent limits for selenium by April 5, 2010. On February 26, 2010, we filed a motion requesting a hearing to discuss the modification of the March 19, 2009 consent decrees to, among other things, extend the compliance deadline to July 2012 in order to continue our efforts to identify viable treatment alternatives. On April 18, 2010, the plaintiffs in the Federal Apogee Case filed a motion asking the court to issue an order to show cause why Apogee should not be found in contempt for its failure to comply with the terms and conditions of the March 19, 2009 consent decree. The remedies sought by the plaintiffs included compliance with the terms of the consent decree, the imposition of fines and an obligation to pay plaintiffs' attorneys fees. A hearing to discuss these motions was held beginning on August 9, 2010. See September 1, 2010 U.S. District Court Ruling below for the outcome of this hearing.

*Federal Hobet Surface Mine No. 22 Case*

In March 2010, the U.S. District Court permitted a lawsuit to proceed that was filed in October 2009 by OVEC and other environmental groups against Hobet, alleging that Hobet had in the past violated, and continued to violate, effluent limitations for selenium in an NPDES permit and the requirements of a Surface Mining Control and Reclamation Act (SMCRA) permit for Hobet Surface Mine No. 22 and seeking injunctive relief. We refer to this as the Federal Hobet Surface Mine No. 22 Case. In addition to the Federal Apogee Case, the scope and terms of injunctive relief in the Federal Hobet Surface Mine No. 22 Case were discussed at the hearing that began on August 9, 2010. See September 1, 2010 U.S. District Court Ruling below for the outcome of this hearing.

*Other WVDEP Actions*

On April 23, 2010, WVDEP filed a lawsuit against Catenary Coal Company, LLC (Catenary), one of our subsidiaries, in the Boone County Circuit Court. We refer to this case as the Catenary WVDEP Action. This lawsuit alleged that Catenary had discharged selenium from its surface mining operations in violation of certain of its NPDES and surface mining permits. WVDEP is seeking fines and penalties as well as injunctions prohibiting Catenary from discharging pollutants, including selenium, in violation of laws and NPDES permits. The Catenary WVDEP Action has been consolidated with the Hobet WVDEP Action, and permits contained in the Catenary WVDEP Action were included in the draft modified settlement and consent order in the Hobet WVDEP Action which was submitted to the Boone County Circuit Court in May 2012. The permits contained in the Catenary WVDEP Action are also included in the February 2011 Litigation discussed below.

On June 11, 2010, WVDEP filed a lawsuit against Apogee in the Logan County Circuit Court, alleging discharge of pollutants, including selenium, in violation of certain of its NPDES and SMCRA permits. We refer to this case as the Apogee WVDEP Action. The permits contained in the Apogee WVDEP Action are also included in the February 2011 Litigation discussed below. WVDEP is seeking fines and penalties as well as injunctions prohibiting Apogee from discharging pollutants, including selenium, in violation of laws and NPDES permits. No trial date is currently scheduled in the Apogee WVDEP Action and we remain engaged with the WVDEP regarding resolution of the Apogee WVDEP Action.

We are unable to predict the likelihood of success of the plaintiffs' claims. Although we intend to defend ourselves vigorously against these allegations, we may consider alternative resolutions to these matters if they would be in the best interest of the Company. The compliance deadline for outfalls covered by these lawsuits was addressed in the comprehensive consent decree entered on March 15, 2012, and we are taking steps to resolve these lawsuits on terms that are not inconsistent with the comprehensive consent decree.

*September 1, 2010 U.S. District Court Ruling*

On September 1, 2010, the U.S. District Court found Apogee in contempt for failing to comply with the March 19, 2009 consent decree entered in the Federal Apogee Case. Apogee was ordered to install a Fluidized Bed Reactor (FBR) water treatment facility for three outfalls and to come into compliance with applicable selenium discharge limits at these three outfalls by March 1, 2013. In September 2010, we increased the portion of the selenium water treatment liability related to Apogee by $69.5 million ( $48.8 million related to installation costs and $20.7 million related to operating costs) for the fair value of the estimated costs related to these three outfalls. This charge was reflected in “Asset retirement obligation expense” in the consolidated statement of operations. As of June 30, 2012, we have spent approximately $27.9 million on the Apogee FBR facility and the total expenditures are estimated to be approximately $55 million. We began construction on the Apogee FBR facility in the third quarter of 2011.

Additionally, the U.S. District Court ordered Hobet to submit a proposed schedule to develop a treatment plan for a Hobet Surface Mine No. 22 outfall by October 1, 2010 and to come into compliance with applicable discharge limits under the permit by May 1, 2013. We submitted the required schedule, which included conducting additional pilot projects related to certain technological alternatives. A treatment technology to be utilized at this Hobet Surface Mine No. 22 outfall was filed with the U.S. District Court in June 2011 in accordance with the submitted schedule. In June 2011, we increased the selenium water treatment liability by $60.6 million ( $36.6 million related to installation costs and $24.0 million related to operating costs) primarily related to fair value of the estimated costs of an FBR water treatment facility at this outfall. This charge was reflected in “Asset retirement obligation expense” in the consolidated statement of operations.

In December 2011, the Special Master appointed by the U.S. District Court to oversee the Hobet Surface Mine No. 22 project approved Hobet's request to substitute ABMet selenium treatment technology for the FBR technology at this outfall. The U.S. District Court subsequently confirmed this substitution. We continue to design and seek permits for the Hobet ABMet facility and began construction on the facility in the second quarter of 2012. The estimated total expenditures for completing the ABMet water treatment facility are approximately $25.0 million, less than the estimated $40.0 million to build the Hobet FBR facility. As of June 30, 2012, we have spent approximately $4.4 million on the Hobet ABMet water treatment facility. In December 2011, we decreased the portion of the selenium water treatment liability related to Hobet Surface Mine No. 22 by $25.6 million ( $15.3 million related to installation costs and $10.3 million related to operating costs) due to the change in the technology approved by the Special Master. On July 25, 2012, the U.S. District Court amended the compliance date in the order to May 18, 2013.

FBR technology had not been used to remove selenium or any other minerals discharged at coal mining operations prior to our pilot project performed in 2010, but has been successful in other industrial applications. The FBR water treatment facility required by the September 1, 2010 ruling will be the first facility constructed for selenium removal on a commercial scale. Further, neither FBR nor ABMet technology has been proven effective on a full-scale commercial basis at coal mining operations, and there can be no assurance that either of these technologies will be successful under all variable conditions experienced at our mining operations.

*February 2011 Litigation*

In February 2011, OVEC and two other environmental groups filed a lawsuit against us, Apogee, Catenary and Hobet, in the U.S. District Court alleging violations of ten NPDES permits and certain SMCRA permits relating to outfalls created prior to the Magnum acquisition. We refer to this case as the February 2011 Litigation. The February 2011 Litigation involves the same four

NPDES permits that are the subject of the Catenary WVDEP Action, the same Apogee permit that is the subject of the Apogee WVDEP Action, the same four NPDES permits that are the subject of the Hobet WVDEP Action and one additional NPDES permit held by Hobet that is not the subject of any action by WVDEP.

In late 2011, we substantially agreed to the terms of a settlement agreement with OVEC and the other environmental groups. On January 18, 2012, we finalized a comprehensive consent decree to resolve the February 2011 Litigation. The comprehensive consent decree was approved by the U.S. District Court and became effective on March 15, 2012. The comprehensive consent decree sets technology selection and compliance dates for the outfalls in the ten permits included in the February 2011 Litigation on a staggered basis, allowing us to continue testing certain technologies as well as to take advantage of technology that is still in the development stage. See our discussion below in relation to the uncertainties experienced in making technology selections.

The comprehensive consent decree separates the outfalls included in these ten NPDES permits into categories based on the average gallons per minute water flow at each outfall. The comprehensive consent decree requires that we select water treatment technology alternatives by category beginning with the first category in September 2012 and ending with the last category in September 2014.

Additionally, we agreed to, among other things, come into compliance with applicable selenium discharge limits at each outfall in the category beginning with the first category by March 15, 2014 and ending with the last category by March 15, 2017. We also agreed to, among other things, waive our rights to mine certain coal reserves and to pay $7.5 million in civil penalties. The plaintiffs agreed to, among other things, refrain from instituting new lawsuits with respect to the permits and outfalls identified in the comprehensive consent decree for certain periods, provided we meet the specified requirements. The comprehensive consent decree also established a framework under which we will interface with the plaintiffs with respect to the identified permits and outfalls. See the table below for additional details.

The comprehensive consent decree was determined to be a recognized subsequent event and the amounts paid per the agreement of approximately $7.5 million and the write-off of the forfeited coal reserves of approximately $2.3 million were reflected in “Asset retirement obligation expense” in our consolidated statement of operations at December 31, 2011.

| Category/Gallons Per Minute | Technology Selection Date | Specified Compliance Date |
|---|---|---|
| I / 0-200 | September 1, 2012 | March 15, 2014 |
| II / 201-400 | December 31, 2012 | March 15, 2015 |
| III / 401-600 | March 31, 2013 | December 15, 2015 |
| IV / 601-1000 | September 1, 2013 | May 15, 2016 |
| V / 1000 + | September 1, 2014 | March 15, 2017 |

*Selenium Water Treatment Liability*

We increased our selenium water treatment liability during the second quarter of 2012 by $307.4 million to recognize our modification to the selenium compliance plan as described below.

A reconciliation of our liability for asset retirement obligations is as follows:

| | June 30, 2012 | | |
|---|---|---|---|
| | Reclamation Obligations | Selenium Water Treatment Obligations | Total |
| | (Dollars in thousands) | | |
| Balance at December 31, 2011 | $ 292,050 | $ 195,991 | $488,041 |
| Liabilities incurred | 2,695 | — | 2,695 |
| Liabilities settled or disposed | (26,665) | (25,429) | (52,094) |
| Accretion expense | 13,205 | 9,417 | 22,622 |
| Revisions to estimate | 16,326 | 307,374 | 323,700 |
| Balance at June 30, 2012 | 297,611 | 487,353 | 784,964 |
| Less current portion (included in Accrued expenses) | — | (47,320) | (47,320) |
| Asset retirement obligations | $ 297,611 | $ 440,033 | $737,644 |

We estimated the costs to treat our selenium discharges in excess of allowable limits at a fair value of $85.2 million at the Magnum acquisition date. This liability was recorded in the purchase accounting for the Magnum acquisition based on the estimated costs of installing Zero Valent Iron (ZVI) water treatment technology, which was the most successful selenium treatment methodology at the time based on our testing results. At the time we recorded this liability, it reflected the estimated total costs of the planned ZVI water treatment installations to be implemented and maintained in consideration of the requirements of our mining permits, court orders, and consent decrees. This estimate was prepared considering the dynamics of legislation, capabilities of available technology and our planned water treatment strategy.

At the time of the Magnum acquisition, various outfalls across the acquired operations had been tested for selenium discharges. Of the outfalls tested, 88 were identified as potential sites of selenium discharge limit exceedances, of which 78 were identified as having known exceedances. The estimated liability recorded at fair value in the purchase allocation took into consideration the 78 outfalls with known exceedances at the acquisition date. The estimated aggregate undiscounted amount of the initial accrual was $390.7 million at the Magnum acquisition date.

Prior to the second quarter of 2012, the liability to treat selenium discharges at outfalls not addressed in the September 1, 2010 ruling continued to be based on the use of the ZVI technology as there was no other definitive plan to install any technology other than ZVI. During the three months ended June 30, 2012, we modified our selenium water treatment compliance plan from ZVI technology to installing and operating Iron Facilitated Selenium Reduction (IFSeR) technology. Installation and operating costs for the IFSeR technology are materially higher than ZVI technology due in part to the more technologically advanced processing system. IFSeR was developed in response to our need to resolve certain detailed design considerations for ZVI technology. While ZVI water treatment systems decreased selenium discharges, they had not performed consistently in reducing selenium concentrations to compliant levels. IFSeR incorporates various design enhancements including utilizing ZVI media in a different configuration than the original ZVI water treatment technology.

Our comprehensive consent decree with the plaintiffs in the February 2011 Litigation requires that we select water treatment technology by category beginning with the first category in September 2012 and ending with the last category in September 2014. We performed pilot testing on IFSeR technology in early 2012 and concluded the testing in May 2012. In May 2012, related to the comprehensive consent decree for the February 2011 Litigation, we submitted IFSeR technology to the Special Master for his review and approval. On July 18, 2012, the Special Master certified that IFSeR may be considered as a listed technology for Category 1 outfalls, subject to our submitting responses to the Special Master's final comments provided that same date. We will respond to these technical comments by August 10, 2012 and anticipate that the responses will resolve outstanding issues raised by the Special Master such that IFSeR can be certified as a listed technology for Category 1 outfalls. To date, IFSeR technology has not been proven to achieve effluent selenium limitations for the expected annual water flows at outfalls other than Category 1. There is significant uncertainty at June 30, 2012 as to which technology, if any, could be utilized to achieve compliance at the other four categories, particularly those with higher average water flows. However, IFSeR technology is currently the most successful technology to treat selenium based on our testing.

As a result, at June 30, 2012, we recorded an adjustment to increase our selenium water treatment liability by $307.4 million to recognize the modification to our compliance plan from installing and operating ZVI technology to installing and operating IFSeR technology. This adjustment is based upon estimates for the installation and operating costs of IFSeR water treatment systems at the Category 1-5 outfalls.

If IFSeR systems are not ultimately successful in treating the effluent selenium exceedances at the outfalls covered by the Hobet WVDEP Action and the February 2011 Litigation, we may be required to install alternative treatment solutions. Alternative technology solutions that we may ultimately select are still in the early phases of development and their related costs can not be reasonably estimated at this time. The cost of other water treatment solutions could be materially different than the costs reflected in our liability. Furthermore, costs associated with potential modifications to IFSeR or the scale of our current IFSeR systems could also cause the costs to be materially different than the costs reflected in our liability. We cannot provide an estimate of the possible additional range of costs associated with alternate treatment solutions at this time. Potential installations of selenium treatment alternatives are further complicated by the variable geological, topographical and water flow considerations of each individual outfall.

While we are actively continuing to explore treatment options, there can be no assurance as to if or when a definitive solution will be identified and implemented for outfalls covered by the Hobet WVDEP Action and the February 2011 Litigation. As a result, actual costs may differ from our current estimates. We will make additional adjustments to our liability when it becomes probable that we will utilize a different technology or modify the current technology, whether due to developments in our ongoing research, technology changes or modifications according to the comprehensive consent decree or other legal obligations to do so. Additionally, there are no assurances we will meet the timetable stipulated in the various court orders, consent decrees and permits.

*General Clean Water Act Matters*

With respect to all outfalls with known exceedances for selenium or any other parameter, including the specific sites discussed above, any failure to meet the deadlines set forth in our consent decrees or established by the federal government, the U.S. District Court or the State of West Virginia or to otherwise comply with our permits could result in further litigation against us, an inability to obtain new permits or to maintain existing permits, which could impact our ability to mine our coal reserves, and the imposition of significant and material fines and penalties or other costs and could otherwise materially adversely affect our results of operations, cash flows and financial condition. The specific sites discussed above were created prior to the Magnum acquisition under legacy permitting standards and resulted in violations of current selenium effluent limits, which were effective beginning in 2006.

In addition to the uncertainties related to technology discussed above, future changes to legislation, compliance with judicial rulings, consent decrees and regulatory requirements, findings from current research initiatives and the pace of future technological progress could result in costs that differ from our current estimates, which could have a material adverse effect on our results of operations, cash flows and financial condition.

We may incur costs relating to the lawsuits discussed above and possible additional costs, including potential fines and penalties relating to selenium matters. Additionally, as a result of these ongoing litigation matters and federal regulatory initiatives related to water quality standards that affect valley fills, impoundments and other mining practices, including the selenium discharge matters described above, the process of applying for new permits has become more time-consuming and complex, the review and approval process is taking longer, and in certain cases, new permits may not be issued.

***Comprehensive Environmental Response, Compensation and Liability Act (CERCLA)***

CERCLA and similar state laws create liability for investigation and remediation in response to releases of hazardous substances in the environment and for damages to natural resources. Under CERCLA and many similar state statutes, joint and several liability may be imposed on waste generators, site owners and operators and others regardless of fault. These laws and related regulations could require us to do some or all of the following: (i) remove or mitigate the effects of the disposal or release of certain substances on the environment at various sites; (ii) perform remediation work at such sites; and (iii) pay damages for loss of use and non-use values.

Although waste substances generated by coal mining and processing are generally not regarded as hazardous substances for the purposes of CERCLA and similar legislation, and are generally covered by SMCRA, some products used by coal companies in operations, such as chemicals, and the disposal of these products are governed by CERCLA. Thus, coal mines currently or previously owned or operated by us, and sites to which we have sent waste materials, may be subject to liability under CERCLA and similar state laws. A predecessor of one of our subsidiaries has been named as a potentially responsible party at a third-party site, but given the large number of entities involved at the site and our anticipated share of expected cleanup costs, we believe that its ultimate liability, if any, will not be material to our financial condition and results of operations.

***Flood Litigation***

In 2006, Hobet and Catenary were named as defendants along with various other property owners, coal companies, timbering companies and oil and natural gas companies in lawsuits arising from flooding that occurred on May 30, 2004 in various watersheds, primarily located in southern West Virginia. This litigation is pending before two different judges in the Circuit Court of Logan County, West Virginia. In the first action, the plaintiffs have asserted that (i) Hobet failed to maintain an approved drainage control system for a pond on land near, on, and/or contiguous to the sites of flooding; and (ii) Hobet participated in the development of plans to grade, blast, and alter the land near, on, and/or contiguous to the sites of the flooding. Hobet has filed a motion to dismiss both claims based upon the assertion that insufficient facts have been stated to support the claims of the plaintiffs.

In the second action, motions to dismiss have been filed, asserting that the allegations by the plaintiffs are conclusory in nature and likely deficient as a matter of law. Most of the other defendants also filed motions to dismiss. Both actions were stayed during the pendency of the appeals to the West Virginia Supreme Court of Appeals in a similar case which was dismissed in April 2010.

The outcome of the flood litigation is subject to numerous uncertainties. Based on our evaluation of the issues and their potential impact, the amount of any future loss cannot be reasonably estimated. However, based on current information, we believe this matter is likely to be resolved without a material adverse effect on our financial condition, results of operations and cash flows.

***Other Litigation and Investigations***

Apogee has been sued, along with eight other defendants, including Monsanto Company (Monsanto), Pharmacia Corporation and Akzo Nobel Chemicals, Inc., by certain plaintiffs in state court in Putnam County, West Virginia. In total, 243 similar lawsuits have been served on Apogee, which are identical except for the named plaintiff. Of the 243 lawsuits, 75 were served in February 2008, 167 were served in December 2009, and one was served in January 2011. Each lawsuit alleges personal injury occasioned by exposure to dioxin generated by a plant owned and operated by certain of the other defendants during production of a chemical, 2,4,5-T, from 1949-1969. Apogee is alleged to be liable as the successor to the liabilities of a company that owned and/or controlled a dump site known as the Manila Creek landfill, which allegedly received and incinerated dioxin-contaminated waste from the plant. The lawsuits seek compensatory and punitive damages for personal injury. As of June 30, 2012 , 47 of the lawsuits have been dismissed. Under the terms of the governing lease, Monsanto has assumed the defense of these lawsuits and has agreed to indemnify Apogee for any related damages. The failure of Monsanto to satisfy its indemnification obligations under the lease could have a material adverse effect on us.

A predecessor of one of our subsidiaries operated the Eagle No. 2 mine located near Shawneetown, Illinois, from 1969 until closure of the mine in July 1993. In March 1999, the State of Illinois brought a proceeding before the Illinois Pollution Control Board against the subsidiary alleging that groundwater contamination due to leaching from a coal waste pile at the mine site violated state standards. The subsidiary has developed a remediation plan with the State of Illinois and is in litigation before the Illinois Pollution Control Board with the Illinois Attorney General's office with respect to its claim for a civil penalty of $1.3 million .

In late January 2010, the U.S. Attorney's office and the State of West Virginia began investigations relating to one or more of our employees making inaccurate entries in official mine records at our Federal No. 2 mine. We terminated one employee and two other employees resigned after being placed on administrative leave. The terminated employee subsequently admitted to falsifying inspection records and has been cooperating with the U.S. Attorney's office. In April 2010, we received a federal subpoena requesting methane detection systems equipment used at our Federal No. 2 mine since July 2008 and the results of tests performed on the equipment since that date. We have provided the equipment and information as required by the subpoena. We have not received any additional requests for information. In January 2012, the terminated employee filed a civil lawsuit against us alleging retaliatory discharge and intentional infliction of emotional distress. Additionally, in January 2012, five employees filed a purported class action lawsuit against us and the terminated employee seeking compensation for lost wages, emotional distress, and punitive damages for the alleged intentional violation of employee safety at the mine. We are vigorously defending both civil lawsuits and the potential impact of these lawsuits can not be estimated at this time.

The outcome of other litigation and the investigations is subject to numerous uncertainties. Based on our evaluation of the issues and their potential impact, the amount of any future loss cannot be reasonably estimated. However, based on current information, we believe these matters are likely to be resolved without a material adverse effect on our financial condition, results of operations and cash flows.

**(15) Guarantees**

In 2010, we agreed to provide a limited guaranty of the payment and performance under three loans entered into by one of our joint ventures. The loans were obtained to purchase equipment, which is pledged as collateral for the loans. In the event of default on all three loans, we would be required to pay a maximum of $9.1 million. The maximum term of the three loans is through January 2016. The guaranteed portion of the loan balances at June 30, 2012 totaled $6.6 million. At June 30, 2012 and December 31, 2011, there was no carrying amount of the liability related to these guarantees on our consolidated balance sheets based on the amount of exposure and the likelihood of required performance. At June 30, 2012, one of our joint ventures owed us approximately $1.9 million for royalties and utility usage.

In the normal course of business, we are party to guarantees and financial instruments with off-balance-sheet risk, such as bank letters of credit, performance or surety bonds and other guarantees and indemnities, which are not reflected in the accompanying condensed consolidated balance sheets. Such financial instruments are valued based on the amount of exposure under the instrument and the likelihood of required performance. We do not expect any material losses to result from these guarantees or off-balance-sheet instruments.

***Other Guarantees***

We are the lessee or sublessee under numerous equipment and property leases. It is common in such commercial lease transactions for Patriot, as the lessee, to agree to indemnify the lessor for the value of the property or equipment leased, should the property be damaged or lost during the course of our operations. We expect that losses with respect to leased property would be covered by insurance (subject to deductibles). Patriot and certain of our subsidiaries have guaranteed other subsidiaries' performance under their various lease obligations. Aside from indemnification of the lessor for the value of the property leased, our maximum potential obligations under their leases are equal to the respective future minimum lease payments and/or, in certain leases, liquidated damages, assuming no amounts could be recovered from third parties.

**(16) Stock-Based Compensation**

Effective May 28, 2012, our former Chief Executive Officer (CEO) resigned from his roles as President, CEO and member of the Board of Directors of Patriot and all other offices, employment and directorships with Patriot and its subsidiaries. The former CEO's resignation resulted in the acceleration of the vesting of certain of his non-qualified stock options, restricted stock awards and performance-based restricted stock units, with the remaining unvested awards being forfeited. In the three and six months ended June 30, 2012, Patriot recorded a credit of $7.0 million for the net impact of the forfeitures and accelerations, of which $6.3 million was recorded in “Selling and administrative expenses” and $0.7 million was recorded to “Operating costs and expenses.” Additionally, in the three and six months ended June 30, 2012, we recorded compensation expense of $5.1 million for amounts due to our former CEO for severance.

**(17) Supplemental Guarantor/Non-Guarantor Financial Information**

The following tables present condensed consolidating financial information for: (a) Patriot Coal Corporation (the "Parent") on a stand-alone basis; (b) the subsidiary guarantors of our 8.25% Senior Notes (“Guarantor Subsidiaries") on a combined basis and; (c) the Non-Guarantor Subsidiary, Patriot Coal Receivables (SPV) Ltd. (the accounts receivable securitization program facilitating entity), on a stand-alone basis for periods prior to the Bankruptcy Filing. Each Guarantor Subsidiary is wholly-owned by Patriot Coal Corporation. The guarantees from each of the Guarantor Subsidiaries are full, unconditional, joint and several. Accordingly, separate financial statements of the wholly-owned Guarantor Subsidiaries are not presented because the Guarantor Subsidiaries will be jointly, severally and unconditionally liable under the guarantees, and we believe that separate financial statements and other disclosures regarding the Guarantor Subsidiaries are not material to potential investors.

**UNAUDITED SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS**
**For the Three Months Ended June 30, 2012**

| | Parent Company | Guarantor Subsidiaries | Non-Guarantor Entity | Eliminations | Consolidated |
|---|---|---|---|---|---|
| | | | (Dollars in thousands) | | |
| **Revenues** | | | | | |
| Sales | $ — | $ 518,273 | $ — | $ — | $ 518,273 |
| Other revenues | — | 15,792 | — | — | 15,792 |
| Total revenues | — | 534,065 | — | — | 534,065 |
| **Costs and expenses** | | | | | |
| Operating costs and expenses | — | 477,223 | — | — | 477,223 |
| Depreciation, depletion and amortization | — | 45,138 | — | — | 45,138 |
| Asset retirement obligation expense | — | 325,474 | — | — | 325,474 |
| Restructuring and impairment charge | — | 9,597 | — | — | 9,597 |
| Selling and administrative expenses | 2,675 | 13,900 | — | — | 16,575 |
| Net gain on disposal or exchange of assets | — | (1,157) | — | — | (1,157) |
| Loss (income) from equity affiliates | 339,653 | (720) | — | (339,653) | (720) |
| **Operating profit (loss)** | (342,328) | (335,390) | — | 339,653 | (338,065) |
| Interest expense and other | 12,020 | 4,289 | 392 | (392) | 16,309 |
| Interest income | (28) | (26) | (392) | 392 | (54) |
| **Income (loss) before income taxes** | (354,320) | (339,653) | — | 339,653 | (354,320) |
| Income tax provision (benefit) | — | — | — | — | — |
| **Net income (loss)** | $ (354,320) | $ (339,653) | $ — | $ 339,653 | $ (354,320) |

**UNAUDITED SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS**

**For the Three Months Ended June 30, 2011 (Restated[(1)])**

| | Parent Company | Guarantor Subsidiaries | Non-Guarantor Entity | Eliminations | Consolidated |
|---|---|---|---|---|---|
| | | | (Dollars in thousands) | | |
| **Revenues** | | | | | |
| Sales | $ — | $ 623,902 | $ — | $ — | $ 623,902 |
| Other revenues | — | 8,258 | — | — | 8,258 |
| Total revenues | — | 632,160 | — | — | 632,160 |
| **Costs and expenses** | | | | | |
| Operating costs and expenses | — | 560,269 | — | — | 560,269 |
| Depreciation, depletion and amortization | — | 46,370 | — | — | 46,370 |
| Asset retirement obligation expense | — | 72,356 | — | — | 72,356 |
| Sales contract accretion | — | (15,815) | — | — | (15,815) |
| Restructuring and impairment charge | — | 137 | — | — | 137 |
| Selling and administrative expenses | 4,930 | 9,130 | — | — | 14,060 |
| Net gain on disposal or exchange of assets | — | (9,372) | — | — | (9,372) |
| Loss (income) from equity affiliates | 32,709 | (2,998) | — | (32,709) | (2,998) |
| **Operating profit (loss)** | (37,639) | (27,917) | — | 32,709 | (32,847) |
| Interest expense and other | 11,955 | 4,628 | 366 | (366) | 16,583 |
| Interest income | (48) | (4) | (366) | 366 | (52) |
| **Income (loss) before income taxes** | (49,546) | (32,541) | — | 32,709 | (49,378) |
| Income tax provision | 50 | 168 | — | — | 218 |
| **Net income (loss)** | $ (49,596) | $ (32,709) | $ — | $ 32,709 | $ (49,596) |

(1) See Note 18, Restatement of Financial Statements, in the Notes to Unaudited Condensed Consolidated Financial Statements.

**UNAUDITED SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS**
**For the Six Months Ended June 30, 2012**

| | Parent Company | Guarantor Subsidiaries | Non-Guarantor Entity | Eliminations | Consolidated |
|---|---|---|---|---|---|
| **Revenues** | | | | | |
| Sales | $ — | $ 1,002,611 | $ — | $ — | $ 1,002,611 |
| Other revenues | — | 34,032 | — | — | 34,032 |
| Total revenues | — | 1,036,643 | — | — | 1,036,643 |
| **Costs and expenses** | | | | | |
| Operating costs and expenses | — | 932,559 | — | — | 932,559 |
| Depreciation, depletion and amortization | — | 86,524 | — | — | 86,524 |
| Asset retirement obligation expense | — | 358,241 | — | — | 358,241 |
| Sales contract accretion | — | (11,628) | — | — | (11,628) |
| Restructuring and impairment charge | — | 42,458 | — | — | 42,458 |
| Selling and administrative expenses | 8,473 | 21,657 | — | — | 30,130 |
| Net gain on disposal or exchange of assets | — | (2,668) | — | — | (2,668) |
| Loss (income) from equity affiliates | 397,331 | (1,700) | — | (397,331) | (1,700) |
| **Operating profit (loss)** | (405,804) | (388,800) | — | 397,331 | (397,273) |
| Interest expense and other | 23,911 | 8,596 | 777 | (777) | 32,507 |
| Interest income | (98) | (65) | (777) | 777 | (163) |
| **Income (loss) before income taxes** | (429,617) | (397,331) | — | 397,331 | (429,617) |
| Income tax provision | — | — | — | — | — |
| **Net income (loss)** | $ (429,617) | $ (397,331) | $ — | $ 397,331 | $ (429,617) |

**UNAUDITED SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS**

**For the Six Months Ended June 30, 2011 (Restated [1])**

| | Parent Company | Guarantor Subsidiaries | Non-Guarantor Entity | Eliminations | Consolidated |
|---|---|---|---|---|---|
| **Revenues** | | | | | |
| Sales | $ — | $ 1,194,280 | $ — | $ — | $ 1,194,280 |
| Other revenues | — | 14,904 | — | — | 14,904 |
| Total revenues | — | 1,209,184 | — | — | 1,209,184 |
| **Costs and expenses** | | | | | |
| Operating costs and expenses | — | 1,076,108 | — | — | 1,076,108 |
| Depreciation, depletion and amortization | — | 91,072 | — | — | 91,072 |
| Asset retirement obligation expense | — | 87,423 | — | — | 87,423 |
| Sales contract accretion | — | (34,425) | — | — | (34,425) |
| Restructuring and impairment charge | — | 284 | — | — | 284 |
| Selling and administrative expenses | 9,260 | 17,344 | — | — | 26,604 |
| Net gain on disposal or exchange of assets | — | (9,415) | — | — | (9,415) |
| Loss (income) from equity affiliates | 32,312 | (2,920) | — | (32,312) | (2,920) |
| Operating profit (loss) | (41,572) | (16,287) | — | 32,312 | (25,547) |
| Interest expense and other | 23,707 | 15,736 | 793 | (793) | 39,443 |
| Interest income | (94) | (4) | (793) | 793 | (98) |
| **Income (loss) before income taxes** | (65,185) | (32,019) | — | 32,312 | (64,892) |
| Income tax provision | 320 | 293 | — | — | 613 |
| **Net income (loss)** | $ (65,505) | $ (32,312) | $ — | $ 32,312 | $ (65,505) |

[1] See Note 18, Restatement of Financial Statements, in the Notes to Unaudited Condensed Consolidated Financial Statements.

## UNAUDITED SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME

### For the Three Months Ended June 30, 2012

| | Parent Company | Guarantor Subsidiaries | Non-Guarantor Entity | Eliminations | Consolidated |
|---|---|---|---|---|---|
| | | | (Dollars in thousands) | | |
| **Net loss** | $ (354,320) | $ (339,653) | $ — | $ 339,653 | $ (354,320) |
| Accumulated actuarial loss and prior service credit realized in net loss | — | 13,714 | — | — | 13,714 |
| Net change in fair value of diesel fuel hedge | (5,781) | — | — | — | (5,781) |
| Other comprehensive income | (5,781) | 13,714 | — | — | 7,933 |
| **Comprehensive loss** | $ (360,101) | $ (325,939) | $ — | $ 339,653 | $ (346,387) |

## UNAUDITED SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME

### For the Six Months Ended June 30, 2012

| | Parent Company | Guarantor Subsidiaries | Non-Guarantor Entity | Eliminations | Consolidated |
|---|---|---|---|---|---|
| | | | (Dollars in thousands) | | |
| **Net loss** | $ (429,617) | $ (397,331) | $ — | $ 397,331 | $ (429,617) |
| Accumulated actuarial loss and prior service credit realized in net loss | — | 27,432 | — | — | 27,432 |
| Net change in fair value of diesel fuel hedge | (1,377) | — | | | (1,377) |
| Other comprehensive income | (1,377) | 27,432 | — | — | 26,055 |
| **Comprehensive loss** | $ (430,994) | $ (369,899) | $ — | $ 397,331 | $ (403,562) |

**UNAUDITED SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME**

**For the Three Months Ended June 30, 2011 (Restated [1] )**

| | Parent Company | Guarantor Subsidiaries | Non-Guarantor Entity | Eliminations | Consolidated |
|---|---|---|---|---|---|
| | (Dollars in thousands) | | | | |
| **Net loss** | $ (49,596) | $ (32,709) | $ — | $ 32,709 | $ (49,596) |
| Accumulated actuarial loss and prior service credit realized in net loss | — | 10,749 | — | — | 10,749 |
| Net change in fair value of diesel fuel hedge | (1,387) | — | — | — | (1,387) |
| Other comprehensive income | (1,387) | 10,749 | — | — | 9,362 |
| **Comprehensive loss** | $ (50,983) | $ (21,960) | $ — | $ 32,709 | $ (40,234) |

**UNAUDITED SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME**

**For the Six Months Ended June 30, 2011 (Restated[1])**

| | Parent Company | Guarantor Subsidiaries | Non-Guarantor Entity | Eliminations | Consolidated |
|---|---|---|---|---|---|
| | (Dollars in thousands) | | | | |
| **Net loss** | $ (65,505) | $ (32,312) | $ — | $ 32,312 | $ (65,505) |
| Accumulated actuarial loss and prior service credit realized in net loss | — | 21,494 | — | — | 21,494 |
| Net change in fair value of diesel fuel hedge | 350 | — | — | — | 350 |
| Other comprehensive income | 350 | 21,494 | — | — | 21,844 |
| **Comprehensive loss** | $ (65,155) | $ (10,818) | $ — | $ 32,312 | $ (43,661) |

[1] See Note 18, Restatement of Financial Statements, in the Notes to Unaudited Condensed Consolidated Financial Statements.

**UNAUDITED SUPPLEMENTAL CONDENSED CONSOLIDATING BALANCE SHEETS**
**As of June 30, 2012**

| | Parent Company | Guarantor Subsidiaries | Non-Guarantor Entity | Eliminations | Consolidated |
|---|---|---|---|---|---|
| | | | (Dollars in thousands) | | |
| **ASSETS** | | | | | |
| Current assets | | | | | |
| Cash and cash equivalents | $ 45,797 | $ 212 | $ — | $ — | $ 46,009 |
| Accounts receivable and other, net | — | 120,220 | 117,339 | (117,339) | 120,220 |
| Inventories | — | 137,640 | — | — | 137,640 |
| Prepaid expenses and other current assets | 489 | 33,278 | — | — | 33,767 |
| Total current assets | 46,286 | 291,350 | 117,339 | (117,339) | 337,636 |
| Property, plant, equipment and mine development | | | | | |
| Land and coal interests | — | 2,934,707 | — | — | 2,934,707 |
| Buildings and improvements | — | 518,291 | — | — | 518,291 |
| Machinery and equipment | — | 785,274 | — | — | 785,274 |
| Less accumulated depreciation, depletion and amortization | — | (1,063,451) | — | — | (1,063,451) |
| Property, plant, equipment and mine development, net | — | 3,174,821 | — | — | 3,174,821 |
| Investments, intercompany and other assets | 979,195 | (235,485) | — | (676,614) | 67,096 |
| Total assets | $ 1,025,481 | $ 3,230,686 | $ 117,339 | $(793,953) | $3,579,553 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | | | | |
| Current liabilities | | | | | |
| Accounts payable and accrued expenses | $ 13,947 | $ 404,448 | $ 117,339 | $(117,339) | $ 418,395 |
| Below market sales contracts acquired | — | 10,948 | — | — | 10,948 |
| Current maturities of long-term debt (including debt in default of $464.0 million) | 464,027 | 1,695 | — | — | 465,722 |
| Total current liabilities | 477,974 | 417,091 | 117,339 | (117,339) | 895,065 |
| Long-term debt, less current maturities | — | 7,832 | — | — | 7,832 |
| Asset retirement obligations | — | 737,644 | — | — | 737,644 |
| Workers' compensation obligations | — | 235,410 | — | — | 235,410 |
| Postretirement benefit obligations | — | 1,383,896 | — | — | 1,383,896 |
| Obligation to industry fund | — | 33,738 | — | — | 33,738 |
| Below market sales contracts acquired, noncurrent | — | 59,184 | — | — | 59,184 |
| Other noncurrent liabilities | 1,340 | 37,059 | — | — | 38,399 |
| Total liabilities | 479,314 | 2,911,854 | 117,339 | (117,339) | 3,391,168 |
| Stockholders' equity | 546,167 | 318,832 | — | (676,614) | 188,385 |
| Total liabilities and stockholders' equity | $ 1,025,481 | $ 3,230,686 | $ 117,339 | $(793,953) | $3,579,553 |

**SUPPLEMENTAL CONDENSED CONSOLIDATING BALANCE SHEETS**
**As of December 31, 2011**

| | Parent Company | Guarantor Subsidiaries | Non-Guarantor Entity | Eliminations | Consolidated |
|---|---|---|---|---|---|
| | | | (Dollars in thousands) | | |
| **ASSETS** | | | | | |
| Current assets | | | | | |
| Cash and cash equivalents | $ 193,882 | $ 280 | $ — | $ — | $ 194,162 |
| Accounts receivable and other, net | 313 | 177,382 | 171,101 | (171,101) | 177,695 |
| Inventories | — | 98,366 | — | — | 98,366 |
| Prepaid expenses and other current assets | 709 | 27,482 | — | — | 28,191 |
| Total current assets | 194,904 | 303,510 | 171,101 | (171,101) | 498,414 |
| Property, plant, equipment and mine development | | | | | |
| Land and coal interests | — | 2,935,796 | — | — | 2,935,796 |
| Buildings and improvements | — | 504,275 | — | — | 504,275 |
| Machinery and equipment | — | 735,207 | — | — | 735,207 |
| Less accumulated depreciation, depletion and amortization | — | (973,157) | — | — | (973,157) |
| Property, plant, equipment and mine development, net | — | 3,202,121 | — | — | 3,202,121 |
| Investments, intercompany and other assets | 1,226,309 | (89,162) | — | (1,073,944) | 63,203 |
| Total assets | $ 1,421,213 | $ 3,416,469 | $ 171,101 | $ (1,245,045) | $ 3,763,738 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | | | | |
| Current liabilities | | | | | |
| Accounts payable and accrued expenses | $ 7,993 | $ 505,130 | $ 171,101 | $ (171,101) | $ 513,123 |
| Below market sales contracts acquired | — | 44,787 | — | — | 44,787 |
| Current maturities of long-term debt | — | 1,182 | — | — | 1,182 |
| Total current liabilities | 7,993 | 551,099 | 171,101 | (171,101) | 559,092 |
| Long-term debt, less current maturities | 433,951 | 7,113 | — | — | 441,064 |
| Asset retirement obligations | — | 424,974 | — | — | 424,974 |
| Workers' compensation obligations | — | 231,585 | — | — | 231,585 |
| Postretirement benefit obligations | — | 1,387,317 | — | — | 1,387,317 |
| Obligation to industry fund | — | 35,429 | — | — | 35,429 |
| Below market sales contracts acquired, noncurrent | — | 46,217 | — | — | 46,217 |
| Other noncurrent liabilities | 1,213 | 44,005 | — | — | 45,218 |
| Total liabilities | 443,157 | 2,727,739 | 171,101 | (171,101) | 3,170,896 |
| Stockholders' equity | 978,056 | 688,730 | — | (1,073,944) | 592,842 |
| Total liabilities and stockholders' equity | $ 1,421,213 | $ 3,416,469 | $ 171,101 | $ (1,245,045) | $ 3,763,738 |

**UNAUDITED SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS**
**For the Six Months Ended June 30, 2012**

| | Parent Company | Guarantor Subsidiaries | Non-Guarantor Entity | Eliminations | Consolidated |
|---|---|---|---|---|---|
| | | | (Dollars in thousands) | | |
| **Cash Flows From Operating Activities** | | | | | |
| Net cash used in operating activities | $ (19,702) | $ (38,895) | $ — | $ — | $ (58,597) |
| **Cash Flows From Investing Activities** | | | | | |
| Additions to property, plant, equipment and mine development | — | (96,761) | — | — | (96,761) |
| Additions to advance mining royalties | — | (11,268) | — | — | (11,268) |
| Acquisition of Coventry Mining Services, LLC | — | (2,530) | — | — | (2,530) |
| Proceeds from disposal or exchange of assets | — | 2,941 | — | — | 2,941 |
| Other | — | (369) | — | — | (369) |
| Net cash used in investing activities | — | (107,987) | — | — | (107,987) |
| **Cash Flows From Financing Activities** | | | | | |
| Short-term borrowing | 25,000 | — | — | — | 25,000 |
| Long-term debt payments | — | (1,182) | — | — | (1,182) |
| Deferred financing costs | (6,317) | — | — | — | (6,317) |
| Proceeds from employee stock programs | 930 | — | — | — | 930 |
| Intercompany transactions | (147,996) | 147,996 | — | — | — |
| Net cash provided by (used in) financing activities | (128,383) | 146,814 | — | — | 18,431 |
| Net increase (decrease) in cash and cash equivalents | (148,085) | (68) | — | — | (148,153) |
| Cash and cash equivalents at beginning of period | 193,882 | 280 | — | — | 194,162 |
| Cash and cash equivalents at end of period | $ 45,797 | $ 212 | $ — | $ — | $ 46,009 |

**UNAUDITED SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS**

**For the Six Months Ended June 30, 2011 (Restated[(1)] )**

| | Parent Company | Guarantor Subsidiaries | Non-Guarantor Entity | Eliminations | Consolidated |
|---|---|---|---|---|---|
| | | | (Dollars in thousands) | | |
| **Cash Flows From Operating Activities** | | | | | |
| Net cash used in operating activities | $ (32,994) | $ 82,678 | $ — | $ — | $ 49,684 |
| **Cash Flows From Investing Activities** | | | | | |
| Additions to property, plant, equipment and mine development | — | (67,822) | — | — | (67,822) |
| Additions to advance mining royalties | — | (12,163) | — | — | (12,163) |
| Net cash paid in litigation settlement and asset acquisition | — | (14,787) | — | — | (14,787) |
| Proceeds from disposal or exchange of assets | — | 2,411 | — | — | 2,411 |
| Proceeds from notes receivable | — | 115,679 | — | — | 115,679 |
| Net cash provided by investing activities | — | 23,318 | — | — | 23,318 |
| **Cash Flows From Financing Activities** | | | | | |
| Long-term debt payments | — | (2,116) | — | — | (2,116) |
| Deferred financing costs | (1,815) | — | — | — | (1,815) |
| Proceeds from employee stock programs | 962 | — | — | — | 962 |
| Intercompany transactions | 103,964 | (103,964) | — | — | — |
| Net cash provided by (used in) financing activities | 103,111 | (106,080) | — | — | (2,969) |
| Net increase (decrease) in cash and cash equivalents | 70,117 | (84) | — | — | 70,033 |
| Cash and cash equivalents at beginning of period | 192,593 | 474 | — | — | 193,067 |
| Cash and cash equivalents at end of period | $ 262,710 | $ 390 | $ — | $ — | $ 263,100 |

[(1)] See Note 18, Restatement of Financial Statements, in the Notes to Unaudited Condensed Consolidated Financial Statements.

**(18) Restatement of Financial Statements**

On February 23, 2012, we filed our Annual Report on Form 10-K for the year ended December 31, 2011 (Original 2011 Form 10-K). On May 8, 2012, we amended our Original Filing (2011 Form 10-K/A).

As disclosed in Note 14, we are installing the FBR and ABMet water treatment facilities as required by the U.S. District Court. On September 1, 2010, the U.S. District Court ordered Apogee to install an FBR water treatment facility for three outfalls. Additionally, the U.S. District Court ordered Hobet to submit a proposed schedule to develop a treatment plan for the Hobet Surface Mine No. 22. We submitted the required schedule, which included conducting additional pilot projects related to certain technological alternatives. In June 2011, Hobet submitted FBR treatment technology to be utilized at this Hobet Surface Mine No. 22 outfall in accordance with the submitted schedule. In December 2011, the Special Master appointed by the U.S. District Court to oversee the Hobet Surface Mine No. 22 project approved Hobet's request to substitute ABMet treatment technology for the FBR technology at this outfall. The U.S. District Court subsequently confirmed this substitution. We refer to these facilities collectively as the Apogee FBR and Hobet ABMet water treatment facilities.

As disclosed in our Original 2011 Form 10-K, we had been recording the costs to install the Apogee FBR and Hobet ABMet water treatment facilities as capital expenditures when incurred. The total expenditure is estimated to be approximately $55 million for the Apogee FBR water treatment facility and $25 million for the Hobet ABMet water treatment facility. The 2011 Form 10-K/A restated our consolidated financial statements to accrue a liability and recognize a loss for the estimated costs of installing these two water treatment facilities, rather than record the cost of these two facilities as a capital expenditure. The restatement increased asset retirement obligation expense and net loss by $23.6 million ( $21.3 million for installation costs for the Hobet ABMet facility and $2.3 million of accretion expense) for the year ended December 31, 2011 and by $49.7 million ( $48.8 million for installation costs of the Apogee FBR facility and $0.9 million of accretion expense) for the year ended December 31, 2010. The restatement increased our asset retirement obligation expense and net loss by $37.2 million and $37.9 million for the three and six months ended June 30, 2011, respectively. This restatement had no impact on our revenue or Adjusted EBITDA for any such period. The estimated cash spending for these facilities has not changed from our prior disclosures as a result of this restatement.

The following tables present the impact of the restatement on our previously issued unaudited condensed consolidated statements of operations for the three and six months ended June 30, 2011 and the unaudited condensed consolidated statement of cash flows for the six months ended June 30, 2011.

On August 9, 2012, we filed (i) an amendment to our Form 10-K/A for the year ended December 31, 2011 as filed on May 8, 2012 for the purpose of revising Item 9A. Controls and Procedures and (ii) an amendment to our Form 10-Q for the period ended March 31, 2012 as filed on May 9, 2012 for the purpose of revising Item 4. Controls and Procedures, in each case in response to comments received from the staff of the Securities and Exchange Commission. There was no impact on our previously issued financial statements from these August 2012 amendments.

**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

| | Three Months Ended June 30, 2011 | | |
|---|---|---|---|
| | As Previously Reported | Adjustments | Restated |
| | (Dollars in thousands, except share and per share data) | | |
| **Revenues** | | | |
| Sales | $ 623,902 | $ — | $ 623,902 |
| Other revenues | 8,258 | — | 8,258 |
| Total revenues | 632,160 | — | 632,160 |
| **Costs and expenses** | | | |
| Operating costs and expenses | 560,269 | — | 560,269 |
| Depreciation, depletion and amortization | 46,370 | — | 46,370 |
| Asset retirement obligation expense | 35,115 | 37,241 | 72,356 |
| Sales contract accretion | (15,815) | — | (15,815) |
| Restructuring and impairment charge | 137 | — | 137 |
| Selling and administrative expenses | 14,060 | — | 14,060 |
| Net gain on disposal or exchange of assets | (9,372) | — | (9,372) |
| Income from equity affiliates | (2,998) | — | (2,998) |
| **Operating profit (loss)** | 4,394 | (37,241) | (32,847) |
| Interest expense and other | 16,583 | — | 16,583 |
| Interest income | (52) | — | (52) |
| **Loss before income taxes** | (12,137) | (37,241) | (49,378) |
| Income tax provision | 218 | — | 218 |
| **Net loss** | $ (12,355) | $ (37,241) | $ (49,596) |
| | | | |
| **Weighted average shares outstanding, basic and diluted** | 91,284,418 | — | 91,284,418 |
| | | | |
| **Loss per share, basic and diluted** | $ (0.14) | $ (0.40) | $ (0.54) |

**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

| | Six Months Ended June 30, 2011 | | |
|---|---|---|---|
| | As Previously Reported | Adjustments | Restated |
| | (Dollars in thousands, except share and per share data) | | |
| **Revenues** | | | |
| Sales | $ 1,194,280 | $ — | $ 1,194,280 |
| Other revenues | 14,904 | — | 14,904 |
| Total revenues | 1,209,184 | — | 1,209,184 |
| **Costs and expenses** | | | |
| Operating costs and expenses | 1,076,108 | — | 1,076,108 |
| Depreciation, depletion and amortization | 91,072 | — | 91,072 |
| Asset retirement obligation expense | 49,569 | 37,854 | 87,423 |
| Sales contract accretion | (34,425) | — | (34,425) |
| Restructuring and impairment charge | 284 | — | 284 |
| Selling and administrative expenses | 26,604 | — | 26,604 |
| Net gain on disposal or exchange of assets | (9,415) | — | (9,415) |
| Income from equity affiliates | (2,920) | — | (2,920) |
| **Operating profit (loss)** | 12,307 | (37,854) | (25,547) |
| Interest expense and other | 39,443 | — | 39,443 |
| Interest income | (98) | — | (98) |
| **Loss before income taxes** | (27,038) | (37,854) | (64,892) |
| Income tax provision | 613 | — | 613 |
| **Net loss** | $ (27,651) | $ (37,854) | $ (65,505) |
| | | | |
| **Weighted average shares outstanding, basic and diluted** | 91,284,370 | — | 91,284,370 |
| | | | |
| **Loss per share, basic and diluted** | $ (0.30) | $ (0.42) | $ (0.72) |

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## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Six Months Ended June 30, 2011 | | |
|---|---|---|---|
| | As Previously Reported | Adjustments | Restated |
| | (Dollars in thousands) | | |
| **Cash Flows From Operating Activities** | | | |
| Net income (loss) | $ (27,651) | $ (37,854) | $ (65,505) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | | |
| Depreciation, depletion and amortization | 91,072 | — | 91,072 |
| Amortization of deferred financing costs | 3,651 | — | 3,651 |
| Amortization of debt discount | 4,673 | — | 4,673 |
| Sales contract accretion | (34,425) | — | (34,425) |
| Loss on early payment of note receivable | 5,868 | — | 5,868 |
| Net gain on disposal or exchange of assets | (9,415) | — | (9,415) |
| Income from equity affiliates | (2,920) | — | (2,920) |
| Distributions from equity affiliates | 1,259 | — | 1,259 |
| Stock-based compensation expense | 6,791 | — | 6,791 |
| Changes in current assets and liabilities: | | | |
| Accounts receivable | (45,100) | — | (45,100) |
| Inventories | (6,510) | — | (6,510) |
| Other current assets | (900) | — | (900) |
| Accounts payable and accrued expenses | 14,236 | — | 14,236 |
| Asset retirement obligations | 37,538 | 34,550 | 72,088 |
| Workers' compensation obligations | 5,050 | — | 5,050 |
| Postretirement benefit obligations | 28,335 | — | 28,335 |
| Obligation to industry fund | (1,481) | — | (1,481) |
| Federal black lung collateralization | (14,990) | — | (14,990) |
| Other, net | (2,093) | — | (2,093) |
| Net cash used in operating activities | 52,988 | (3,304) | 49,684 |
| **Cash Flows From Investing Activities** | | | |
| Additions to property, plant, equipment and mine development | (71,126) | 3,304 | (67,822) |
| Additions to advance mining royalties | (12,163) | — | (12,163) |
| Proceeds from notes receivable | 115,679 | — | 115,679 |
| Net cash paid in litigation settlement and asset acquisition | (14,787) | — | (14,787) |
| Proceeds from disposal or exchange of assets | 2,411 | — | 2,411 |
| Net cash provided by investing activities | 20,014 | 3,304 | 23,318 |
| **Cash Flows From Financing Activities** | | | |
| Deferred financing costs | (1,815) | — | (1,815) |
| Long-term debt payments | (2,116) | — | (2,116) |
| Proceeds from employee stock programs | 962 | — | 962 |
| Net cash used in financing activities | (2,969) | — | (2,969) |
| Net increase in cash and cash equivalents | 70,033 | — | 70,033 |
| Cash and cash equivalents at beginning of period | 193,067 | — | 193,067 |
| Cash and cash equivalents at end of period | $ 263,100 | $ — | $ 263,100 |

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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

**Cautionary Notice Regarding Forward-Looking Statements**

This report and other materials filed or to be filed by Patriot Coal Corporation include statements of our expectations, intentions, plans and beliefs that constitute “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 and are intended to come within the safe harbor protection provided by those sections. You can identify these forward-looking statements by the use of forward-looking words such as “outlook,” “believes,” “expects,” “potential,” “continues,” “may,” “will,” “should,” “seeks,” “approximately,” “predicts,” “intends,” “plans,” “estimates,” “anticipates,” “foresees” or the negative version of those words or other comparable words and phrases. Any forward-looking statements contained in this report are based upon our historical performance and on current plans, estimates and expectations. The inclusion of this forward-looking information should not be regarded as a representation by us or any other person that the future plans, estimates or expectations contemplated by us will be achieved.

Without limiting the foregoing, all statements relating to our future outlook, anticipated capital expenditures, future cash flows and borrowings, and sources of funding are forward-looking statements. These forward-looking statements are based on numerous assumptions that we believe are reasonable, but are subject to a wide range of uncertainties and business risks, and actual risks may differ materially from those discussed in the statements. Among the factors that could cause actual results to differ materially are:

- our ability to continue as a going concern;
- our ability to obtain Bankruptcy Court approval with respect to motions filed in the Bankruptcy Case;
- our ability to successfully complete a reorganization under Chapter 11 and emerge from bankruptcy, including our ability to minimize our liabilities upon emergence;
- potential adverse effects of the Bankruptcy Case on our liquidity and results of operations, including failure to comply with requirements of the DIP Facilities;
- U.S. and international financial, economic and political conditions, including coal, power and steel market conditions;
- employee attrition and our ability to retain senior management and key personnel due to the distractions and uncertainties during the Bankruptcy proceedings;
- coal price volatility and demand, particularly in higher margin products;
- geologic, equipment and operational risks associated with mining;
- our ability to successfully implement IFSeR or alternative solutions to treat the effluent selenium exceedances to meet the time table stipulated in the various court orders, consent decrees and permits, and the actual costs of treating the effluent selenium exceedances are materially higher than the costs reflected in our selenium water treatment liability;
- reductions of purchases or deferral of shipments by major customers;
- availability and prices of competing energy resources for electricity generation;
- the outcome of commercial negotiations involving sales contracts or other transactions;
- changes in the interpretation, enforcement or application of existing and potential laws and regulations affecting the production and use of our products;
- environmental laws and regulations and changes in the interpretation or enforcement thereof, including those affecting our operations and those affecting our customers’ coal usage;
- availability and costs of credit, surety bonds and letters of credit;
- weather patterns and conditions affecting energy demand or disrupting supply;
- regulatory and court decisions including, but not limited to, those impacting permits issued pursuant to the Clean Water Act;
- developments in greenhouse gas emission regulation and treatment, including any development of commercially successful carbon capture and storage techniques or market-based mechanisms, such as a cap-and-trade system, for regulating greenhouse gas emissions;

- the outcome of pending or future litigation;
- the impact of the restatement of our consolidated financial statements for the years ended December 31, 2011 and 2010 and the related material weakness associated with the accounting treatment for our water treatment facilities;
- changes to the costs to provide healthcare to eligible active employees and certain retirees under postretirement benefit obligations;
- increases to contribution requirements to multi-employer retiree healthcare and pension plans;
- negotiation of labor contracts, labor availability and relations;
- customer performance and credit risks;
- inflationary trends, including those impacting materials used in our business;
- downturns in consumer and company spending;
- supplier and contract miner performance, and the availability and cost of key equipment and commodities;
- availability and costs of transportation;
- difficulty in implementing our business strategy;
- our ability to replace proven and probable coal reserves;
- our ability to respond to changing customer preferences;
- the effects of mergers, acquisitions and divestitures, including our ability to successfully realize assets for amounts similar to those reflected in our condensed consolidated financial statements;
- competition in our industry;
- interest rate fluctuation;
- wars and acts of terrorism or sabotage;
- impact of pandemic illness; and
- other factors, including those discussed in Legal Proceedings set forth in Part I, Item 3 of our 2011 Annual Report on Form 10-K/A and Part II, Item 1 of this report.

These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in Part I, Item 1A. Risk Factors of our 2011 Annual Report on Form 10-K/A and in this report. If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may vary materially from what we projected. Consequently, actual events and results may vary significantly from those included in, contemplated or implied by our forward-looking statements. We do not undertake any obligation (and expressly disclaim any such obligation) to update or revise the forward-looking statements, except as required by federal securities laws.

**Bankruptcy Proceedings**

***Chapter 11 Reorganization Filings***

In recent years, the demand for coal has decreased, in large part because alternative sources of energy have become increasingly attractive to electricity generators in light of declining natural gas prices and more burdensome environmental and other governmental regulations for the use of coal. At the same time, our liabilities have been increasing as we face sharply rising costs to comply with such regulations, the costs associated with our labor-related legacy liabilities, and the increasing burden of selenium water treatment.

Over the last several years, coal's share of the U.S. energy market and prices for thermal coal have both markedly declined. Vast resources of natural gas have been unlocked through the new discovery of shale deposits and technological advancements in drilling, causing the price of natural gas in the U.S. to fall. Moreover, the mild winter in 2012 resulted in lower coal burn for electricity generation. These factors, in turn, caused coal inventories at U.S. electricity producers to expand. As a result, the coal industry as a whole has been forced to reduce production, idle mines and lay off workers.

Additionally, the demand for metallurgical coal is dependent on the strength of the global economy, and in particular on steel production in countries such as China and India, as well as Europe, Brazil and the U.S. In response to the recent global economic downturn and distressed international financial markets, the demand and price for metallurgical coal has declined.

This declining demand has had a material impact on our business. Because we sell substantial quantities of coal products to domestic and international electricity generators and steel producers, our business and results of operations are linked closely to global demand for coal-fueled electricity and steel production. During the first half of this year, we were approached by certain customers seeking to cancel or delay shipments of coal contracted for delivery under their coal supply agreements. Two of our customers, Bridgehouse Commodities Trading Limited (Bridgehouse) and Keystone Industries LLC (Keystone), defaulted on their contractual obligations to purchase coal from us at prices favorable to us. On April 3, 2012 and June 1, 2012, we filed actions for damages against Bridgehouse and Keystone, respectively, resulting from these breaches of contract.

In light of the decreased demand for both thermal and metallurgical coal, it has become uneconomical to operate certain of our mining complexes, and we have taken steps to reduce coal production to match expected sales volumes.

Beginning early in 2012, we explored various options to refinance our existing debt, and engaged The Blackstone Group on May 22, 2012, to further assist us in these efforts. On May 23, 2012 our credit rating was downgraded to "CCC" by Standard & Poor's, due to uncertainty associated with the refinancing of our debt because of uncertain market conditions. To improve our operating and financial structure, on May 29, 2012, a new Chief Executive Officer was appointed and the role of the Chief Operating Officer (COO) was expanded to President and COO. During this period, the Board of Directors and its Finance Committee met frequently to explore options and consider alternatives to improve the financial condition of the Company.

On July 9, 2012, Patriot Coal Corporation (Patriot), as a stand-alone entity, and substantially all of its wholly-owned subsidiaries (the Filing Subsidiaries and, together with Patriot, the Debtors) filed voluntary petitions for reorganization (the Chapter 11 Petitions) under Chapter 11 of Title 11 of the United States Bankruptcy Code (the Bankruptcy Code) in the Bankruptcy Court for the Southern District of New York (the Bankruptcy Court). None of our joint ventures were included in the filing and certain of our other subsidiaries were not included in the filing.

Effective July 10, 2012, the New York Stock Exchange (NYSE) suspended trading of our common stock and commenced proceedings to delist our common stock. On August 6, 2012, our common stock was delisted from the NYSE. Our stock is now traded under the ticker symbol “PCXCQ” on the OTCQB marketplace, operated by OTC Markets Group Inc. (the OTC Markets).

At June 30, 2012, we were not in compliance with certain financial covenants of our pre-petition debt agreements. In addition, the filing of the Chapter 11 Petitions constituted an additional event of default under substantially all of our pre-petition debt agreements, and all principal, interest and other amounts due thereunder became immediately due and payable. Accordingly, the accompanying condensed consolidated balance sheet as of June 30, 2012 includes the reclassification of $439.0 million of our outstanding long-term debt in default to current liabilities. Any actions to enforce such payment obligations are stayed as a result of filing the Chapter 11 Petitions.

The Debtors are operating as "debtors-in-possession" under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code. In general, the Debtors are authorized to continue to operate as an ongoing business, but may not engage in transactions outside of the ordinary course of business without the approval of the Bankruptcy Court.

***Debtor-In-Possession (DIP) Financing***

In connection with filing the Chapter 11 Petitions, the Debtors filed a motion seeking, among other things, Bankruptcy Court authorization for us to obtain post-petition financing, and for each Filing Subsidiary (other than EACC Camps, Inc.) and for Patriot Ventures LLC (collectively, the DIP Guarantors) to guaranty our obligations in connection with the DIP Facilities, up to an aggregate principal amount of $802.0 million , consisting of (a) a revolving credit loan in an amount not to exceed $125.0 million (First Out Revolving Credit Loan), (b) a term loan in the amount of $375.0 million (First Out Term Loan, and together with the First Out Revolving Credit Loan, the First Out Facility), and (c) a roll up (the "L/C Roll Up") of obligations under the Amended and Restated Credit Agreement, dated May 5, 2010 (the Pre-Petition Credit Agreement) in respect to outstanding letters of credit, inclusive of any obligations as to reimbursement, renewal and extension of the same issued in the aggregate amount of $300.8 million as of the Petition Date (the Second Out Facility and, together with the First Out Facility, the DIP Facilities).

On July 11, 2012, the Bankruptcy Court entered an interim order (the Interim DIP Order) that, among other things, authorized us to borrow money and obtain letters of credit pursuant to the DIP Facilities and to guaranty such borrowings and our obligations with respect to such letters of credit, up to an aggregate principal or face amount of $677.0 million (plus interest, fees and other expenses and amounts), consisting of borrowings of up to an aggregate principal or face amount of $125.0 million under the First Out Revolving Credit Loan, $250.0 million under the First Out Term Loan, and up to $302.0 million under the Second Out Facility, in accordance with the terms of the Interim DIP Order. On August 3, 2012, the Bankruptcy Court entered the Final DIP Order (the Final DIP Order) that, among other things, authorized us to borrow the full amount under the DIP Facilities in accordance with the terms of the Final DIP Order. The maturity date of the DIP Facilities is October 4, 2013, but may be extended to December 31, 2013, provided certain conditions are met.

For additional information on the DIP Facilities, see Liquidity - Debt and Credit Facilities.

***Reorganization Process***

The Bankruptcy Court has approved payment of certain of our pre-petition obligations, including employee wages, salaries and certain benefits, shippers and critical vendors. The Debtors can continue to pay vendors and other providers in the ordinary course for goods and services received after the filing of the Chapter 11 Petitions and other certain business-related payments necessary to maintain the operation of our business. We have retained legal and financial professionals to advise us on the bankruptcy proceedings. From time to time, we may seek the Bankruptcy Court's approval for the retention of additional professionals.

Immediately after filing the Chapter 11 Petitions, we began notifying all known current or potential creditors of the Debtors of the bankruptcy filings. Subject to certain exceptions under the Bankruptcy Code, the filing of the Chapter 11 Petitions automatically enjoined, or stayed, the continuation of any judicial or administrative proceedings or other actions against the Debtors or their property to recover, collect or secure a claim arising prior to the filing of the Chapter 11 Petitions. Thus, for example, most creditor actions to obtain possession of property from us, or to create, perfect or enforce any lien against our property, or to collect on monies owed or otherwise exercise rights or remedies with respect to a pre-petition claim are enjoined unless and until the Bankruptcy Court lifts the automatic stay.

As required by the Bankruptcy Code, the United States Trustee for the Southern District of New York appointed an official committee of unsecured creditors (the Creditors' Committee). The Creditors' Committee and its legal representatives have a right to be heard on all matters that come before the Bankruptcy Court.

On July 18, 2012, the United Mine Workers of America (UMWA) filed a motion requesting that the venue for our Chapter 11 filing be transferred to the Bankruptcy Court for the Southern District of West Virginia. On August 7, 2012, several surety companies filed a separate motion requesting the same transfer. The Company will be contesting these motions, which are expected to be ruled on by the Bankruptcy Court in September 2012.

Under Section 365 and other relevant sections of the Bankruptcy Code, we may assume, assume and assign, or reject certain executory contracts and unexpired leases, including leases of real property and equipment, subject to the approval of the Bankruptcy Court and certain other conditions.

In order to successfully exit Chapter 11, we will need to propose and obtain confirmation by the Bankruptcy Court of a plan of reorganization that satisfies the requirements of the Bankruptcy Code. A plan of reorganization, among other things, would resolve our pre-petition obligations, set forth the revised capital structure of the newly reorganized entity and provide for corporate governance subsequent to emerging from bankruptcy.

We have the exclusive right for 120 days after the filing of the Chapter 11 Petitions to file a plan of reorganization. We will likely file one or more motions to request extensions of this exclusivity period, which are routinely granted up to 18 months in bankruptcy cases of this size and complexity. If our exclusivity period lapses, any party-in-interest would be able to file a plan of reorganization. In addition to being voted on by holders of impaired claims and equity interests, a plan of reorganization must satisfy certain requirements of the Bankruptcy Code and must be approved, or confirmed, by the Bankruptcy Court in order to become effective.

Our timing for filing a plan of reorganization will depend on the timing and outcome of numerous other ongoing matters in the Chapter 11 proceedings. There can be no assurance at this time that a plan of reorganization will be confirmed by the Bankruptcy Court or that any such plan will be implemented successfully.

Under the priority rankings established by the Bankruptcy Code, unless creditors agree otherwise, pre-petition liabilities and post-petition liabilities must be satisfied in full before stockholders are entitled to receive any distribution or retain any property under a plan of reorganization. The ultimate recovery to creditors and/or stockholders, if any, will not be determined until confirmation of a plan of reorganization. No assurance can be given as to what values, if any, will be ascribed to each of these constituencies or what types or amounts of distributions, if any, they would receive. A plan of reorganization could result in holders of certain liabilities and/or securities, including common stock, receiving no distribution on account of their interests and cancellation of their holdings. Because of such possibilities, there is significant uncertainty regarding the value of our liabilities and securities, including our common stock. At this time, there is no assurance we will be able to restructure as a going concern or successfully propose or implement a plan of reorganization.

For periods subsequent to filing the Chapter 11 Petitions, we will apply the Financial Accounting Standards Board Accounting Standards Codification 852, "Reorganizations" (ASC 852), in preparing the consolidated financial statements. ASC 852 requires that the financial statements distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business. Accordingly, certain revenues, expenses, realized gains and losses and provisions for losses that are realized or incurred in the bankruptcy proceedings will be recorded in a reorganization line item on the consolidated statements of operations. In addition, pre-petition obligations that may be impacted by the bankruptcy reorganization process will be classified on the consolidated balance sheet in liabilities subject to compromise. These liabilities are reported at the amounts expected to be allowed by the Bankruptcy Court, even if they may be settled for lesser amounts.

We have incurred and expect to continue to incur significant costs associated with our reorganization. The amount of these expenses is expected to significantly affect our financial position and results of operations, but we cannot predict the effect the Bankruptcy Case will have on our business and cash flow.

***Reporting Requirements***

As a result of the Bankruptcy Case, we are now periodically required to file various documents with, and provide certain information to, the Bankruptcy Court, including statements of financial affairs, schedules of assets and liabilities, and monthly operating reports in forms prescribed by federal bankruptcy law, as well as certain financial information on an unconsolidated basis. Such materials will be prepared according to requirements of federal bankruptcy law. While they accurately provide then-current information required under federal bankruptcy law, they are nonetheless unconsolidated, unaudited, and prepared in a format different from that used in our consolidated financial statements filed under the securities laws and regulations. Accordingly, we believe that the substance and format do not allow meaningful comparison with our regular publicly-disclosed consolidated financial statements. Moreover, the materials filed with the Bankruptcy Court are not prepared for the purpose of providing a basis for an investment decision relating to our securities, or for comparison with other financial information filed with the SEC.

***Going Concern Matters***

The accompanying consolidated financial statements and related notes have been prepared assuming we will continue as a going concern, although the Bankruptcy Case and weak industry conditions and financial markets raise substantial doubt about our ability to continue as a going concern. The accompanying unaudited condensed consolidated financial statements do not include any adjustments related to the recoverability and classification of recorded assets or to the amounts and classification of liabilities or any other adjustments that might be necessary should we be unable to continue as a going concern. Our ability to continue as a going concern is dependent upon, among other things, market conditions and our ability to improve profitability, obtain financing to replace the DIP Facilities and restructure our obligations in a manner that allows us to obtain confirmation of a plan of reorganization by the Bankruptcy Court. In order to improve profitability, we are taking actions to further reduce operating expenses and continuing to align our production to meet market demand. As a result of the Bankruptcy Case, the realization of assets and the satisfaction of liabilities are subject to uncertainty. While operating as debtors-in-possession pursuant to the Bankruptcy Code, we may sell or otherwise dispose of or liquidate assets or settle liabilities, subject to the approval of the Bankruptcy Court or as otherwise permitted in the ordinary course of business (and subject to restrictions contained in the DIP Facilities), for amounts other than those reflected in the accompanying consolidated financial statements. Further, any plan of reorganization could materially change the amounts and classifications of assets and liabilities reported in the historical consolidated financial statements.

***Labor Agreements***

Our Annual Report on Form 10-K/A for the year ended December 31, 2011 (Item 1. Business - Employees and Labor Relations and Retiree Healthcare and Pension Obligations for Active and Retired Employees) includes discussions of the agreements with the UMWA that certain of our subsidiaries have entered into that contain terms that are substantially the same as the terms of the National Bituminous Coal Wage Agreement (NBCWA) negotiated in mid-2011 between the Bituminous Coal Operators Association and the UMWA. Certain of our other subsidiaries have entered into other agreements with the UMWA that contain terms that differ from the terms of the NBCWA. For example, certain of these other agreements provide for lower or no contributions to the UMWA 1993 Benefit Plan, which provides retiree health benefits, and/or do not provide for participation in or contribution to the UMWA 1974 Plan, which provides pension benefits.

**Overview**

We are a producer of thermal coal in the eastern U.S., with operations and coal reserves in the Appalachia and the Illinois Basin coal regions. We are also a producer of metallurgical quality coal. Our principal business is the mining and preparation of thermal coal, also known as steam coal, and metallurgical coal. Thermal coal is primarily sold to electricity generators, and metallurgical coal is sold to steel mills and independent coke producers.

Our operations consist of twelve active mining complexes. Our operations include company-operated mines, contractor-operated mines and coal preparation facilities. The Appalachia and Illinois Basin segments consist of our operations in West Virginia and Kentucky, respectively. We control approximately 1.9 billion tons of proven and probable coal reserves. Our proven and probable coal reserves include metallurgical coal and medium and high-Btu thermal coal, with low, medium and high sulfur content.

We ship coal to electricity generators, industrial users, steel mills and independent coke producers. In the first six months of 2012, we sold 13.0 million tons of coal, of which 78% was sold to domestic and global electricity generators and industrial customers and 22% was sold to domestic and global steel and coke producers. Our export sales accounted for 47% of our total tons sold during the six months ended June 30, 2012. In 2011, we sold 31.1 million tons of coal, of which 76% was sold to domestic electricity generators and industrial customers and 24% was sold to domestic and global steel and coke producers. Export sales were 29% of our total volume in 2011. Coal is shipped via various company-owned and third-party loading facilities, multiple rail and river transportation routes and ocean-going vessels.

Our mining operations and coal reserves are as follows:

- *Appalachia.* In southern West Virginia, we have eight mining complexes located in Boone, Clay, Lincoln, Logan and Kanawha counties. In northern West Virginia, we have one complex located in Monongalia County. In Appalachia, we sold 9.5 million and 23.9 million tons of coal in the six months ended June 30, 2012 and the year ended December 31, 2011, respectively. As of December 31, 2011, we controlled 1.2 billion tons of proven and probable coal reserves in Appalachia, of which 491 million tons were assigned to current operations. In the first six months of 2012, we idled a portion of our metallurgical production in response to reduced demand. We do not expect costs related to bringing the metallurgical facilities back into production in the future to be significant. In February 2012, we also closed the Big Mountain mining complex in response to weaker thermal coal demand. We closed one mine at our Kanawha Eagle mining complex in the first quarter of 2012 and one mine in the second quarter of 2012 because each had reached the end of its reserve life.

- *Illinois Basin.* In the Illinois Basin, we have three mining complexes located in Union and Henderson counties in western Kentucky. In the Illinois Basin, we sold 3.5 million and 7.3 million tons of coal in the six months ended June 30, 2012 and the year ended December 31, 2011, respectively. As of December 31, 2011, we controlled 722 million tons of proven and probable coal reserves in the Illinois Basin, of which 175 million tons were assigned to current operations. In April 2012, we announced plans to idle our Freedom Mine in the Bluegrass mining complex in response to continued weakness in thermal coal demand. In 2011, we produced 1.2 million tons at the Freedom Mine.

**Results of Operations**

***Adjusted EBITDA***

The discussion of our results of operations below includes references to and analysis of our Appalachia and Illinois Basin Segments' Adjusted EBITDA results. Adjusted EBITDA is defined as net income (loss) before deducting interest income and expense; income taxes; asset retirement obligation expense; depreciation, depletion and amortization; restructuring and impairment charge; and sales contract accretion.

Adjusted EBITDA is used by management primarily as a measure of our segments' operating performance. We believe that in our industry such information is a relevant measurement of a company's operating financial performance. Because Adjusted EBITDA and Segment Adjusted EBITDA are not calculated identically by all companies, our calculation may not be comparable to similarly titled measures of other companies. Segment Adjusted EBITDA is calculated the same as Adjusted EBITDA but also excludes selling and administrative expenses, past mining obligation expense and net gain on disposal or exchange of assets and is reconciled to its most comparable measure below, under Net Loss. Adjusted EBITDA is reconciled to its most comparable measure under generally accepted accounting principles in Note 11 to our unaudited condensed consolidated financial statements.

**Three and Six Months Ended June 30, 2012 Compared to June 30, 2011 (Restated)**

***Summary***

Our Segment Adjusted EBITDA for the three and six months ended June 30, 2012 decreased compared to the prior year primarily due to a decrease in sales volumes as a result of lower demand driven by low natural gas prices, mild weather and weakened international and domestic economies. In the six months ended June 30, 2012, this decrease was partially offset by higher average sales prices, which reflected pricing under coal supply contracts entered into in early 2011 when the metallurgical coal markets were stronger, as well as the expiration of an Illinois Basin below market coal supply contract in December 2011.

In response to the lower demand, we have decreased our production volume by more than 5.0 million tons annually. These production decreases included closing our Big Mountain mining complex and reducing production of metallurgical coal at our Rocklick and Wells mining complexes in the first quarter of 2012. We also closed one mine at our Kanawha Eagle mining complex in the first quarter of 2012 and one mine in the second quarter of 2012 because each had reached the end of its reserve life. In addition, we also idled the Freedom Mine at our Bluegrass mining complex and a mine at our Corridor G mining complex in the second quarter of 2012.

In the second quarter of 2012, we recorded an adjustment of $307.4 million to asset retirement obligation expense for our selenium water treatment obligations to reflect a modification in the technology used in our selenium water treatment compliance plan. In both the first and second quarter of 2012 we recorded charges to asset retirement obligation expense and restructuring and impairment charge in relation to the early closure of certain mines and other changes to mining plans at certain locations.

***Segment Results of Operations***

| | Three Months Ended June 30, 2012 | Three Months Ended June 30, 2011 | Increase (Decrease) Tons/$ | Increase (Decrease) % | Six Months Ended June 30, 2012 | Six Months Ended June 30, 2011 | Increase (Decrease) Tons/$ | Increase (Decrease) % |
|---|---|---|---|---|---|---|---|---|
| | (Dollars and tons in thousands, except per ton amounts) | | | | | | | |
| Tons Sold | | | | | | | | |
| Appalachia Mining Operations | 5,104 | 6,234 | (1,130) | (18.1)% | 9,468 | 12,432 | (2,964) | (23.8)% |
| Illinois Basin Mining Operations | 1,633 | 1,863 | (230) | (12.3)% | 3,529 | 3,627 | (98) | (2.7)% |
| Total Tons Sold | 6,737 | 8,097 | (1,360) | (16.8)% | 12,997 | 16,059 | (3,062) | (19.1)% |
| Average sales price per ton sold | | | | | | | | |
| Appalachia Mining Operations | $ 85.48 | $ 87.12 | $ (1.64) | (1.9)% | $ 87.19 | $ 83.56 | $ 3.63 | 4.3 % |
| Illinois Basin Mining Operations | 50.20 | 43.35 | 6.85 | 15.8 % | 50.19 | 42.86 | 7.33 | 17.1 % |
| Revenue | | | | | | | | |
| Appalachia Mining Operations | $ 436,299 | $ 543,136 | $ (106,837) | (19.7)% | $ 825,476 | $ 1,038,814 | $ (213,338) | (20.5)% |
| Illinois Basin Mining Operations | 81,974 | 80,766 | 1,208 | 1.5 % | 177,135 | 155,466 | 21,669 | 13.9 % |
| Appalachia Other | 15,792 | 8,258 | 7,534 | 91.2 % | 34,032 | 14,904 | 19,128 | 128.3 % |
| Total Revenues | $ 534,065 | $ 632,160 | $ (98,095) | (15.5)% | $ 1,036,643 | $ 1,209,184 | $ (172,541) | (14.3)% |
| Segment Operating Costs and Expenses[(1)] | | | | | | | | |
| Appalachia Mining Operations and Other | $ 357,855 | $ 431,088 | $ (73,233) | (17.0)% | $ 681,474 | $ 830,619 | $ (149,145) | (18.0)% |
| Illinois Basin Mining Operations | 73,136 | 81,419 | (8,283) | (10.2)% | 155,398 | 153,699 | 1,699 | 1.1 % |
| Total Segment Operating Costs and Expenses | $ 430,991 | $ 512,507 | $ (81,516) | (15.9)% | $ 836,872 | $ 984,318 | $ (147,446) | (15.0)% |
| Segment Adjusted EBITDA | | | | | | | | |
| Appalachia Mining Operations and Other | $ 94,236 | $ 120,306 | $ (26,070) | (21.7)% | $ 178,034 | $ 223,099 | $ (45,065) | (20.2)% |
| Illinois Basin Mining Operations | 8,838 | (653) | 9,491 | N/A | 21,737 | 1,767 | 19,970 | N/A |
| Total Segment Adjusted EBITDA | $ 103,074 | $ 119,653 | $ (16,579) | (13.9)% | $ 199,771 | $ 224,866 | $ (25,095) | (11.2)% |

(1) Segment Operating Costs and Expenses represent consolidated operating costs and expenses of $477.2 million and $560.3 million less income from equity affiliates of $0.7 million and $3.0 million and past mining obligation expenses of $45.5 million and $44.8 million for the three months ended June 30, 2012 and 2011, respectively. Segment Operating Costs and Expenses represent consolidated operating costs and expenses of $932.6 million and $1,076.1 million less income from equity affiliates of $1.7 million and $2.9 million and past mining obligation expenses of $94.0 million and $88.9 million for the six months ended June 30, 2012 and 2011, respectively.

***Tons Sold and Revenues***

Revenues in the Appalachia segment were lower in the three and six months ended June 30, 2012 compared to the prior year primarily due to lower sales volumes, partially offset by higher average sales prices in the six months ended June 30, 2012. Total sales volumes in Appalachia decreased for the three and six months ended June 30, 2012 compared to the same periods in 2011 primarily due to lower demand. In response to the weaker markets, we closed our Big Mountain mining complex in February 2012 and reduced production at certain metallurgical coal operations. Sales volume decreases related to mine closures and reduced production were partially offset by sales volume increases at our Panther and Paint Creek mining complexes due to additional production units and favorable mining conditions.

Revenues in the Illinois Basin segment were higher for the three and six months ended June 30, 2012 as compared to the same periods in 2011 due to higher average sales prices, partially offset by lower sales volumes. In the prior year, the Illinois Basin segment supplied a below market coal supply contract that expired in December 2011. Total sales volumes for the three and six months ended June 30, 2012 were lower compared to the prior year primarily due to the idling of the Freedom Mine at our Bluegrass mining complex in April 2012.

Appalachia Other Revenue was higher for the three and six months ended June 30, 2012 primarily due to customer settlements. During the first half of 2012, certain customers requested to cancel or delay shipment of coal contracted for 2012 deliveries. In certain situations, we agreed to release the customer from their commitment in exchange for a cash settlement. In the three and six months ended June 30, 2012, we recognized revenue of $13.5 million and $20.5 million related to these cash settlements. Additionally, we received $8.3 million related to the settlement of a customer contract dispute concerning coal deliveries in prior years that was settled through mediation in the first quarter of 2012. In the three and six months ended June 30, 2011, we recognized income of $2.4 million and $5.1 million, respectively, as underlying tons were shipped from a coal purchase option sold in a prior year.

***Segment Operating Costs and Expenses***

Segment operating costs and expenses for Appalachia decreased in the three months ended June 30, 2012, as compared to the same period in 2011, primarily due to the lower sales volume in 2012. The decrease reflects the closure of our Big Mountain thermal coal mining complex on February 2, 2012 ($36.7 million) and reduced shipments at certain metallurgical mines during the first quarter of 2012 ($32.6 million). We experienced lower costs at our Kanawha Eagle mining complex due to one mine reaching the end of its reserve life during the first quarter of 2012 and one mine being idled due to decreased market demand ($17.0 million). These decreases in costs were partially offset by increased costs at our Panther mining complex ($11.5 million) and our Paint Creek mining complex ($8.2 million) due to increased sales volume resulting from additional production units.

Segment operating costs and expenses for Appalachia decreased in the six months ended June 30, 2012, as compared to the same period in 2011, primarily due to the lower sales volume in 2012. The decrease reflects the closure of our Big Mountain thermal coal mining complex on February 2, 2012 ($60.1 million) and reduced shipments at certain metallurgical mines during the first quarter of 2012 ($53.3 million). We experienced lower costs at our Kanawha Eagle mining complex due to two mines reaching the end of their reserve life during the first half of 2012 ($25.3 million). These decreases in costs were partially offset by increased costs at our Paint Creek mining complex ($5.1 million) due to increased sales volume resulting from additional production units.

Segment operating costs and expenses for the Illinois Basin decreased in the three months ended June 30, 2012 as compared to the prior year primarily due to idling the Freedom Mine at our Bluegrass mining complex, which was driven by lower demand and weakened market conditions in the second quarter of 2012 ($5.6 million).

Segment operating costs and expenses for the Illinois Basin increased in the six months ended June 30, 2012 as compared to the prior year due to equipment rebuilds, repairs and maintenance at our Highland mining complex ($5.4 million), partially offset by decreased costs primarily due to idling our Freedom Mine at our Bluegrass mining complex, which was driven by lower demand and weakened market conditions in the six months ended June 30, 2012 ($4.6 million).

***Segment Adjusted EBITDA***

Our Segment Adjusted EBITDA for Appalachia was lower in the three and six months ended June 30, 2012 compared to the prior year, primarily due to decreased sales volumes resulting from reduced demand, partially offset by higher sales prices in the six months ended June 30, 2012.

Segment Adjusted EBITDA for the Illinois Basin increased in the three and six months ended June 30, 2012 from the prior year primarily due to higher revenues as a result of increased sales prices, as well as decreased operating costs due to idling the Freedom Mine at our Bluegrass mining complex in April 2012.

***Net Loss***

| | Three Months Ended June 30, 2012 | Three Months Ended June 30, 2011 Restated[1] | Favorable (Unfavorable) $ | Favorable (Unfavorable) % | Six Months Ended June 30, 2012 | Six Months Ended June 30, 2011 Restated[1] | Favorable (Unfavorable) $ | Favorable (Unfavorable) % |
|---|---|---|---|---|---|---|---|---|
| | (Dollars in thousands) | | | | (Dollars in thousands) | | | |
| Segment Adjusted EBITDA | $ 103,074 | $ 119,653 | $ (16,579) | (13.9)% | $ 199,771 | $ 224,866 | $ (25,095) | (11.2)% |
| Corporate and Other: | | | | | | | | |
| Past mining obligation expense | (45,512) | (44,764) | (748) | (1.7)% | (93,987) | (88,870) | (5,117) | (5.8)% |
| Net gain on disposal or exchange of assets | 1,157 | 9,372 | (8,215) | N/A | 2,668 | 9,415 | (6,747) | N/A |
| Selling and administrative expenses | (16,575) | (14,060) | (2,515) | (17.9)% | (30,130) | (26,604) | (3,526) | (13.3)% |
| Total Corporate and Other | (60,930) | (49,452) | (11,478) | (23.2)% | (121,449) | (106,059) | (15,390) | (14.5)% |
| Depreciation, depletion and amortization | (45,138) | (46,370) | 1,232 | 2.7 % | (86,524) | (91,072) | 4,548 | 5.0 % |
| Asset retirement obligation expense | (325,474) | (72,356) | (253,118) | N/A | (358,241) | (87,423) | (270,818) | N/A |
| Sales contract accretion | — | 15,815 | (15,815) | (100.0)% | 11,628 | 34,425 | (22,797) | (66.2)% |
| Restructuring and impairment charge | (9,597) | (137) | (9,460) | N/A | (42,458) | (284) | (42,174) | N/A |
| Interest expense and other | (16,309) | (16,583) | 274 | 1.7 % | (32,507) | (39,443) | 6,936 | 17.6 % |
| Interest income | 54 | 52 | 2 | 3.8 % | 163 | 98 | 65 | 66.3 % |
| Income tax benefit (provision) | — | (218) | 218 | 100.0 % | — | (613) | 613 | 100.0 % |
| Net loss | $ (354,320) | $ (49,596) | $ (304,724) | N/A | $ (429,617) | $ (65,505) | $ (364,112) | N/A |

[1] As discussed in Note 18, Restatement of Financial Statements, we have restated previously issued unaudited condensed consolidated financial statements for the three and six months ended June 30, 2011; accordingly, Management's Discussion and Analysis of Financial Condition and Results of Operations have been revised for the effects of the restatement.

Past mining obligation expense was higher in the six months ended June 30, 2012 than the corresponding periods in the prior year due to changes in assumptions, primarily discount rate, related to our actuarially-determined retiree healthcare obligations and higher funding rates for the United Mine Workers of America (UMWA) pension fund, that were effective January 1, 2012.

Net gain on disposal or exchange of assets decreased for the three and six months ended June 30, 2012 compared to the corresponding periods in the prior year due to the timing of transactions. In the first quarter of 2012, net gain on disposal or exchange of assets included the sale of certain non-strategic oil and gas rights. We recognized a gain of $1.5 million on this transaction. There were no significant disposal or exchange transactions in the three months ended June 30, 2012. In the three and six months ended June 30, 2011, net gain on disposal or exchange of assets included a gain of $7.3 million on a mineral rights exchange transaction and a gain of $2.1 million on a right of way sale transaction.

Selling and administrative expenses increased in the three and six months ended June 30, 2012 compared to the same periods in 2011 due to increased legal fees related to the reorganization and increased severance costs. These increases were partially offset by significant forfeitures of stock-based compensation awards resulting from key management employee changes in the second quarter of 2012, particularly the resignation of our former CEO on May 28, 2012. In the three and six months ended June 30, 2012, we recorded a credit of $7.0 million for the net impact of the forfeitures and accelerations related to the resignation of our former CEO, of which $6.3 million was recorded in “Selling and administrative expenses” and $0.7 million was recorded to “Operating costs and expenses.” Additionally, in the three and six months ended June 30, 2012, we recorded compensation expense of $5.1 million for amounts due to our former CEO for severance.

Depreciation, depletion and amortization decreased in the three and six months ended June 30, 2012 compared to the same periods in the prior year primarily due to a decrease in depletion, resulting from lower sales volumes during the three and six months ended June 30, 2012.

Asset retirement obligation expense increased in the three and six months ended June 30, 2012 as compared to the same periods in 2011 primarily due to an adjustment of $307.4 million to our selenium water treatment obligations. We recorded the charge to recognize the modification in the technology used in our selenium water treatment compliance plan as more fully discussed in Liquidity and Capital Resources - Selenium Water Treatment Obligations. In the three and six months ended June 30, 2011, we recorded a charge of $60.6 million for the installation and operating costs of a selenium water treatment system for one of our outfall sites as required by a U.S. District Court order.

Asset retirement obligation expense also increased in the three and six months ended June 30, 2012, due to the early closure of certain mines. In the second quarter of 2012 we recorded a charge of $4.1 million related to the early closure of our Freedom mine and changes to mine plans at our Kanawha Eagle mining complex. In the first quarter of 2012, we recorded a charge of $17.5 million related to the early closure of the Big Mountain mining complex.

Sales contract accretion decreased in the three and six months ended June 30, 2012 due to the expiration of several below market contracts assumed in the Magnum acquisition, as well as the amendment of a below-market coal supply agreement in the first quarter of 2012.

Restructuring and impairment charge increased in the three months ended June 30, 2012 due to a charge of $8.2 million for the early closure of the Freedom Mine at our Bluegrass mining complex and changes to mining plans for a mine at the Kanawha Eagle mining complex. Additionally, in the first quarter of 2012 we recorded a $32.8 million charge due to the early closure of our Big Mountain mining complex. These charges mainly consisted of the write-down of fixed assets related to infrastructure, mine development and certain equipment.

Interest expense and other decreased in the six months ended June 30, 2012 primarily due to the $5.9 million loss on early repayment of notes receivable recognized in February 2011. The outstanding notes receivable related to the 2006 and 2007 sales of coal reserves and surface land were repaid in full for $115.7 million prior to the scheduled maturity date.

**Liquidity and Capital Resources**

***Sources and Uses of Cash***

Historically, our primary sources of cash have included sales of our coal production to customers, sales of non-core assets and financing transactions. Our primary uses of cash have included our cash costs of coal production, capital expenditures, interest costs and costs related to past mining obligations and reclamation as well as acquisitions.

Net cash used in operating activities was $58.6 million for the six months ended June 30, 2012, compared to cash provided by operating activities of $49.7 million in the same period of 2011. The increase in cash used in operating activities primarily related to higher spending for asset retirement obligations of $36.8 million, including selenium water treatment and mine closure obligations, an increase in working capital compared to 2011 of $44.2 million, and lower earnings from operations due to weakened demand. The weakened demand in late 2011 and early 2012 resulted in a significant increase in coal inventory and a reduction in accounts receivable at June 30, 2012 as compared to December 31, 2011.

Net cash used in investing activities was $108.0 million for the six months ended June 30, 2012, compared to net cash provided by investing activities of $23.3 million in the same period of 2011. The $131.3 million decrease in cash provided by investing activities reflects the early repayment of $115.7 million of our outstanding notes receivable in February 2011, and an increase in capital expenditures of $28.9 million in 2012 compared to 2011. Additionally, we acquired Coventry Mining Services, LLC and its subsidiaries, which employs the workforce for our Kanawha Eagle mining complex, for $2.5 million in 2012. These decreases in cash were partially offset by $14.8 million, which was cash paid in litigation settlement and asset acquisition during the six months ended June 30, 2011.

Net cash provided by financing activities was $18.4 million for the six months ended June 30, 2012, compared to net cash used by financing activities of $3.0 million for the six months ended June 30, 2011. Short-term borrowings increased $25.0 million, partially offset by an increase in deferred financing costs of $4.5 million as compared to the six months ended June 30, 2011.

On July 9, 2012, Patriot and substantially all of our wholly-owned subsidiaries filed the Chapter 11 Petitions in the Bankruptcy Court. Following the filing of our Chapter 11 Petitions, our most significant sources of liquidity are funds generated by borrowings under the DIP Facilities and cash generated by operating activities.

Based on our current internal financial forecasts, we believe that amounts available under the DIP Facilities plus cash generated from operations will be sufficient to fund anticipated cash requirements through the Bankruptcy Case for minimum operating and capital expenditures and for working capital purposes. However, given the current business environment, our liquidity needs could be significantly higher than we currently anticipate. Our ability to maintain adequate liquidity through the Bankruptcy Case and beyond depends on our ability to successfully implement an appropriate plan of reorganization, successful operation of our business, appropriate management of operating expenses and capital spending and our ability to borrow under the DIP Facilities. Our expected liquidity needs are highly sensitive to changes in each of these and other factors.

There can be no assurance that amounts available under the DIP Facilities plus cash generated from operations will be sufficient to meet our reorganization or ongoing cash needs or that we will remain in compliance with all the covenants under the DIP Facilities. If we cannot meet our liquidity needs using amounts available under the DIP Facilities plus cash generated from operations, or if our access to amounts available under the DIP Facilities is restricted or terminated for any of the reasons set forth therein, we may have to take other actions such as seeking additional financing to the extent available or reducing or delaying capital expenditures. We could also be forced to consider other alternatives to maximize potential recovery for our various creditor constituencies, including a possible sale of the Company or certain of our material assets pursuant to Section 363 of the Bankruptcy Code, or liquidate under Chapter 7 of the Bankruptcy Code.

On May 23, 2012, Standard & Poor's Ratings Services (Standard & Poor's) lowered our long-term corporate rating to “CCC” from “B-” and lowered its rating on our Senior Notes to “CCC” from “B-” as well. The recovery rating of our Senior Notes by Standard & Poor's was also lowered, indicating the expectation that creditors will receive negligible (0%-10%) recovery in a payment default scenario. Moody's Investors Service (Moody's) lowered our probability of default rating to "D" from "Caa1" and our corporate family rating to "Ca" from "Caa1" following our filing of the Bankruptcy Case. Moody's also downgraded its rating on our Senior Notes to "C" from "Caa2". As a result of our Bankruptcy Case, Moody's has withdrawn all of its ratings on us. These debt and credit downgrades have a long-term adverse effect on our ability to raise additional financing.

Our liquidity challenges, including these debt and credit downgrades, are public information and despite the liquidity provided by our DIP Facilities, our ability to maintain normal credit terms with our suppliers may become impaired. We may be required to pay cash in advance to certain vendors and may experience restrictions on the availability of trade credit, which would further reduce our liquidity. If liquidity problems persist, our suppliers could refuse to provide key products and services in the future. In addition, due to the public perception of our financial condition and results of operations, in particular with regard to our potential failure to meet our debt obligations, some customers could be reluctant to enter into long-term agreements with us.

***Cash Management***

Historically, we concentrated the majority of our cash balances in accounts held by Patriot Coal Corporation, and we deployed our cash throughout the enterprise through a variety of intercompany and transfer pricing arrangements. In addition, we were able to freely transfer funds to, from and among subsidiaries, as needed. Since filing the Chapter 11 Petitions, we have received Bankruptcy Court approval to generally maintain use of our cash management system, and, consequently, have minimized disruption to our operations while transitioning into the reorganization process.

The matters described herein, to the extent that they relate to future events or expectations, may be significantly affected by our Bankruptcy Case. Those proceedings will involve, or may result in, various restrictions on our activities, limitations on financing, the need to obtain Bankruptcy Court approval for various matters and uncertainty as to relationships with vendors, suppliers, customers and others whom we may conduct or seek to conduct business. In addition, there is no assurance that (i) we will be able to maintain our current cash management system, (ii) we will generate sufficient cash to fund our operations during this process, or (iii) that we will be able to access any alternative financing on acceptable terms or at all.

***Selenium Water Treatment Obligations***

*September 1, 2010 U.S. District Court Ruling*

On September 1, 2010, the U.S. District Court ordered Apogee Coal Company, LLC (Apogee), one of our subsidiaries, to install a Fluidized Bed Reactor (FBR) water treatment facility for three outfalls and to come into compliance with applicable selenium discharge limits at these three outfalls by March 1, 2013. As of June 30, 2012, we have spent approximately $27.9 million on the Apogee FBR facility and the total expenditures to install the facility are estimated to be approximately $55 million.

Additionally, the U.S. District Court ordered Hobet Mining, LLC (Hobet), one of our subsidiaries, to submit a proposed schedule to develop a treatment plan for a Hobet Surface Mine No. 22 outfall and to come into compliance with applicable discharge limits under the permit by May 1, 2013. As of June 30, 2012, we have spent approximately $4.4 million on the Hobet ABMet water treatment facility and the total expenditures to install the facility are estimated to be approximately $25 million.

These will be the first facilities constructed for selenium removal on a commercial scale. Neither FBR nor ABMet technology has been proven effective on a full-scale commercial basis at coal mining operations and there can be no assurance that either of these technologies will be successful under all variable conditions experienced at our mining operations. FBR technology has proven successful in other industrial applications.

*General Selenium Matters*

Prior to the second quarter of 2012, the liability to treat selenium discharges at outfalls not addressed in the September 1, 2010 ruling continued to be based on the use of the ZVI technology as there was no other definitive plan to install any technology other than ZVI. During the three months ended June 30, 2012, we modified our selenium water treatment compliance plan from ZVI technology to installing and operating Iron Facilitated Selenium Reduction (IFSeR) technology. Installation and operating costs for the IFSeR technology are materially higher than ZVI technology due in part to the more technologically advanced processing system. IFSeR was developed in response to our need to resolve certain detailed design considerations for ZVI technology. While ZVI water treatment systems decreased selenium discharges, they had not performed consistently in reducing selenium concentrations to compliant levels. IFSeR incorporates various design enhancements including utilizing ZVI media in a different configuration than the original ZVI water treatment technology.

Our comprehensive consent decree with the plaintiffs in the February 2011 Litigation requires that we select water treatment technology by category beginning with the first category in September 2012 and ending with the last category in September 2014. We performed pilot testing on IFSeR technology in early 2012 and concluded the testing in May 2012. In May 2012, related to the comprehensive consent decree for the February 2011 Litigation, we submitted IFSeR technology to the Special Master for his review and approval. On July 18, 2012, the Special Master certified that IFSeR may be considered as a listed technology for Category 1 outfalls, subject to our submitting responses to the Special Master's final comments provided that same date. We will respond to these technical comments by August 10, 2012 and anticipate that the responses will resolve outstanding issues raised by the Special Master such that IFSeR can be certified as a listed technology for Category 1 outfalls. To date, IFSeR technology has not been proven to achieve effluent selenium limitations for the expected annual water flows at outfalls other than Category 1. There is significant uncertainty at June 30, 2012 as to which technology, if any, could be utilized to achieve compliance at the other four categories, particularly those with higher average water flows. However, IFSeR technology is currently the most successful technology to treat selenium based on our testing.

As a result, at June 30, 2012, we recorded an adjustment to increase our selenium water treatment liability by $307.4 million to recognize the modification to our compliance plan from installing and operating ZVI technology to installing and operating IFSeR technology. This adjustment is based upon estimates for the installation and operating costs of IFSeR water treatment systems at the Category 1-5 outfalls.

If IFSeR systems are not ultimately successful in treating the effluent selenium exceedances at the outfalls covered by the Hobet WVDEP Action and the February 2011 Litigation, we may be required to install alternative treatment solutions. Alternative technology solutions that we may ultimately select are still in the early phases of development and their related costs can not be reasonably estimated at this time. The cost of other water treatment solutions could be materially different than the costs reflected in our liability. Furthermore, costs associated with potential modifications to IFSeR or the scale of our current IFSeR systems could also cause the costs to be materially different than the costs reflected in our liability. We cannot provide an estimate of the possible additional range of costs associated with alternate treatment solutions at this time. Potential installations of selenium treatment alternatives are further complicated by the variable geological, topographical and water flow considerations of each individual outfall.

While we are actively continuing to explore treatment options, there can be no assurance as to if or when a definitive solution will be identified and implemented for outfalls covered by the Hobet WVDEP Action and the February 2011 Litigation. As a result, actual costs may differ from our current estimates. We will make additional adjustments to our liability when it becomes probable that we will utilize a different technology or modify the current technology, whether due to developments in our ongoing research, technology changes or modifications according to the comprehensive consent decree or other legal obligations to do so. Additionally, there are no assurances we will meet the timetable stipulated in the various court orders, consent decrees and permits.

***Pre-Petition Debt and Credit Facilities***

On May 5, 2010, we entered into a $427.5 million amended and restated credit agreement with a maturity date of December 31, 2013 . The credit facility provides for the issuance of letters of credit and direct borrowings. In January 2011 and 2012, we entered into amendments to the credit agreement which, among other things, modified certain limits and minimum requirements of our financial covenants.

In March 2010, we entered into a $125 million accounts receivable securitization program, which provides for the issuance of letters of credit and direct borrowings. Trade accounts receivable are sold, on a revolving basis, to a wholly-owned bankruptcy-remote entity (facilitating entity), which then sells an undivided interest in all of the trade accounts receivable to the creditors as collateral for any borrowings. Available liquidity under the program fluctuates with the balance of our trade accounts receivable. The outstanding trade accounts receivable balance was $117.2 million and $171.0 million as of June 30, 2012 and December 31, 2011 , respectively.

On May 5, 2010, we completed a public offering of $250 million in aggregate principal amount of 8.25% Senior Notes due 2018. The net proceeds of the offering were approximately $240 million after deducting the initial $1.8 million discount, purchasers' commissions and fees, and expenses of the offering. The net proceeds were used for general corporate purposes, which included capital expenditures for development of additional coal production capacity and working capital. The discount is being amortized over the term of the notes.

On May 28, 2008, we completed a private offering of $200 million in aggregate principal amount of 3.25% Convertible Senior Notes due 2013, including $25 million related to the underwriters' overallotment option. The net proceeds of the offering were $194 million after deducting the commissions and fees and expenses of the offering. We used the proceeds of the offering to repay Magnum's existing senior secured indebtedness and acquisition related fees and expenses. All remaining amounts were used for other general corporate purposes.

***Default of Pre-Petition Financing***

At June 30, 2012, we were not in compliance with certain financial covenants of our pre-petition debt agreements. In addition, the filing of the Bankruptcy Case constituted an additional event of default under the following debt agreements, each of which provides that, as a result of the events of default, all principal, interest and other amounts due thereunder became immediately due and payable:

- Pre-Petition Credit Agreement, with respect to outstanding letters of credit in an aggregate principal amount of approximately $300.8 million as of June 30, 2012 and the Petition Date, plus accrued and unpaid interest thereon and borrowings in an aggregate principal amount of $25.0 million as of June 30, 2012 and the Petition Date, plus accrued and unpaid interest thereon;
- the Indenture dated as of May 28, 2008 with respect to an aggregate principal amount of $200.0 million of 3.25% Convertible Senior Notes due 2013 plus accrued and unpaid interest thereon;
- the Indenture dated as of May 5, 2010 with respect to an aggregate principal amount of $250.0 million of 8.25% Senior Notes due 2018 plus accrued and unpaid interest thereon; and
- the $125.0 million accounts receivable securitization program with respect to outstanding letters of credit in an aggregate principal amount of approximately $51.8 million as of June 30, 2012 and the Petition Date, plus accrued and unpaid interest thereon.

The ability of the creditors to seek remedies to enforce their rights under these pre-petition debt agreements is automatically stayed as a result of filing the Bankruptcy Case, and the creditors' rights of enforcement are subject to the applicable provisions of the Bankruptcy Code.

As a result of the defaults under the pre-petition debt agreements, the accompanying condensed consolidated balance sheet as of June 30, 2012 includes the reclassification of $439.0 million of our outstanding long-term debt in default to current liabilities. In the second quarter of 2012, we incurred legal and professional fees totaling $4.7 million related to the DIP Facilities. These costs were capitalized as of June 30, 2012 and will be expensed with the other fees associated with this financing arrangement in the third quarter of 2012.

***DIP Financing***

In connection with filing the Chapter 11 Petitions, the Debtors filed a motion seeking, among other things, Bankruptcy Court authorization for us to obtain the DIP Facilities, and for the DIP Guarantors to guaranty our obligations in connection with the DIP Facilities, up to an aggregate principal amount of $802.0 million, consisting of (a) First Out Revolving Credit Loan in an amount not to exceed $125.0 million, (b) a First Out Term Loan in the amount of $375.0 million, and (c) a roll up of obligations under the Pre-Petition Credit Agreement, dated May 5, 2010, in respect to outstanding letters of credit, inclusive of any obligations as to reimbursement, renewal and extension of the same issued in the aggregate amount of $300.8 million as of the Petition Date (the Second Out Facility).

On July 11, 2012, the Bankruptcy Court entered the Interim DIP Order that, among other things, authorized us to borrow money and obtain letters of credit pursuant to the DIP Facilities and to guaranty such borrowings and our obligations with respect to such letters of credit, up to an aggregate principal or face amount of $677.0 million (plus interest, fees and other expenses and amounts), consisting of borrowings of up to an aggregate principal or face amount of $125.0 million under the First Out Revolving Credit Loan, $250.0 million under the First Out Term Loan, and up to $302.0 million under the Second Out Facility, in accordance with the terms of the Interim DIP Order and the DIP Facilities. On August 3, 2012, the Bankruptcy Court entered the Final DIP Order that, among other things, authorized us to borrow the full amount under the DIP Facilities in accordance with the terms of the Final DIP Order and the DIP Facilities. The Final DIP Order amended certain provisions of the DIP Facilities, including, among other things, the definition of “Applicable Rate” in the First Out DIP Credit Agreement.

*First Out Facility*

On July 9, 2012, Patriot and the DIP Guarantors entered into a Superpriority Secured Debtor-in-Possession Revolving and Term Loan Credit Agreement (the First Out DIP Credit Agreement). Our obligations under the First Out DIP Credit Agreements are guaranteed by each DIP Guarantor. On July 11, 2012, the conditions precedent to closing and the initial borrowing were satisfied and the First Out DIP Credit Agreement became effective.

First Out Revolving Credit Loans will bear interest at a rate per annum equal to the Eurocurrency Rate (as defined in the First Out DIP Credit Agreement) plus 3.25% or the Base Rate (as defined in the First Out DIP Credit Agreement) plus 2.25%. First Out Term Loans will bear interest at a rate per annum equal to the Eurocurrency Rate plus 7.75% or the Base Rate plus 6.75%. In addition, a commitment fee of 0.75% per annum is required for unutilized commitments under the First Out Facility. Upon the occurrence and during the continuance of an event of default under the First Out DIP Credit Agreement, the interest rate increases by 2.00% per annum.

On July 11, 2012, we received the proceeds of $250 million under the First Out Term Loan and utilized a portion of the funds to repay pre-petition debt of $25 million and pay DIP Facilities fees of $30.0 million. Letters of credit of $53 million were issued under the First Out Revolving Credit Loan to replace pre-petition letters of credit outstanding under the accounts receivable securitization program that was cancelled. On August 6, 2012, we received the remaining proceeds of $125 million under the First Out Term Loan and utilized a portion of the funds to pay additional DIP Facilities fees of $1.6 million. Borrowings under the First Out Facility are to be repaid on the earlier of (i) the date that is 450 days after the closing date (the Initial Maturity Date, which is October 4, 2013) provided that the Initial Maturity Date can be extended until December 31, 2013 subject to certain specified conditions, (ii) prepayment by Patriot of all outstanding principal and accrued but unpaid interest, (iii) the date of termination of the commitment of each lender and of the obligation of the L/C Issuers (as defined in the First Out DIP Credit Agreement) to make letter of credit extensions pursuant to the First Out DIP Credit Agreement, (iv) the date that is 30 days (or in certain specified circumstances, 45 days) after July 11, 2012 if the Bankruptcy Court has not entered a final order prior to such date or such later date as approved by the required lenders, (v) the date of the substantial consummation of a reorganization plan that is confirmed pursuant to an order of the Bankruptcy Court and (vi) the date of dismissal of the Bankruptcy Case by the Bankruptcy Court. An extension fee of 0.25% of the Revolving Credit Commitments and Term Loans is due if we elect to extend the maturity date of the First Out Facility.

The First Out DIP Credit Agreement provides for representations and warranties by Patriot and the DIP Guarantors that are customary for facilities of this type. The First Out DIP Credit Agreement further provides for affirmative and negative covenants applicable to Patriot and its subsidiaries, including affirmative covenants requiring Patriot to provide financial information, 13-week projections and other information including, upon request, environmental or mining site assessments or audit reports to the administrative agent under the First Out DIP Credit Agreement (the First Out DIP Agent), and negative covenants restricting the ability of Patriot and its subsidiaries to incur additional indebtedness, grant liens, dispose of assets, pay dividends or take certain other actions. The First Out DIP Credit Agreement also provides financial covenants applicable to Patriot and its subsidiaries, including compliance with requirements relating to minimum consolidated EBITDA, maximum capital expenditures and minimum liquidity.

The First Out DIP Credit Agreement provides for certain customary events of default, including events of default resulting from non-payment of principal, interest or other amounts when due, material breaches of Patriot's and the DIP Guarantors' representations and warranties, breaches by Patriot or the DIP Guarantors of their covenants in the First Out DIP Credit Agreement or ancillary loan documents, cross-defaults under other agreements or instruments, the entry of material judgments against Patriot or its subsidiaries, or revocation of the intercreditor and priority of payment provisions contained in the Pledge and Security and Intercreditor Agreement (as defined below). The First Out DIP Credit Agreement also includes customary events of default that may arise in connection with the Chapter 11 Petitions, including dismissal or conversion of the Debtors' cases.

*Second Out Facility and Second Out Guarantee*

We entered into an Amended and Restated Superpriority Secured Debtor-in-Possession Credit Agreement dated as of July 11, 2012 (the Second Out DIP Credit Agreement). Our obligations under the Second Out DIP Credit Agreement are guaranteed by the DIP Guarantors pursuant to the Amended and Restated Guarantee (the Second Out Guarantee) dated as of July 11, 2012, made by Patriot and the DIP Guarantors in favor of the administrative agent under the Second Out DIP Credit Agreement (the Second Out DIP Agent). On July 13, 2012, the conditions precedent to closing were satisfied and the Second Out DIP Credit Agreement and the Second Out Guarantee became effective.

Letter of credit fees under the Second Out Facility will be paid at a rate equal to 4.50% per annum. The letter of credit borrowings under the Second Out Facility will bear interest at a rate per annum equal to the Eurocurrency Rate plus 8.00% or the Base Rate plus 7.00% per annum. Upon the occurrence and during the continuance of an event of default under the Second Out DIP Credit Agreement, the interest rate will increase by 2.00% per annum. On July 13, 2012, letters of credit of $302 million were issued under the Second Out Facility and used to replace pre-petition letters of credit outstanding under the Pre-Petition Credit Agreement.

All letter of credit borrowings under the Second Out Facility are to be repaid on the earlier of (i) the Initial Maturity Date provided that the Initial Maturity Date can be extended until December 31, 2013 subject to certain specified conditions, (ii) the date on which the obligation of the letter of credit issuers to permit the extension of the expiry date of any letter of credit is terminated upon direction from the Second Out DIP Agent in the case of an event of default, (iii) the date that is 30 days (or in certain specified circumstances, 45 days) after July 11, 2012 if the Bankruptcy Court has not entered a final order prior to such date or such later date as approved by the required lenders, (iv) the date of the substantial consummation of a reorganization plan that is confirmed pursuant to an order of the Bankruptcy Court and (v) the date of dismissal of the Bankruptcy Case by the Bankruptcy Court.

The Second Out DIP Credit Agreement provides for representations and warranties by Patriot and the DIP Guarantors, affirmative and negative covenants applicable to Patriot and its subsidiaries and events of default that are substantially similar to the representations, warranties, covenants and events of default under the First Out DIP Credit Agreement.

*Pledge, Security and Intercreditor Agreement*

On July 11, 2012, Patriot and the DIP Guarantors entered into a Debtor-in-Possession Pledge and Security and Intercreditor Agreement (the Pledge, Security and Intercreditor Agreement) with the First Out DIP Agent and Second Out DIP Agent. The obligations of Patriot and the DIP Guarantors under the DIP Facilities are secured by a lien covering substantially all of the assets, rights and properties of Patriot and the DIP Guarantors, subject to certain exceptions set forth in the Pledge, Security and Intercreditor Agreement. The Pledge, Security and Intercreditor Agreement also sets forth the seniority and priority of the respective liens on Patriot's and the DIP Guarantors' assets for the benefit of the lenders under the First Out Revolving Credit Loan, the First Out Term Loan and the Second Out Facility.

**New Accounting Pronouncements**

In June 2011, the Financial Accounting Standards Board (FASB) issued authoritative guidance which requires entities to report components of comprehensive income in either a continuous statement of comprehensive income or two separate but consecutive statements. We adopted this guidance effective January 1, 2012. This guidance does not affect our results of operations or financial condition.

**Environmental Matters**

On July 31, 2012, the United States District Court for the District of Columbia (the "D.C. District Court") struck down EPA water quality guidance issued on July 21, 2011 relating to the compliance of surface coal mining operations with the CWA. However, EPA may appeal the D.C. District Court ruling and we cannot predict the outcome of such an appeal. Moreover, in response to the D.C. District Court ruling, the West Virginia Environmental Quality Board called on WVDEP to include similar standards to those in the EPA guidance in a pending coal mining permit. See additional discussion of EPA Water Quality Standards under Part 1, Item 1. Environmental Laws in our 2011 Annual Report on Form 10-K/A.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

***Commodity Price Risk***

The potential for changes in the market value of our coal portfolio is referred to as "market risk." Due to lack of quoted market prices and the long term, illiquid nature of the positions, we have not quantified market risk related to our portfolio of coal supply agreements. We manage our commodity price risk for our coal contracts through the use of long-term coal supply agreements, rather than through the use of derivative instruments. We sold approximately 78% of our sales volume under coal supply agreements with terms of one year or more during 2011. As of June 30, 2012 , our total unpriced planned production for 2012 was approximately 2 million tons.

We have commodity risk related to our diesel fuel purchases. To manage a portion of this risk, we have entered into swap contracts with financial institutions. These derivative contracts have been designated as cash flow hedges of anticipated diesel fuel purchases. As of June 30, 2012 , the notional amounts outstanding for these swaps included 6.6 million gallons of heating oil expiring throughout 2012 , as well as 4.0 million gallons of ultra low sulfur diesel expiring in 2013 . We expect to purchase approximately 24 million gallons of diesel fuel annually across all operations in 2012. Excluding the impact of our hedging activities, a $0.10 per gallon change in the price of diesel fuel would impact our operating costs by approximately $2.4 million annually.

***Credit Risk***

Our coal sales, and therefore our concentration of credit risk, are primarily made directly to electricity generators, industrial companies, steelmakers and, in expanded export markets, coal traders. Our policy is to independently evaluate each customer's creditworthiness prior to entering into transactions and to constantly monitor the credit extended. In the event that we engage in a transaction with a counterparty that does not meet our credit standards, we will protect our position by requiring the counterparty to provide appropriate credit enhancement. When appropriate (as determined by our credit management function), we have taken steps to mitigate our credit exposure to customers or counterparties whose credit has deteriorated and who may pose a higher risk of failure to perform under their contractual obligations. These steps may include, but are not limited to, obtaining letters of credit or cash collateral, requiring prepayments for shipments or the creation of customer trust accounts held for our benefit to serve as collateral in the event of a failure to pay. While the economic recession may affect our customers, we do not anticipate that it will significantly affect our overall credit risk profile due to our credit policies.

**Item 4. Controls and Procedures.**

**Evaluation of Disclosure Controls and Procedures**

Our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined under Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended) as of June 30, 2012. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that there was a material weakness in the internal control over financial reporting related to the accounting treatment for our water treatment facilities and concluded that our disclosure controls and procedures were not effective as of June 30, 2012. Notwithstanding the material weakness, our management, including our Chief Executive Officer and Chief Financial Officer, has concluded that the condensed consolidated financial statements included in the Form 10-Q for the quarter ended June 30, 2012 present fairly, in all material respects, our financial position, results of operations and cash flows for the periods presented in conformity with accounting principles generally accepted in the United States.

**Remediation of A Material Weakness in Internal Control Over Financial Reporting**

On May 8, 2012, we filed a Form 10-K/A for the restatement of our consolidated financial statements for the years ended December 31, 2011 and 2010. This restatement is described more fully in Note 18, Restatement of Financial Statements, in the Notes to the Unaudited Condensed Consolidated Financial Statements. The accounting treatment for the costs of installing the Apogee FBR and Hobet ABMet water treatment facilities involves significant operational and accounting complexities. The Apogee FBR and Hobet ABMet water treatment facilities are a part of our selenium water treatment obligation and related processes. The water treatment facilities have an anticipated 30 year useful life and their primary use will be for treatment of selenium exceedances in water discharges resulting from past mining under legacy permit standards. FBR technology had not been used to remove selenium or any other minerals discharged at coal mining operations prior to our pilot project performed in 2010. The FBR water treatment facility required by the September 1, 2010 ruling will be the first facility constructed for selenium removal on a commercial scale and neither FBR nor ABMet technology has been proven effective on a full-scale commercial basis at coal mining operations.

In remediating the material weakness that resulted in the restatement described above, we have added additional review procedures with the intent of widening the scope of the procedures to cover all selenium accruals and cost recognition. The remediation will incorporate internal and external consultations with engineering and accounting experts in the areas that involve this breadth of complexity. In the future, such review procedures will include these increased consultations. As of the date hereof, management has implemented its remediation plan and believes that as a result of implementation of these additional review procedures over the accounting treatment for water treatment facilities and the related environmental obligations, the material weakness in internal control over financial reporting will be remediated. However, the above material weakness will not be considered remediated until the additional review procedures over accounting treatment for water treatment facilities have been operating effectively for an adequate period of time. Management will consider the status of this remedial effort when assessing the effectiveness of the Company's internal controls over financial reporting and other disclosure controls and procedures as of December 31, 2012. For this reason, management concluded that the material weakness in internal control over financial reporting has not been remediated and that as of June 30, 2012 and August 9, 2012, our internal control over financial reporting was not effective.

We are committed to a strong internal control environment and will continue to review the effectiveness of Patriot's internal controls over financial reporting and other disclosure controls and procedures. As we continue to evaluate and work to improve our internal control over financial reporting, management may determine to take additional measures.

**Changes in Internal Control over Financial Reporting**

Other than the remediation steps described above, there were no changes in the Company's internal control over financial reporting during the quarter ended June 30, 2012 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. There may be additional changes and enhancements to the Company's internal control processes subsequent to June 30, 2012.

## PART II - OTHER INFORMATION

**Item 1. Legal Proceedings.**

See Note 14 to the unaudited condensed consolidated financial statements included in Part I, Item 1. of this report relating to certain legal proceedings, which information is incorporated by reference herein.

**Item 1A. Risk Factors**

The information below updates, and should be read in conjunction with, the risk factors for information disclosed under Item 1A. Risk Factors in our 2011 Annual Report on Form 10-K/A for the year ended December 31, 2011.

***Patriot Coal Corporation (Patriot, we, our or the Company) and substantially all of our subsidiaries filed voluntary petitions for reorganization under Chapter 11 of Title 11 of the U.S. Code (the Bankruptcy Code) in the Bankruptcy Court for the Southern District of New York (the Bankruptcy Court), jointly administered under Case No. 12-12900 (the Bankruptcy Case) and we are subject to the risks and uncertainties associated with bankruptcy proceedings.***

For the duration of the Bankruptcy Case, our operations and our ability to execute our business strategy will be subject to the risks and uncertainties associated with bankruptcy. These risks include:

- our ability to continue as a going concern;
- our ability to obtain court approval with respect to motions filed in the Bankruptcy Case from time to time;
- our ability to operate within the restrictions and liquidity limitations of the post-petition credit facilities authorized by the Bankruptcy Court in connection with the Bankruptcy Case (the DIP Facilities);
- our ability to comply with and operate under any cash management orders entered by the Bankruptcy Court from time to time;
- our ability to develop, confirm and consummate a plan of reorganization with respect to the Bankruptcy Case;
- the ability of third parties to seek and obtain Bankruptcy Court approval to terminate or shorten the exclusivity period for us to propose and confirm a plan of reorganization, to appoint a Chapter 11 trustee or to convert the Bankruptcy Case to a case under Chapter 7 of the Bankruptcy Code;
- our ability to maintain contracts that are critical to our operations;
- our ability to obtain and maintain normal payment and other terms with customers, vendors and service providers;
- our ability to attract, retain and motivate key employees;
- our ability to attract and retain customers; and
- our ability to fund and execute our business plan.

These risks and uncertainties could affect our business and operations in various ways. For example, negative events or publicity associated with the Bankruptcy Case could adversely affect our relationships with our vendors and employees, as well as with customers, which in turn could adversely affect our operations and financial condition. Also, transactions outside the ordinary course of business are subject to the prior approval of the Bankruptcy Court, which may limit our ability to respond timely to certain events or take advantage of opportunities. Because of the risks and uncertainties associated with Bankruptcy Case, we cannot predict or quantify the ultimate impact that events occurring during the Chapter 11 reorganization process may have on our business, financial condition and results of operations, and there is no certainty as to our ability to continue as a going concern.

***Trading in our securities during the pendency of the Bankruptcy Case is highly speculative and poses substantial risks. It is impossible to predict at this time whether our equity or other securities will be cancelled or if holders of such equity or other securities will receive any distribution with respect to, or be able to recover any portion of, their investments.***

It is unclear at this stage of the Bankruptcy Case if any proposed plan of reorganization would allow for distributions with respect to our equity or other securities. It is likely that our equity securities will be cancelled and extinguished upon confirmation of a proposed plan of reorganization by the Bankruptcy Court and the holders thereof would not be entitled to receive, and would not receive or retain, any property or interest in property on account of such equity interests. In the event of cancellation of our equity or other securities, amounts invested by the holders of such securities will not be recoverable and such securities would have no value. Trading prices for our equity or other securities may bear little or no relationship to the actual recovery, if any, by the holders thereof during the pendency of the Bankruptcy Case. Accordingly, we urge extreme caution with respect to existing and future investments in our equity or other securities.

***Our common stock is no longer listed on a national securities exchange and is traded only in the over-the-counter market, which could negatively affect our stock price and liquidity.***

The shares of our common stock were listed on the New York Stock Exchange (the NYSE) under the symbol "PCX." In connection with the commencement of the Bankruptcy Case, effective July 10, 2012, the NYSE suspended the trading of our shares. Our common stock is now trading over-the-counter and is quoted on the OTC Markets. However, the extent of the public market for our common stock and the continued availability of quotations would depend upon such factors as the aggregate market value of the common stock, the interest in maintaining a market in our common stock on the part of securities firms and other factors. The OTC Market is significantly more limited market than the NYSE, and the quotation of our common stock on the OTC Market may result in a less liquid market available for existing and potential shareholders to trade shares of our common stock. This could further depress the trading price of our common stock and could also have a long-term adverse effect on our ability to raise capital. There can be no assurance that any public market for our common stock will exist in the future or that we will be able to relist our common stock on a national securities exchange. In connection with the delisting of our common stock, there may also be other negative implications, including the potential loss of confidence in Patriot by suppliers, customers and employees and the loss of institutional investor interest in our common stock.

***The DIP Facilities include financial and other covenants that impose substantial restrictions on our financial and business operations. There can be no assurance that we will be able to remain in compliance with the requirements of the DIP Facilities or that the lending commitments under the DIP Facilities will not be restricted or terminated by the DIP lenders.***

In addition to standard financing covenants and events of default, the DIP Facilities provide for events of default specific to the Bankruptcy Case, including dismissal of the Bankruptcy Case or conversion to a case under Chapter 7 of the Bankruptcy Code or the appointment of a trustee, entry of an order granting relief from the automatic stay to the holder or holders of any security interest, entry of certain orders, including an order reversing, amending, supplementing, staying or vacating the interim order or the final order entered by the Bankruptcy Court and failure of a final order to be entered into on a timely basis. The DIP Facilities contain other events of defaults customary for debtor-in-possession financings. An event of default under the DIP Facilities would give the DIP lenders the right to terminate their lending commitments, declare all loans, all interest thereon and all other obligations under the DIP Facilities due and payable and exercise other remedies available to them under the DIP Facilities.

The DIP Facilities provide for customary representations and warranties by us. The DIP Facilities further provide for affirmative and negative covenants applicable to us and our subsidiaries, including affirmative covenants requiring us to provide financial information, 13-week projections and other information to the DIP lenders, including, upon request, environmental or mining site assessments or audit reports, and negative covenants restricting our ability and the ability of our subsidiaries to incur additional indebtedness, grant liens, dispose of assets, pay dividends or take certain other actions. The DIP Facilities also provide for financial covenants applicable to us and our subsidiaries, including compliance with requirements relating to minimum consolidated EBITDA, maximum capital expenditures and minimum liquidity.

If, as a result of our breach of the terms thereof, the DIP Facilities are terminated or our access to funding thereunder is restricted or terminated, we may not have sufficient cash availability to meet our operating needs or satisfy our obligations as they become due, in which instance we could be required to seek a sale of Patriot or certain of its material assets pursuant to Section 363 of the Bankruptcy Code, or to convert the Bankruptcy Case into a liquidation under Chapter 7 of the Bankruptcy Code.

***Our liquidity position imposes significant risk to our operations.***

There can be no assurance that the amounts of cash from operations together with amounts available under the DIP Facilities will be sufficient to fund operations. Given the current business environment, our liquidity needs could be significantly higher than we currently anticipate. Our ability to maintain adequate liquidity through 2012 and beyond could depend on our ability to successfully implement an appropriate plan of reorganization, successful operation of our business and appropriate management of operating expenses and capital spending and our ability to borrow under the DIP Facilities. Our expected liquidity needs are highly sensitive to changes in each of these and other factors. Even if we successfully take any of the actions described above, we may be required to execute asset sales or other capital generating actions over and above our normal business activities and cut back or eliminate other programs that are important to the future success of our business.

Our liquidity challenges are public information and despite the liquidity provided by our DIP Facilities, our ability to maintain normal credit terms with our suppliers may become impaired. We may be required to pay cash in advance to certain vendors and may experience restrictions on the availability of trade credit, which would further reduce our liquidity. If liquidity problems persist, our suppliers could refuse to provide key products and services in the future. In addition, due to the public perception of our financial condition and results of operations, in particular with regard to our potential failure to meet our debt obligations, some customers could be reluctant to enter into long-term agreements with us.

***The pursuit of the Bankruptcy Case has consumed and will continue to consume a substantial portion of the time and attention of our management and will impact how our business is conducted, which may have an adverse effect on our business and results of operations.***

A long period of operating under Chapter 11 could adversely affect our business and results of operations. While the Bankruptcy Case continues, our senior management will be required to spend a significant amount of time and effort focusing on the Bankruptcy Case. This diversion of attention may materially adversely affect the conduct of our business, and, as a result, on our financial condition and results of operations, particularly if the Bankruptcy Case is protracted.

***We may experience increased levels of employee attrition.***

During the pendency of the Bankruptcy Case, we may experience increased levels of employee attrition, and our employees are facing considerable distraction and uncertainty. A loss of key personnel or material erosion of employee morale could have a materially adverse effect on our ability to meet customer and supplier expectations, thereby adversely affecting our business and results of operations. Our ability to engage, motivate and retain key employees or take other measures intended to motivate and incent key employees to remain with us through the pendency of the Bankruptcy Case is limited during the Bankruptcy Case by restrictions on implementation of retention programs. The failure to retain or attract members of our senior management team or key personnel could impair our ability to execute our strategy and implement operational initiatives, thereby having a material adverse effect on our financial condition and results of operations.

***If we are not be able to obtain confirmation of our plan of reorganization or if sufficient debtor-in-possession financing is not available we could be required to seek a sale of the Company or certain of its material assets pursuant to Section 363 of the Bankruptcy Code or liquidate under Chapter 7 of the Bankruptcy Code.***

Our plan of reorganization has not yet been formulated or submitted to the Bankruptcy Court. In order to successfully emerge from Chapter 11 bankruptcy protection, we must develop and obtain court and creditor approval of our plan of reorganization. This process requires us to meet statutory requirements with respect to adequacy of disclosure with respect to a plan, soliciting and obtaining creditor acceptance of a plan, and fulfilling other statutory conditions for plan confirmation. We may not receive the requisite acceptances to confirm a plan. Even if the requisite acceptances of a plan are received, the Bankruptcy Court may not confirm it. In addition, the DIP Facilities may not be sufficient to meet our liquidity requirements or may be restricted or terminated by the lenders under the DIP Facilities for our breach thereof. If any of these events were to occur we could be forced to sell the Company or certain of its material assets pursuant to Section 363 of the Bankruptcy Code or liquidate under Chapter 7 of the Bankruptcy Code.

The DIP Facilities provide for (a) revolving credit loans in an amount not to exceed $125.0 million, (b) a term loan in the amount of $375.0 million, and (c) a roll up of obligations under the Amended and Restated Credit Agreement dated May 5, 2010, in respect of pre-petition letters of credit, inclusive of any obligations as to reimbursement, renewal and extension of the same, issued in the aggregate amount of approximately $302.0 million as of July 9, 2012. There can be no assurance that the amounts of cash from operations together with amounts available under the DIP Facilities will be sufficient to fund operations. In the event that cash flows and borrowings under the DIP Facilities are not sufficient to meet our liquidity requirements, we may be required to seek additional financing. There can be no assurance that such additional financing would be available, or, if available, would be available on acceptable terms. Failure to secure any necessary additional financing would have a material adverse effect on our operations and ability to continue as a going concern.

***We have not made any final determinations with respect to reorganizing our capital structure, and any changes to our capital structure may have a material adverse effect on existing debt and security holders.***

Any reorganization of our capital structure that we may engage in may include exchanges of new debt or equity securities for our existing debt and equity securities, and such new debt or equity securities may be issued at different interest rates, payment schedules, and maturities than our existing debt and equity securities. We may also modify or amend our existing debt or equity securities to the same effect. Such exchanges or modifications are inherently complex to implement. The success of a reorganization through any such exchanges or modifications will depend on approval by the Bankruptcy Court and the willingness of existing debt and security holders to agree to the exchange or modification, and there can be no guarantee of success. If such exchanges or modifications are successful, the existing holders of common stock may find that their holdings no longer have any value, are materially reduced in value or are severely diluted. Also, holders of our debt may find their holdings no longer have any value or are materially reduced in value, or they may be converted to equity and be diluted or receive debt with a principal amount that is less than the outstanding principal amount, longer maturities, and reduced interest rates. There can be no assurance that any new debt or equity securities will maintain their value at the time of issuance. Also, if the existing debt or equity security holders are adversely affected by a reorganization, it may adversely affect Patriot's ability to issue new debt or equity in the future.

***Any plan of reorganization that we may implement will be based in large part upon assumptions and analyses developed by us. If these assumptions and analyses prove to be incorrect, our plan may be unsuccessful in its execution.***

Any plan of reorganization that we may implement could affect both our capital structure and the ownership, structure and operation of our businesses and will reflect assumptions and analyses based on our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we consider appropriate under the circumstances. Whether actual future results and developments will be consistent with our expectations and assumptions depends on a number of factors, including but not limited to (i) our ability to change substantially our capital structure; (ii) our ability to obtain adequate liquidity and financing sources; (iii) our ability to maintain customers' confidence in our viability as a continuing entity and to attract and retain sufficient business from them; (iv) our ability to retain key employees, and (v) the overall strength and stability of general economic conditions of the financial and coal industries, both in the U.S. and in global markets. The failure of any of these factors could materially adversely affect the successful reorganization of our businesses.

In addition, any plan of reorganization will rely upon financial projections, including with respect to revenues, EBITDA, capital expenditures, debt service and cash flow. Financial forecasts are necessarily speculative, and it is likely that one or more of the assumptions and estimates that are the basis of these financial forecasts will not be accurate. In our case, the forecasts will be even more speculative than normal, because they may involve fundamental changes in the nature of our capital structure. Accordingly, we expect that our actual financial condition and results of operations will differ, perhaps materially, from what we have anticipated. Consequently, there can be no assurance that the results or developments contemplated by any plan of reorganization we may implement will occur or, even if they do occur, that they will have the anticipated effects on us and our subsidiaries or our businesses or operations. The failure of any such results or developments to materialize as anticipated could materially adversely affect the successful execution of any plan of reorganization.

***Operating under Chapter 11 may restrict our ability to pursue our strategic and operational initiatives.***

Under Chapter 11, transactions outside the ordinary course of business are subject to the prior approval of the Bankruptcy Court, which may limit our ability to respond in a timely manner to certain events or take advantage of certain opportunities. Additionally, the terms of the DIP Facilities limit our ability to undertake certain business initiatives. These limitations include, among other things, our ability to:

- sell assets outside the normal course of business;
- consolidate, merge, sell or otherwise dispose of all or substantially all of our assets;
- grant liens; and
- finance our operations, investments or other capital needs or to engage in other business activities that would be in our interests.

***As a result of the Bankruptcy Case, realization of assets and liquidation of liabilities are subject to uncertainty.***

While operating under the protection of the Bankruptcy Code, and subject to Bankruptcy Court approval or otherwise as permitted in the normal course of business, we may sell or otherwise dispose of assets and liquidate or settle liabilities for amounts other than those reflected in our consolidated financial statements. Further, a plan of reorganization could materially change the amounts and classifications reported in our consolidated historical financial statements, which do not give effect to any adjustments to the carrying value of assets or amounts of liabilities that might be necessary as a consequence of confirmation of a plan of reorganization.

***As a result of the Bankruptcy Case, our historical financial information may not be indicative of our future financial performance.***

Our capital structure will likely be significantly altered under any plan of reorganization ultimately confirmed by the Bankruptcy Court. Under fresh-start reporting rules that may apply to us upon the effective date of a plan of reorganization, our assets and liabilities would be adjusted to fair values and our accumulated deficit would be restated to zero. Accordingly, if fresh-start reporting rules apply, our financial condition and results of operations following our emergence from Chapter 11 would not be comparable to the financial condition and results of operations reflected in our historical financial statements. In connection with the Bankruptcy Case and the development of a plan of reorganization, it is also possible that additional restructuring and related charges may be identified and recorded in future periods. Such charges could be material to our consolidated financial position and results of operations in any given period.

***Due to our participation in multi-employer pension plans and statutory retiree healthcare plans, we may have exposure that extends beyond what our obligations would be with respect to our employees.***

Certain of our subsidiaries participate in two defined benefit multi-employer pension funds that were established as a result of collective bargaining with the UMWA pursuant to the 2007 NBCWA as periodically negotiated and adjusted, such as with the 2011 NBCWA. These plans provide pension and disability pension benefits to qualifying represented employees retiring from a participating employer where the employee last worked prior to January 1, 1976, in the case of the UMWA 1950 Plan, or after December 31, 1975, in the case of the UMWA 1974 Plan. In December 2006, the 2007 NBCWA was signed, which required funding of the 1974 Plan through 2011 under a phased funding schedule. The funding is based on an hourly rate for active UMWA workers. Under the labor contract, the per hour funding rate increased annually beginning in 2007, until reaching $5.50 in 2011. Certain of our subsidiaries with UMWA-represented employees are required to contribute to the 1974 Plan. The 2011 NBCWA requires funding at $5.50 per hour for certain UMWA workers. The 1974 Plan funding rate could change during the term of the 2011 NBCWA if deemed necessary to guarantee benefit payments. Certain of our other subsidiaries have entered into other labor agreements with the UMWA that contain terms that differ from the terms of the 2011 NBCWA and that do not provide for participation in or contribution to the 1974 Plan.

Under the 2011 NBCWA, new inexperienced miners hired after January 1, 2012 will not participate in the 1974 Plan. Such new hires will instead receive a payment of $1.00 per hour worked into the UMWA Cash Deferral Plan, increasing to $1.50 on January 1, 2014. Effective January 1, 2012, employers also pay $1.50 per hour to a new Retiree Bonus Account Trust for the term of the 2011 NBCWA. This Trust will make a payment to pensioners in November of 2014, 2015 and 2016 in the amount of $580 for most retirees and $455 for disabled retirees. This payment was also made in November 2011. If Trust funding is not sufficient to make these annual bonus payments, employers will pay the difference directly to their retirees.

Under the 2011 NBCWA, effective January 1, 2012, employers also make an additional supplemental pension contribution of $1.00 per hour worked into the UMWA Cash Deferred Savings Plan for each active miner with at least 20 years of credited service under the 1974 Plan, increasing to $1.50 per hour on January 1, 2014. Effective January 1, 2012, any participant in the 1974 Plan was permitted to make an irrevocable election to opt out of the 1974 Plan. Any employee who made this election ceased to accrue any further service or benefits under the 1974 Plan. Effective with the election, employers contribute $1.00 per hour worked to the UMWA Cash Deferred Plan on the employee's behalf as a Supplemental Pension Contribution, increasing to $1.50 on January 1, 2014.

Contributions to these funds could increase as a result of future collective bargaining with the UMWA, a shrinking contribution base as a result of the insolvency of other coal companies who currently contribute to these funds, lower than expected returns on pension fund assets or other funding deficiencies. Even with these increased rates, the difficult equity markets over recent years have resulted in materially underfunded multi-employer pension funds and any new rates assigned may be higher than the current rate as this deficit is addressed. In fact, our signatory subsidiaries have received information from the 1974 Pension Plan advising that a funding improvement plan must be implemented for any new, successor or repoened collective bargaining agreements that are negotiated on or after May 25, 2012. After the 20-11 NBCWA expires in 2016, such a funding improvement plan will likely required hourly contribution rates that are materially higher than the current $5.50 per hour rate.

The Surface Mining Control and Reclamation Act Amendments of 2006 (2006 Act) authorized $490 million in general fund revenues to pay for certain benefits, including the healthcare costs under the UMWA Combined Fund, 1992 Benefit Plan and 1993 Benefit Plan for former employees of defunct entities (orphans) who are retirees and their dependents. Under the 2006 Act, these orphan benefits will be the responsibility of the federal government on a phased-in basis through 2012. If Congress were to amend or repeal the 2006 Act or if the $490 million authorization were insufficient to pay for these healthcare costs, certain of our subsidiaries, along with other contributing employers and their affiliates, would be responsible for the excess costs.

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**Item 4. Mine Safety Disclosure.**

The information concerning mine safety violations or other regulatory matters required by Section 1503 of the Dodd-Frank Wall Street Reform and Consumer Protection Act is included in Exhibit 95.1 of this report.

**Item 5. Other Information**

As previously disclosed in our Form 8-K filed on June 1, 2012, effective May 28, 2012, our former CEO resigned from his roles as President, CEO and member of the Board of Directors of Patriot and all other offices, employment and directorships with Patriot and each of its affiliated entities. Also effective May 28, 2012, the Board of Directors of Patriot appointed Irl F. Engelhardt as the CEO, in addition to his role as Chairman of the Board, of Patriot.

**Item 6. Exhibits.**

See Exhibit Index on the last page of this report.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**PATRIOT COAL CORPORATION**

| | | | |
|---|---|---|---|
| Date: | August 9, 2012 | By: | /s/ MARK N. SCHROEDER |
| | | | Mark N. Schroeder<br>Senior Vice President & Chief Financial Officer<br>(On behalf of the registrant and as Principal Financial and Accounting Officer) |

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**EXHIBIT INDEX**

The exhibits below are numbered in accordance with the Exhibit Table of Item 601 of Regulation S-K.

| Exhibit No. | Description of Exhibit |
|---|---|
| 10.1 | Commitment Letter, dated as of May 7, 2012, by and between Patriot Coal Corporation and the Commitment Parties. (Incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K, filed on May 8, 2012.) |
| 10.2* | Employment Agreement, dated as of May 28, 2012 between Patriot Coal Corporation and Irl F. Engelhardt. |
| 10.3* | Amendment to Employment Agreement, dated as of May 28, 2012 between Patriot Coal Corporation and Bennett K. Hatfield. |
| 10.4* | Amendment to the Patriot Coal Corporation 401(k) Retirement Plan, dated as of March 5, 2012. |
| 10.5* | Amendment to the Patriot Coal Corporation 401(k) Retirement Plan, dated as of June 21, 2012. |
| 31.1* | Certification of periodic financial report by Patriot Coal Corporation's Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2* | Certification of periodic financial report by Patriot Coal Corporation's Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1* | Certification of periodic financial report pursuant to 18 U.S.C. Section 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by Patriot Coal Corporation's Chief Executive Officer. |
| 32.2* | Certification of periodic financial report pursuant to 18 U.S.C. Section 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by Patriot Coal Corporation's Chief Financial Officer. |
| 95.1* | Mine Safety Disclosure Exhibit |
| 101** | Interactive Data Files pursuant to Rule 405 of Regulation S-T: (i) the Unaudited Condensed Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2012 and 2011, (ii) the Unaudited Condensed Consolidated Statements of Comprehensive Income for the Three and Six Months Ended June 30, 2012 and 2011, (iii) the Condensed Consolidated Balance Sheets as of June 30, 2012 (unaudited) and December 31, 2011, (iv) the Unaudited Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2012 and 2011, and (v) the Notes to Unaudited Condensed Financial Statements. |

* Filed herewith.

** Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

**Exhibit 10.2**

## EMPLOYMENT AGREEMENT

This AGREEMENT is entered into as of the date set forth on the signature page hereof, by and between **Patriot Coal Corporation**, a Delaware corporation (the " Company"), and **Irl F. Engelhardt** (" Executive").

## RECITALS

To induce Executive to serve as the Company's Chief Executive Officer, the Company desires to provide Executive with compensation and other benefits on the terms and subject to the conditions set forth in this Agreement.

Executive is willing to accept such employment and perform services for the Company, on the terms and subject to the conditions hereinafter set forth.

It is therefore hereby agreed by and between the parties as follows:

**1.** Employment .

**1.1.** Subject to the terms and conditions of this Agreement, the Company agrees to employ Executive as the Company's Chief Executive Officer for the period provided under this Agreement. In such capacity, Executive shall report to the Board of Directors of the Company (the "Board ") and shall have the customary powers, responsibilities and authorities of executives holding such positions in publicly held corporations of the size, type and nature of the Company, as it exists from time to time. Executive shall also continue to serve as Chairman of the Board.

**1.2.** Subject to the terms and conditions of this Agreement, Executive hereby accepts employment as the Company's Chief Executive Officer commencing as of the date hereof (the "Commencement Date ") and agrees, subject to any period of vacation or sick leave, to devote his full business time and efforts to the performance of services, duties and responsibilities in connection therewith.

**1.3.** Nothing in this Agreement shall preclude Executive from engaging in trade association activities, charitable work and community affairs, from delivering lectures, fulfilling speaking engagements or teaching at educational institutions, from managing any investment made by him or his immediate family with respect to which Executive or such family member is not substantially involved with the management or operation of the entity in which Executive has invested (provided that no such investment in publicly traded equity securities or other property may exceed five percent (5%) of the equity of any entity, without the prior approval of the Board) or from serving, subject to the prior approval of the Board, as a member of the board of directors or as a trustee of any other corporation, association or entity, to the extent that any of the above activities do not materially interfere with the performance of his duties hereunder. For the avoidance of doubt, Executive shall be permitted to continue to serve as a member or director in any organization of which he was a member or director as of the date hereof and to continue his activities related to White

Walnut Farms LLC and Beaucoup Farms LLC without obtaining Board approval. For purposes of this Section 1.3, any approval by the Board required herein shall not be unreasonably withheld.

**2.** Term of Employment. Executive's term of employment under this Agreement (the "Term of Employment") shall commence on the Commencement Date and shall continue until the first anniversary of the Commencement Date (the "Expiration Date"). If prior to the Expiration Date the Board appoints a new Chief Executive Officer of the Company, Executive shall assume the role of an executive advisor to the new Chief Executive Officer, and for the remainder of the Term of Employment shall continue to receive the compensation, benefits and rights provided under this Agreement, as shall be reduced by mutual agreement to reflect the new role. Notwithstanding the foregoing, the Company or Executive may terminate Executive's employment during the Term of Employment at any time for any reason pursuant to, and subject to, Section 6 hereof.

**3.** Compensation.

**3.1.** Salary. During the Term of Employment, the Company shall pay Executive a base salary ("Base Salary"), which shall be payable in accordance with the ordinary payroll practices of the Company. Executive's initial Base Salary shall be $725,000 per annum. During the Term of Employment, the Board shall review in good faith Executive's Base Salary in accordance with the Company's customary procedures and practices regarding the salaries of senior executives and may, if determined by the Board to be appropriate, increase Executive's Base Salary following such review. "Base Salary" for all purposes herein shall be deemed to be a reference to any such increased amount.

**3.2.** Annual Bonus. In addition to his Base Salary, Executive shall be eligible to receive an annual cash bonus (the "Bonus") for each of the 2012 calendar year and the 2013 calendar year, in accordance with a program to be developed by the Board, based on achievement of performance targets established by the Board as soon as practicable (i) after the Commencement Date, for the Bonus for the 2012 calendar year, and (ii) at or after the beginning of the 2013 calendar year, for the Bonus for the 2013 calendar year. Executive's target Bonus shall be at least 100% of Base Salary, and his maximum Bonus shall be at least 200% of Base Salary, in each case multiplied by a fraction, the numerator of which is the number of business days during the applicable calendar year that Executive was employed and the denominator of which is the total number of business days during such calendar year. A Bonus award for either calendar year shall be payable to Executive at the time bonuses are paid to other senior executives for such calendar year in accordance with the Company's policies and practices as set by the Board, but in no event later than March 15 of the calendar year following the later of (a) the calendar year in which the Bonus is earned or (b) the calendar year in which the Bonus is no longer subject to a substantial risk of forfeiture within the meaning of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code") and the guidance promulgated and in effect thereunder ("Section 409A").

**4.** Employee Benefits .

**4.1.** Restricted Stock Unit Award. (a) On the Commencement Date, Executive shall receive an award of restricted stock units (the " RSU Award") with respect to 100,000 shares of the Company's Common Stock, which shall vest in three equal installments on the first, second and third anniversaries of the Commencement Date, subject to Executive's continuing to render services to the Company through each such anniversary as an employee of the Company or a member of the Board, and subject further to the provisions of Section 4.1(b) and Section 6.2 below and the provisions of the Ancillary Documents described in Section 4.1(c) below to the extent such provisions are not inconsistent with this Agreement.

(b) As of the date of termination of Executive's employment due to Executive's Disability (as hereinafter defined) or death, or upon the occurrence of a Change of Control (as defined in the 2007 Long Term Incentive Plan) or Executive's ceasing to serve as a member of the Board as a result of the Company's failure to nominate Executive for reelection to the Board other than pursuant to a removal for cause, any unvested portion of the RSU Award shall become immediately and fully vested.

(c) The RSU shall be governed by a separate grant agreement (together with any other agreement approved by the Board and designated by the Board as an "Ancillary Document" for purposes of this Agreement, the " Ancillary Documents"). To the extent permitted by any applicable law and the rules of any exchange on which the Company's stock is listed, in the event of any conflict between an Ancillary Document and the terms of this Agreement, the terms of this Agreement shall govern.

(d) The RSU Award shall be approved by a committee of the Board comprised of individuals who are both non-employee directors (within the meaning of Section 16 of the Securities Exchange Act of 1934, as amended (the " Exchange Act")) and independent directors (within the meaning of applicable stock exchange rules) and shall be exempt from Section 16(b) of the Exchange Act by reason of Rule 16b-3 under the Exchange Act.

**4.2.** Employee Benefit Programs, Plans and Practices; Perquisites . During the Term of Employment, the Company shall provide Executive with employee benefits and perquisites at a level (a) commensurate with his position in the Company and (b) at least as favorable to Executive as the Company provides to its other senior executives, including retirement benefits, health and welfare benefits (both active and retiree), the Continuation Benefits (as defined in Section 6.2(a)(2)), and other employee benefits and perquisites which the Company may make available to its senior executives from time to time.

**4.3.** Vacation. Executive shall be entitled to twenty (20) business days (not prorated) of paid vacation for each of the 2012 and 2013 calendar years, which shall be taken at such times as are reasonably consistent with Executive's responsibilities hereunder.

**5.** Expenses . Subject to prevailing Company policy or such guidelines as may be established by the Board, the Company will reimburse Executive for all reasonable expenses incurred by Executive in carrying out his duties on behalf of the Company, provided that such reimbursement is not taxable income to Executive.

**6.** Termination of Employment.

**6.1.** Termination of Employment for Any Reason. In the event of a termination of Executive's employment for any reason, the Company shall pay to Executive (a) within five (5) business days following the date of termination of Executive's employment, a lump sum equal to (i) Executive's Base Salary earned on or prior to the date of such termination but not yet paid to Executive in accordance with the Company's customary procedures and practices regarding the salaries of senior executives, (ii) any business expenses incurred by Executive and not yet reimbursed by the Company under Section 5 above, as of the date of such termination, (iii) any vacation time accrued but unused as of the date of such termination, and (iv) if such termination occurs in the 2013 calendar year, any Bonus earned but not yet paid for the 2012 calendar year and (b) any benefits accrued and vested under any of the Company's employee benefit programs, plans and practices on or prior to the date of termination of Executive's employment (remuneration described in (a) and (b) above are collectively referred to as the "Accrued Obligations" herein) in accordance with the terms of such programs, plans and practices.

**6.2.** Termination Not for Cause or for Good Reason. (a) The Company or Executive may terminate Executive's employment during the Term of Employment at any time for any reason by providing written notice to the other party at least thirty (30) days (or such other number of days specified in this Agreement) in advance of the date of termination of Executive's employment. If Executive terminates his employment for Good Reason, such notice shall describe the conduct Executive believes to constitute Good Reason and the Company shall have the opportunity to cure the Good Reason within thirty (30) days of receiving such notice. If the Company cures the conduct that is the basis for the potential termination for Good Reason within such thirty (30) day period, Executive's notice of termination shall be deemed withdrawn.

If Executive's employment is terminated during the Term of Employment (i) by the Company other than for Cause (as defined in Section 6.3(b) hereof), Disability (as defined in Section 6.4 hereof) or death or (ii) by Executive for Good Reason (as defined in Section 6.2(b) hereof), and such termination constitutes a Separation from Service (as hereinafter defined), any unvested portion of the RSU Award shall immediately become fully vested and the Company, as severance, shall pay to Executive an amount (the "Severance Payment") equal to the total of:

(A) one (1) times Executive's Base Salary; plus

(B) an additional amount equal to Executive's target Bonus for the calendar year of termination of Executive's employment; plus

(C) an additional amount equal to six percent (6%) of Executive's Base Salary.

Notwithstanding the foregoing, Executive shall not be entitled to the Severance Payment if he ceases to be employed as the Company's Chief Executive Officer but continues to serve as an executive advisor to a newly appointed Chief Executive Officer of the Company, as provided under Section 2 hereof.

The Company shall pay to Executive (I) one-third (1/3) of the Severance Payment in a lump sum payment on the six (6) month anniversary of Executive's Separation from Service and (II) the remaining two-thirds (2/3) of the Severance Payment in a lump sum on the first anniversary of the date of Executive's Separation from Service.

"Separation from Service" means a "separation from service," as such term is defined under Section 409A.

In addition, if Executive's employment is terminated during the Term of Employment (i) by the Company other than for Cause (as defined in Section 6.3(b) hereof), Disability (as defined in Section 6.4 hereof), or death or (ii) by Executive for Good Reason (as defined in Section 6.2(b)) and if such termination constitutes a Separation from Service,

(1) The Company shall pay to Executive a prorated bonus (the "Prorated Bonus ") for the calendar year of termination of Executive's employment, calculated as the Bonus Executive would have received in such year based on actual performance multiplied by a fraction, the numerator of which is the number of business days during the calendar year of termination that Executive was employed and the denominator of which is the total number of business days during the calendar year of termination. The Prorated Bonus shall be payable when annual bonuses are paid to other senior executives of the Company, but in no event later than March 15 of the calendar year following the later of (a) the calendar year in which the Bonus is earned or (b) the calendar year in which the Bonus is no longer subject to a substantial risk of forfeiture within the meaning of Section 409A.

(2) The Company shall also continue to provide Executive, as though he remained actively employed, for a period of one (1) year following the date of termination of Executive's employment (the "Benefit Continuation Period "), life insurance, group health coverage (including medical, dental, and vision benefits), accidental death & dismemberment coverage, and the health care flexible spending account (to the extent required to comply with COBRA continuation coverage requirements (collectively, the "Continuation Benefits ") in accordance with the applicable plan terms; provided , however , that any such coverage shall terminate to the extent that Executive is offered or obtains comparable benefits from any other employer during the Benefit Continuation Period; provided , further , that the amount of Continuation Benefits provided during one calendar year shall not affect the amount of Continuation Benefits provided during a subsequent calendar year (except with respect to health plan maximums), the Continuation Benefits may not be exchanged or substituted for other forms of compensation to Executive, and any reimbursement or payment under the Continuation Benefit arrangements will be paid in accordance with applicable plan terms and no later than the last day of Executive's taxable year following the taxable year in which he incurred the expense giving rise to such reimbursement or payment. Notwithstanding the foregoing, if Executive breaches any provision of Section 12 hereof, the remaining balances of the Severance Payment, the Prorated Bonus, and any Continuation Benefits shall cease.

(b) For purposes of this Agreement, the term "Good Reason " means: (i) a reduction by the Company in Executive's Base Salary (in which event the Severance Payment shall be calculated based on Executive's Base Salary in effect prior to any such reduction); (ii) a material reduction in the aggregate program of employee benefits and perquisites to which Executive is entitled (other than a reduction that generally affects all executives); (iii) a material decline in Executive's Bonus opportunity; (iv) relocation of Executive's primary office by more than 50 miles from the location of Executive's primary office in Saint Louis, Missouri; or (v) any material diminution or material adverse change in Executive's title, duties, responsibilities or reporting relationships. Any amounts due to Executive in connection with a termination of employment shall be computed without giving effect to any changes that give rise to Good Reason. If Executive does not give notice to the Company as described in Section 6.2(a) hereof within ninety (90) days after an event giving rise to Good Reason, Executive's right to claim Good Reason termination on the basis of such event shall be deemed waived. Notwithstanding clause (v) above or any other provision of this Agreement, Executive's change in role from Chief Executive Officer to executive advisor to a newly appointed Chief Executive Officer of the Company, as provided under Section 2 hereof, shall not constitute Good Reason.

**6.3.** Voluntary Termination by Executive; Discharge for Cause; Expiration of Term. (a) In the event that Executive's employment (i) is terminated during the Term of Employment (x) by the Company for Cause, as hereinafter defined, or (y) by Executive other than for Good Reason, or (ii) terminates on the Expiration Date, the Company shall pay to Executive the Accrued Obligations.

(b) As used herein, the term "Cause" shall be limited to (i) any material and uncorrected breach by Executive of the terms of this Agreement, including, but not limited to, a violation of Section 12 hereof, (ii) any willful fraud or dishonesty of Executive involving the property or business of the Company, (iii) a deliberate or willful refusal or failure of Executive to comply with any major corporate policy of the Company which is communicated to Executive in writing, or (iv) Executive's conviction of, or plea of nolo contendere to, any felony if such conviction or plea results in his imprisonment; provided that, with respect to clauses (i), (ii) and (iii) above, Executive shall have thirty (30) days following his receipt of written notice of the conduct that is the basis for the potential termination for Cause within which to cure such conduct to prevent termination for Cause by the Company. If Executive cures the conduct that is the basis for the potential termination for Cause within such thirty (30) day period, the Company's notice of termination shall be deemed withdrawn. In the event that Executive is terminated for failure to meet performance goals, as determined by the Board, such termination shall be considered a termination for Cause for all purposes relating to his equity-based compensation awards, but it shall be considered a termination without Cause for purposes of his right to receive the Severance Payment, the Prorated Bonus and the Continuation Benefits.

**6.4.** Disability. In the event of the Disability (as defined below) of Executive during the Term of Employment, the Company may terminate Executive's employment upon written notice to Executive (or Executive's personal representative, if applicable) effective upon the date of receipt thereof (the "Disability Commencement Date"). The Company shall pay to Executive the Accrued Obligations as provided in Section 6.1, and the Prorated Bonus when such bonuses are paid to other senior executives of the Company, but in no event later than March 15 of the calendar year following the calendar year in which Executive's employment was terminated. The term "Disability," for purposes of this

Agreement, shall mean Executive's absence from the full-time performance of Executive's duties pursuant to a reasonable determination made in accordance with the Company's disability plan that Executive is disabled as a result of incapacity due to physical or mental illness that lasts, or is reasonably expected to last, for at least six (6) months.

**6.5.** Death . In the event of Executive's death during his Term of Employment or at any time thereafter while payments are still owing to Executive under the terms of this Agreement, the Company shall pay to Executive's beneficiary(ies) (to the extent so designated by Executive) or his estate (to the extent that no such beneficiary has been designated) the Accrued Obligations as provided in Section 6.1, the Prorated Bonus when such bonuses are paid to other senior executives of the Company, but in no event later than March 15 of the calendar year following the calendar year in which Executive's employment was terminated, and any remaining payments that were payable to Executive by reason of his termination of employment under Section 6.2 to which Executive was entitled at the time of his death in accordance with the terms of Section 6.2.

**6.6.** No Further Notice or Compensation or Damages. Executive understands and agrees that he shall not be entitled to any further notice, compensation or damages upon a termination of his employment under this Agreement, other than amounts specified in Sections 4 and 6 hereof, the Ancillary Documents, and any plan, program or arrangement of the Company.

**6.7.** Executive's Duty to Deliver Materials . Upon the termination of Executive's employment for any reason, Executive or his estate shall surrender to the Company all correspondence, letters, files, contracts, mailing lists, customer lists, advertising materials, ledgers, supplies, equipment, checks, and all other materials and records of any kind that are the property of the Company or any of its subsidiaries or affiliates, that may be in Executive's possession or under his control, including all copies of any of the foregoing.

**7.** Notices. All notices or communications hereunder shall be in writing, addressed as follows:

To the Company:

**Patriot Coal Corporation**
attn: Board of Directors
12312 Olive Boulevard, Suite 400
Saint Louis, Missouri 63141

with a copy to:

**Patriot Coal Corporation**
attn: Joseph W. Bean
12312 Olive Boulevard, Suite 400
Saint Louis, Missouri 63141

To Executive at the address set forth on the signature page hereof.

Any such notice or communication shall be delivered by hand or by courier or sent certified or registered mail, return receipt requested, postage prepaid, addressed as above (or to such other address as such party may designate in a notice duly delivered as described above), and the third (3rd) business day after the actual date of sending shall constitute the time at which notice was given.

**8.** Severability. If any provision of this Agreement shall be declared to be invalid or unenforceable, in whole or in part, such invalidity or unenforceability shall not affect the remaining provisions hereof which shall remain in full force and effect.

**9.** Assignment. This Agreement shall be binding upon, inure to the benefit of and be enforceable by the heirs and representatives of Executive and the assigns and successors of the Company, but neither this Agreement nor any rights or obligations hereunder shall be assignable or otherwise subject to hypothecation by Executive (except by will or by operation of the laws of intestate succession) or by the Company, except that the Company may assign this Agreement to any successor (whether by merger, purchase, spin off or otherwise) to all or substantially all of the stock, assets or businesses of the Company.

**10.** Amendment. This Agreement may be amended only by written agreement of the parties hereto.

**11.** Amendment to Comply with Code Section 409A. If either party to this Agreement reasonably determines that any amount payable pursuant to this Agreement would result in adverse tax consequences under Code Section 409A (including, but not limited to, the additional tax described in Code Section 409A(a)(1)(B)), then such party shall deliver written notice of such determination to the other party, and the parties hereby agree to work in good faith to amend this Agreement so it is exempt from, or compliant with, the requirements of Code Section 409A and preserves as nearly as possible the original intentions of the affected provisions. If any payment due to Executive is required to be delayed by reason of Code Section 409A, such payment shall be paid in one lump-sum payment as soon as administratively feasible on or after the date such payment is permitted to be made under Code Section 409A, subject to standard payroll deductions and withholdings.

**12.** Nondisclosure of Confidential Information; Non-Competition; Non-Solicitation.

(a) Executive, both during the term hereof and thereafter, will not, directly or indirectly, use for himself or use for, or disclose to, any party other than the Company, or any subsidiary of the Company (other than in the ordinary course of Executive's duties for the benefit of the Company or any subsidiary of the Company or to the extent required by applicable law), any secret or confidential information that is not publicly available regarding the business or property of the Company or its subsidiaries or regarding any secret or confidential apparatus, process, system, or other method at any time used, developed, acquired, discovered or investigated by or for the Company or its subsidiaries, whether or not developed, acquired, discovered or investigated by Executive. At the termination of Executive's employment or at any other time the Company or any of its subsidiaries may request, Executive shall promptly deliver to the Company all memoranda, notes, records, plats, sketches, plans or other documents made by, compiled by, delivered to, or otherwise acquired by Executive concerning the business or properties of the Company or its subsidiaries or any secret or confidential product, apparatus or process used developed, acquired or investigated by the Company or its subsidiaries.

(b) In consideration of the Company's obligations under this Agreement, Executive agrees that: (i) during the period of his employment hereunder and for a period of one (1) year thereafter, without the prior written consent of the Board, he will not, directly or indirectly, as principal, manager, agent, consultant, officer, stockholder, partner, investor, lender or employee or in any other capacity, carry on, be engaged in or have any financial interest in, any activities which are in competition with the business of the Company or its subsidiaries; and (ii) during the period of his employment hereunder and for a period of one (1) year thereafter, without the prior written consent of the Board, he shall not, on his own behalf or on behalf of any person, firm or company, directly or indirectly solicit or offer employment to any person who is or has been employed by the Company or its subsidiaries at any time during the twelve (12) months immediately preceding such solicitation.

(c) For purposes of this Section 12, an entity shall be deemed to be in competition with the Company if it is principally involved in the purchase, sale or other dealing in any property or the rendering of any service purchased, sold, dealt in or rendered by the Company as a part of the business of the Company within the same geographic area in which the Company effects such sales or dealings or renders such services. Notwithstanding this Section 12(c) or Section 12(b), nothing herein shall be construed so as to preclude Executive from investing in any publicly or privately held company, provided Executive's beneficial ownership of any class of such company's securities does not exceed five percent (5%) of the outstanding securities of such class.

(d) Executive agrees that this covenant not to compete is reasonable under the circumstances and will not interfere with his ability to earn a living or to otherwise meet his financial obligations. Executive and the Company agree that if in the opinion of any court of competent jurisdiction such restraint is not reasonable in any respect, such court shall have the right, power and authority to excise or modify such provision or provisions of this covenant as to the court shall appear not reasonable and to enforce the remainder of the covenant as so amended. Executive agrees that any breach of the covenants contained in this Section 12 would irreparably injure the Company. Accordingly, Executive agrees that, in the event of such a breach of this Section 12 by Executive, the Company may, in addition to pursuing any other remedies it may have in law or in equity, cease making any payments otherwise required by this Agreement and seek to obtain an injunction against Executive from any court having jurisdiction over the matter to restrain any further violation of this Section 12 by Executive.

**13.** Beneficiaries; References. Executive shall be entitled to select (and change, to the extent permitted under any applicable law) a beneficiary or beneficiaries to receive any compensation or benefit payable hereunder following Executive's death, and may change such election, in either case by giving the Company written notice thereof. In the event of Executive's death or a judicial determination of his incompetence, reference in this Agreement to Executive shall be deemed, where appropriate, to refer to his beneficiary, estate or other legal representative. Any reference to the masculine gender in this Agreement shall include, where appropriate, the feminine.

**14.** Dispute Resolution. Any dispute or controversy arising under or in connection with this Agreement (other than an action to enforce the covenants in Section 12 hereof) or the Ancillary Documents shall be resolved by arbitration. Arbitrators shall be selected, and arbitration shall be conducted, in accordance with the rules of the American Arbitration Association. The Company shall pay any legal fees in connection with such arbitration in the event that Executive prevails on a material element of his claim or defense. Notwithstanding anything in this Section 14 to the contrary, payments made under this Section 14 that are provided during one calendar year shall not affect the amount of such payments provided during a subsequent calendar year, payments under this Section 14 may not be exchanged or substituted for other forms of compensation to Executive, and any such reimbursement or payment will be paid within sixty (60) days after Executive prevails, but in no later than the last day of Executive's taxable year following the taxable year in which he incurred the expense giving rise to such reimbursement or payment. This Section 14 shall remain in effect throughout the Term of Employment and for a period of five (5) years following the end of the Term of Employment.

**15.** Legal Fees; Indemnification; Directors' & Officers' Liability Insurance.

(a) The Company shall reimburse Executive for reasonable legal fees and expenses incurred by Executive in connection with negotiating and preparing this Agreement. Any such reimbursement shall be made to Executive no later than March 15th of the calendar year following the calendar year in which the Agreement is executed.

(b) The Company shall indemnify Executive during and after the Term of Employment to the maximum extent permitted by applicable law for any liability incurred by Executive by reason of his service as an officer or director of the Company or any of its subsidiaries or affiliates or by reason of his service as a fiduciary of any employee benefit plan of the Company or any of its subsidiaries or affiliates.

(c) During the Term of Employment and for so long as Executive may have any liability by reason of serving as an officer or director of the Company or any of its subsidiaries or affiliates, Executive shall be entitled to the same directors' and officers' liability insurance coverage that the Company provides generally to its other directors and officers, as may be amended from time to time for such directors and officers. During the Term of Employment and for so long as Executive may have any liability by reason of serving as a fiduciary of any employee benefit plan of the Company or any of its subsidiaries or affiliates, Executive shall be entitled to the same fiduciary liability insurance coverage that the Company provides generally to its other directors and officers, as may be amended from time to time for such directors and officers.

**16.** Governing Law. This Agreement shall be construed, interpreted and governed in accordance with the laws of the State of New York, without reference to rules relating to conflicts of law.

**17.** Effect on Prior Agreements . This Agreement and the Ancillary Documents contain the entire understanding between the parties hereto and this Agreement, except as provided in an Ancillary Document, supersedes in all respects any prior or other agreement or understanding, both written and oral, between the Company, any affiliate of the Company or any predecessor of the Company or affiliate of the Company and Executive.

**18.** Withholding. The Company shall be entitled to withhold from payments to Executive any amount of withholding required by law.

**19.** Survival . Notwithstanding the expiration of the term of this Agreement, the provisions of Sections 4, 6, 12, 14 and 15 hereunder shall remain in effect as long as is reasonably necessary to give effect thereto in accordance with the terms hereof.

**20.** Counterparts. This Agreement may be executed in two or more counterparts, each of which will be deemed an original.

[SIGNATURE PAGE FOLLOWS]

**PATRIOT COAL CORPORATION**

By: /s/ Joseph W. Bean

Name: Joseph W. Bean

Title: Senior Vice President - Law & Administration

**EXECUTIVE**

/s/ Irl F. Engelhardt

Irl F. Engelhardt

| | |
|---|---|
| **Agreement Commencement Date:** | May 28, 2012 |
| **Name of Executive:** | Irl F. Engelhardt |
| **Address of Executive:** | 12312 Olive Boulevard<br>St. Louis, Missouri 63141 |
| **Executive Team Position:** | Chief Executive Officer |
| **Base Salary:** | $725,000 per annum |
| **Annual Bonus Target:** | 100% of Base Salary (with maximum no less than 200% of Base Salary) |

# SECOND AMENDMENT TO EMPLOYMENT AGREEMENT

This Amendment (the "Amendment") to the Employment Agreement dated September 19, 2011, as amended as of February 22, 2012 (the "Agreement"), by and between **Patriot Coal Corporation**, a Delaware corporation (the "Company"), and the undersigned executive ("Executive"), is entered into as of the date set forth on the signature page hereof (the "Amendment Date"). Terms not otherwise defined herein shall have the meaning ascribed to them in the Agreement.

## RECITALS

WHEREAS, the parties hereto desire to amend the Agreement as hereinafter set forth.

NOW, THEREFORE, in consideration of the mutual representations, warranties, covenants and agreements contained in the Agreement, as amended, and for other good and valuable consideration, the sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. On the Amendment Date, Executive shall a receive a special one-time grant of an award of restricted stock units (the "RSU Award") with respect to such number of shares of the Company's Common Stock as have an aggregate grant date value of $731,250, which award shall vest in three equal installments on the first, second and third anniversaries of the grant date, and will also be subject to immediate vesting if a change in control occurs. The terms and conditions of the RSU Award shall be set forth and governed by a separate grant agreement, as described in Section 4.1(d) of the Agreement, and the definition of change in control shall be as set forth in the applicable equity-based plan or award.

2. The phrase "Executive Vice President" opposite the phrase "Executive Team Position" on the schedule on the signature page of the Agreement is hereby deleted in its entirety and replaced with the phrase "President".

3. The phrase "$600,000 per annum" opposite the phrase "Base Salary" on the schedule on the signature page of the Agreement is hereby deleted in its entirety and replaced with the phrase "$675,000 per annum".

4. Effective as of January 1, 2013, the phrase "200% of Base Salary" opposite the phrase "Annual Long-Term Incentive Award" on the schedule on the signature page of the Agreement is hereby deleted in its entirety and replaced with the phrase "300% of Base Salary".

5. This Amendment, the Agreement and the Ancillary Documents contain the entire understanding between the parties hereto. Except as provided in an Ancillary Document, this Amendment and the Agreement supersede in all respects any prior or other agreement or understanding, both written and oral, between (i) the Executive, and (ii) the Company, any affiliate of the Company, or any predecessor of the Company.

6. This Amendment may be executed in two or more counterparts, each of which will be deemed an original.

**PATRIOT COAL CORPORATION**

By: /s/ Joseph W. Bean
Name: Joseph W. Bean
Title: Senior Vice President- Law & Administration

**EXECUTIVE**

By: /s/ Bennett K. Hatfield
Name: Bennett K. Hatfield
Date: May 28, 2012

**Exhibit 10.4**

AMENDMENT NO.1 TO THE
PATRIOT COAL CORPORATION 401(k) RETIREMENT PLAN
(AS AMENDED AND RESTATED JANUARY 1, 2010)

WHEREAS, Patriot Coal Corporation ("Company") previously adopted the Patriot Coal Corporation 401(k) Retirement Plan ("Plan"); and

WHEREAS, the Company reserved the right to amend the Plan, by a resolution adopted by action of the Board of Directors of the Company, pursuant to Section 17.1 thereof; and

WHEREAS, the Company has determined that it is necessary and desirable to amend the Plan to in response to comments received from the Internal Revenue Service pursuant to a determination letter request;

NOW, THEREFORE, effective as of January 1, 2010, the Company amends the Plan as follows:

1. The second paragraph of Section 2.6 is deleted and replaced with the following:

The Compensation of each Participant taken into account under the Plan and Plan Year shall not exceed $245,000 (as adjusted in accordance with section 401(a)(17)(B) of the Code).

2. The second paragraph of Section 2.23 is deleted and replaced with the following:

The Po-Rated Salary of each Participant taken into account under the Plan for any Plan Year, based on the fiscal year ending in such a Plan Year, shall not exceed $245,000 (as adjusted in accordance with Section 401(a)(17)(B) of the Code).

3. The first sentence of Section 4.3(b) is deleted and replaced with the following:

Notwithstanding subsection (a), Participants who are eligible to make elective deferrals hereunder and who have attained or will attain age 50 by the end of their taxable year shall be eligible to make catch-up contributions in accordance with, and subject to the limitations of, Code Section 414(v).

4. Section 6.2(b) is amended by adding the following paragraph to the end thereof:

Notwithstanding the above, in accordance with Treasury Regulation Section 1.401(k)-2(a)(6)(iv), qualified nonelective contributions shall not be taken into account for a Participant who is a Non-Highly Compensated Employee to the extent such contributions exceed the Participant's Compensation multiplies by the greater of (i) 5% of (ii) two times the Plan's representative contribution rate.

5. Section 6.3(a) is amended by adding the following paragraph to the end thereof:

Notwithstanding the above, in accordance with Treasury Regulation Section 1.401(m)-2(a)(6)(v), qualified nonelective contributions shall not be taken into account for a Participant who is a Non-Highly Compensated Employee to the extent such contributions exceed the Participant's Compensation multiplies by the greater of (i) 5%, or (ii) two times the Plan's representative contribution rate.

6. The last sentence of section 19.1 is deleted and replaced with the following:

In the case of a distribution made for a reason other than severance from employment, death or disability, this provision shall be applied by substituting “five year period” for “one year period.”

IN WITNESS WHEREOF, this amendment is hereby executed as of this 5th day of March, 2012.

**PATRIOT COAL CORPORATION**
/s/ Joseph W Bean
Joseph W. Bean

**Exhibit 10.5**

**Amendment to the Patriot Coal Corporation
401(k) Retirement Plan**

WHEREAS, Patriot Coal Corporation (the "Company") previously adopted the Patriot Coal Corporation 401(k) Retirement Plan (the "Plan");

WHEREAS, the Company reserved the right to amend the Plan pursuant to Section 17.1 of the Plan;

WHEREAS, the Company desires to amend the Plan as set forth below herein;

NOW, THEREFORE, effective as of June 21, 2012 the Plan is hereby amended to add the following new Section 15.10 to the Plan, as follows:

"15.10 Special Appointment and Delegation Power.

The Committee may, in the exercise of its judgment and discretion, select and appoint a qualified independent fiduciary as named fiduciary of the Plan with full authority and responsibility for oversight and decision making with respect to the Patriot Coal Corporation Stock Fund, including, without limitation, all decision making power regarding the level of investment in Patriot Coal Corporation common stock, the manner and timing of disposition and acquisition of Patriot Coal Corporation common stock and the propriety of continuing or discontinuing the Patriot Coal Corporation Stock Fund as an investment option under the Plan. The Trustee and all plan service providers shall act in accordance with the instructions of any such named fiduciary in the same manner as if such instructions were given by the Company, the Plan Administrator, the Committee or an investment manager under any relevant provisions of the Plan, the Plan trust agreement and all other Plan documents.

IN WITNESS WHEREOF, this amendment is hereby executed as of this 21st day of June, 2012.

**PATRIOT COAL CORPORATION**

**By: _/s/ Joseph W. Bean ________________**

**Exhibit 31.1**

**CERTIFICATION**

I, Irl F. Engelhardt, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Patriot Coal Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 9, 2012

/s/ Irl F. Engelhardt
Irl F. Engelhardt
Chief Executive Officer

**Exhibit 31.2**

**CERTIFICATION**

I, Mark N. Schroeder, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Patriot Coal Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 9, 2012

/s/ Mark N. Schroeder
Mark N. Schroeder
Chief Financial Officer

**Exhibit 32.1**

**CERTIFICATION PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**
**(18 U.S.C. SECTION 1350)**

I, Irl F. Engelhardt, Chief Executive Officer of Patriot Coal Corporation, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2012 (the “Quarterly Report”) which this statement accompanies fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of Patriot Coal Corporation.

Dated: August 9, 2012

/s/ Irl F. Engelhardt
Irl F. Engelhardt
Chief Executive Officer

**Exhibit 32.2**

**CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)**

I, Mark N. Schroeder, Chief Financial Officer of Patriot Coal Corporation, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2012 (the “Quarterly Report”) which this statement accompanies fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of Patriot Coal Corporation.

Dated: August 9, 2012

/s/ Mark N. Schroeder
Mark N. Schroeder
Chief Financial Officer

**Exhibit 95.1**

## Mine Safety Information

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Act) was enacted. Section 1503 of the Act contains new reporting requirements regarding coal or other mine safety.

Patriot is committed to providing a safe workplace for all of our employees. We continue to engage proactively with federal and state agencies in support of measures which can legitimately improve the safety and well-being of our employees.

The operation of our mines is subject to regulation by the federal Mine Safety and Health Administration (MSHA) under the Federal Mine Safety and Health Act of 1977 (the Mine Act). MSHA inspects our mines on a regular basis and issues various citations and orders when it believes a violation has occurred under the Mine Act. We present information below regarding certain mining safety and health citations which MSHA has issued with respect to our coal mining operations. In evaluating this information, consideration should be given to factors such as: (i) the number of citations and orders will vary depending on the size of the coal mine, (ii) the number of citations issued will vary from inspector to inspector and mine to mine, and (iii) citations and orders can be contested and appealed, and in that process, may be reduced in severity and amount, and are sometimes dismissed.

The table below includes references to specific sections of the Mine Act. The information in the table reflects citations and orders issued to us by MSHA during the three months ended June 30, 2012, as reflected in our records. Due to timing and other factors, the data in our system may not agree with the data maintained by MSHA.

For the three months ended June 30, 2012, except for pending legal actions, which are as of June 30, 2012:

| Mine or Operating Name | MSHA ID Number | Section 104 S&S Violations (A) | Section 104(b) Orders (B) | Section 104(d) Citations & Orders (C) | Section 110(b)(2) Violations (D) | Section 107(a) Orders (E) | Total Dollar Value of MSHA Assessments Proposed During the Reporting Period (F) | Total Number of Mining Related Fatalities (G) | Received Notice of Pattern of Violations Under Section 104(e) (yes/no) | Received Notice of Potential to Have Pattern Under Section 104(e) (yes/no) | Legal Action Pending as of Last Day of Period* (H) | Legal Actions Initiated During Period* | Legal Actions Resolved During Period |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **American Eagle Mine** | 4605437 | 34 | 1 | — | — | — | $ 812,614 | — | No | No | 42 | 5 | 6 |
| **Beth Station No. 79 Prep. Plant** | 4605398 | — | — | — | — | — | — | — | No | No | 1 | — | — |
| **Big Mountain No. 16 Mine** | 4607908 | — | — | — | — | — | 440,208 | — | No | No | 46 | 2 | 3 |
| **Big Mountain Prep Plant** | 4603143 | — | — | — | — | — | 1,111 | — | No | No | 1 | — | — |
| **Black Oak Mine** | 4609152 | 10 | — | — | — | — | 22,298 | — | No | No | 18 | 2 | 2 |
| **Blue Creek No. 1 Mine** | 4609297 | 4 | 1 | — | — | — | 4,003 | — | No | No | 9 | 1 | — |
| **Blue Creek No. 2 Mine** | 4609296 | — | — | — | — | — | — | — | No | No | 1 | — | 1 |
| **Buffalo Creek Deep Mine** | 4609294 | — | — | — | — | — | — | — | No | No | 1 | — | — |
| **Camp #9 Prep Plant** | 1511012 | 7 | — | — | — | — | 1,302 | — | No | No | 3 | 1 | 1 |
| **Campbell's Creek No. 7 Mine** | 4609107 | — | — | — | — | — | — | — | No | No | 10 | — | — |
| **Campbell's Creek No. 10 Mine** | 4608637 | 6 | — | — | — | — | 1,573 | — | No | No | 1 | — | — |
| **Campbells Creek Surface Facilities** | 4608146 | — | — | — | — | — | 645 | — | No | No | 2 | — | — |
| **Coal Clean Prep. Plant** | 4608571 | — | — | — | — | — | 994 | — | No | No | 1 | — | — |
| **Coalburg No 1 Mine** | 4608993 | — | — | — | — | — | 27,354 | — | No | No | 17 | 1 | — |
| **Coalburg No. 2 Mine** | 4609231 | — | — | — | — | — | 905 | — | No | No | 13 | — | — |
| **Coon Hollow Tunnel** | 4609099 | — | — | — | — | — | 100 | — | No | No | — | — | — |
| **Deskins Mine** | 4608936 | — | — | — | — | — | — | — | No | No | 1 | — | — |

| | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Dodge Hill No. 1 Mine** | 1518335 | 19 | — | — | — | — | 18,732 | — | No | No | 7 | 3 | 1 |
| **Eagle Mine** | 4608759 | 27 | — | — | — | — | 250,083 | — | No | No | 34 | 3 | 1 |
| **Europa Mine** | 4608798 | — | — | — | — | — | — | — | No | No | 2 | — | — |
| **Fanco Prep. Plant** | 4601368 | — | — | — | — | — | 1,002 | — | No | No | 1 | — | — |
| **Federal #2 Prep Plant** | 4601456 | — | — | — | — | — | 986 | — | No | No | — | — | — |
| **Federal No. 2 Mine** | 4601456 | 54 | — | 1 | — | — | 138,136 | — | No | No | 46 | 2 | 3 |
| **Five Mile Prep Plt & Refuse Impoundment** | 4609226 | — | — | — | — | — | — | — | No | No | — | — | 2 |
| **Freedom Underground Mine** | 1517587 | 8 | — | — | — | — | 99,853 | — | No | No | 24 | 3 | 3 |
| **Gateway Eagle Mine** | 4606618 | — | — | — | — | — | 2,315 | — | No | No | 10 | 1 | — |
| **Grand Eagle Prep Plant** | 1519011 | 1 | — | — | — | — | 1,070 | — | No | No | 2 | — | — |
| **Guyan** | 4608939 | — | — | — | — | — | — | — | No | No | 10 | 1 | 1 |
| **Harris No. 1** | 4601271 | — | — | — | — | — | — | — | No | No | 20 | — | 9 |
| **Harris Prep. Plant** | 4603135 | — | — | — | — | — | 663 | — | No | No | 1 | — | — |
| **Hill Fork Surface Mine** | 4609309 | 1 | — | — | — | — | — | — | No | No | — | — | — |
| **Highland 9 Mine** | 1502709 | 37 | — | — | — | — | 137,196 | — | No | No | 57 | 2 | 6 |
| **Hobet 21 Surface Mine** | 4604670 | 1 | — | — | — | — | — | — | No | No | — | — | — |
| **Patriot Surface** | 1516231 | — | — | — | — | — | — | — | No | No | 3 | — | — |
| **Peerless Rachel Mine** | 4609258 | 19 | 2 | — | — | — | 5,910 | — | No | No | 1 | — | — |
| **Rivers Edge Mine** | 4608890 | — | — | — | — | — | — | — | No | No | 11 | — | 8 |
| **Rocklick Prep Plant** | 4606448 | — | — | — | — | — | — | — | No | No | 1 | — | — |
| **Samples** | 4607178 | — | — | — | — | — | 963 | — | No | No | — | — | — |
| **South Hollow Plant - Emerald Processing** | 4603085 | 1 | — | — | — | — | 100 | — | No | No | 1 | 1 | — |
| **Stockburg No. 2** | 4608635 | — | — | — | — | — | — | — | No | No | 5 | — | — |
| **Sugar Maple Mine** | 4609073 | 11 | — | 4 | — | — | 24,019 | — | No | No | 3 | 2 | — |
| **Tom's Fork Loadout** | 4608465 | 8 | — | — | — | — | 117 | — | No | No | 1 | — | 1 |
| **Wells Prep. Plant** | 4605295 | 1 | — | — | — | — | 499 | — | No | No | — | — | — |
| **Wharton No 1 Tunnel** | 4605071 | 1 | — | — | — | — | 400 | — | No | No | — | — | — |
| **Winchester Mine** | 4609230 | 4 | — | — | — | — | 50,039 | — | No | No | 25 | 3 | — |
| **Total** | | **254** | **4** | **5** | **—** | **—** | **$2,045,190** | **—** | | | **432** | **33** | **48** |

(A) The total number of violations of mandatory health or safety standards that could significantly and substantially contribute to the cause and effect of a coal or other mine safety or health hazard under section 104 of the Mine Act for which the operator received a citation from the Mine Safety and Health Administration

(B) The total number of orders issued under section 104(b) of the Mine Act

(C) The total number of citations and orders for unwarrantable failure of the mine operator to comply with mandatory health or safety standards under section 104(d) of the Mine Act

(D) The total number of flagrant violations under section 110(b)(2) of the Mine Act

(E) The total number of imminent danger orders issued under section 107(a) of the Mine Act

(F) The total dollar value of proposed assessments from the Mine Safety and Health Administration under the Mine Act

(G) The total number of mining-related fatalities

(H) Any pending legal action before the Federal Mine Safety and Health Review Commission involving such coal or other mine

* In 2011 and 2012, the Department of Labor processed contested citations from previous years, which caused an increase in pending legal actions.

| | Type of Action Pending as of Last Day of Reporting Period | | | | | |
|---|---|---|---|---|---|---|
| | **Penalty Contest** | **Pre-penalty Contest of Citations and Orders** | **Discrimination / Discharge** | **Complaint for Compensation** | **Application for Temporary Relief** | **Appeals of ALJ Decisions**** |
| **American Eagle Mine** | 42 | — | — | — | — | — |
| **Beth Station No. 79 Prep. Plant** | 1 | — | — | — | — | — |
| **Big Mountain No. 16 Mine** | 41 | 5 | — | — | — | 1 |
| **Big Mountain Prep Plant** | 1 | — | — | — | — | — |
| **Black Oak Mine** | 18 | — | — | — | — | — |
| **Blue Creek No. 1 Mine** | 9 | — | — | — | — | — |
| **Blue Creek No. 2 Mine** | 1 | — | — | — | — | — |
| **Buffalo Creek Deep Mine** | 1 | — | — | — | — | — |
| **Camp #9 Prep Plant** | 3 | — | — | — | — | — |
| **Campbell's Creek No. 7 Mine** | 10 | — | — | — | — | — |
| **Campbell's Creek No. 10 Mine** | 1 | — | — | — | — | — |
| **Campbells Creek Surface Facilities** | 2 | — | — | — | — | — |
| **Coal Clean Prep. Plant** | 1 | — | — | — | — | — |
| **Coalburg No 1 Mine** | 17 | — | — | — | — | — |
| **Coalburg No. 2 Mine** | 13 | — | — | — | — | — |
| **Coon Hollow Tunnel** | — | — | — | — | — | — |
| **Deskins Mine** | 1 | — | — | — | — | — |
| **Dodge Hill No. 1 Mine** | 7 | — | — | — | — | — |
| **Eagle Mine** | 34 | — | — | — | — | — |
| **Europa Mine** | 2 | — | — | — | — | — |
| **Fanco Prep. Plant** | 1 | — | — | — | — | — |
| **Federal #2 Prep Plant** | — | — | — | — | — | — |
| **Federal No. 2 Mine** | 39 | 5 | — | 2 | — | — |
| **Five Mile Prep Plt & Refuse Impoundment** | — | — | — | — | — | — |
| **Freedom Underground Mine** | 21 | 2 | — | 1 | — | — |
| **Gateway Eagle Mine** | 10 | — | — | — | — | — |
| **Grand Eagle Prep Plant** | 2 | — | — | — | — | — |
| **Guyan** | 7 | 3 | — | — | — | — |
| **Harris No. 1** | 18 | 1 | 1 | — | — | — |
| **Harris Prep. Plant** | 1 | — | — | — | — | — |
| **Highland 9 Mine** | 45 | 8 | — | 4 | — | 3 |
| **Hill Fork Surface Mine** | — | — | — | — | — | — |
| **Hobet 21 Surface Mine** | — | — | — | — | — | — |
| **Patriot Surface** | 3 | — | — | — | — | — |
| **Peerless Rachel Mine** | 1 | — | — | — | — | — |
| **Rivers Edge Mine** | 9 | 2 | — | — | — | — |
| **Rocklick Prep Plant** | 1 | — | — | — | — | — |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Samples** | — | — | — | — | — | — |
| **South Hollow Plant - Emerald Processing** | 1 | — | — | — | — | — |
| **Stockburg No. 2** | 5 | — | — | — | — | — |
| **Sugar Maple Mine** | 3 | — | — | — | — | — |
| **Tom's Fork Loadout** | 1 | — | — | — | — | — |
| **Wells Prep. Plant** | — | — | — | — | — | — |
| **Wharton No 1 Tunnel** | — | — | — | — | — | — |
| **Winchester Mine** | 25 | — | — | — | — | — |
| **Total** | **398** | **26** | **1** | **7** | — | **4** |

** As of June 30, 2012, three pending legal actions were on appeal to the Federal Mine Safety and Health Review Commission, and one pending legal action was on appeal to the United States Court of Appeals for the District of Columbia Circuit.

# EXHIBIT C

## Patriot Coal Corp. Form 10-K/A for Fiscal Year 2011

# Patriot Coal CORP ( PCX )

# 10−K/A

Annual report pursuant to section 13 and 15(d)
Filed on 5/8/2012
Filed Period 12/31/2011

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

# FORM 10−K/A
(Amendment No. 1)

(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Year Ended December 31, 2011

or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number: 001−33466

# PATRIOT COAL CORPORATION
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware<br>(State or other jurisdiction of incorporation or organization) | 20−5622045<br>(I.R.S. Employer Identification No.) |
| 12312 Olive Boulevard, Suite 400<br>St. Louis, Missouri<br>(Address of principal executive offices) | 63141<br>(Zip Code) |

(314) 275−3600
(Registrant's telephone number, including area code)

Securities Registered Pursuant to Section 12(b) of the Act:

| Title of Each Class | Name of Each Exchange on Which Registered |
|---|---|
| Common Stock, par value $0.01 per share | New York Stock Exchange |
| Preferred Share Purchase Rights | New York Stock Exchange |

Securities Registered Pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well−known seasoned issuer, as defined in Rule 405 of the Securities Act Yes ☐ No ☑

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act Yes ☐ No ☑

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S−T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☑ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S−K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10−K or any amendment to this Form 10−K. ☑

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non−accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b−2 of the Exchange Act. (Check one):

| | | | |
|---|---|---|---|
| Large accelerated filer | ☑ | Accelerated filer | ☐ |
| Non−accelerated filer | ☐ | Smaller reporting company | ☐ |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b−2 of the Exchange Act) Yes ☐ No ☑

Aggregate market value of the voting stock held by non−affiliates (shareholders who are not directors or executive officers) of the Registrant, calculated using the closing price on June 30, 2011: Common Stock, par value $0.01 per share, $2.0 billion.

Number of shares outstanding of each of the Registrant's classes of Common Stock, as of February 17, 2012: Common Stock, par value $0.01 per share, 92,924,037 shares outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's Proxy Statement to be filed with the Securities and Exchange Commission in connection with the Company's Annual Meeting of Stockholders to be held on May 10, 2012 (the "Company's 2011 Proxy Statement") are incorporated by reference into Part III hereof. Other documents incorporated by reference in this report are listed in the Exhibit Index of this Form 10−K.

TABLE OF CONTENTS

CAUTIONARY NOTICE REGARDING FORWARD−LOOKING STATEMENTS

This report and other materials filed or to be filed by Patriot Coal Corporation include statements of our expectations, intentions, plans and beliefs that constitute "forward−looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 and are intended to come within the safe harbor protection provided by those sections. You can identify these forward−looking statements by the use of forward−looking words such as "outlook," "believes," "expects," "potential," "continues," "may," "will," "should," "seeks," "approximately," "predicts," "intends," "plans," "estimates," "anticipates," "foresees" or the negative version of those words or other comparable words and phrases. Any forward−looking statements contained in this report are based upon our historical performance and on current plans, estimates and expectations. The inclusion of this forward−looking information should not be regarded as a representation by us or any other person that the future plans, estimates or expectations contemplated by us will be achieved.

Without limiting the foregoing, all statements relating to our future outlook, anticipated capital expenditures, future cash flows and borrowings, and sources of funding are forward−looking statements. These forward−looking statements are based on numerous assumptions that we believe are reasonable, but are subject to a wide range of uncertainties and business risks, and actual risks may differ materially from those discussed in the statements. Among the factors that could cause actual results to differ materially are:

- U.S. and international financial, economic and political conditions;
- coal price volatility and demand, particularly in higher margin products;
- geologic, equipment and operational risks associated with mining;
- reductions of purchases or deferral of shipments by major customers;
- changes in general economic conditions, including coal, power and steel market conditions;
- availability and prices of competing energy resources for electricity generation;
- changes in the interpretation, enforcement or application of existing and potential laws and regulations affecting the production and use of our products;
- availability and costs of credit, surety bonds and letters of credit;
- weather patterns and conditions affecting energy demand or disrupting supply;
- our ability to identify and implement cost effective solutions for selenium water treatment;
- regulatory and court decisions including, but not limited to, those impacting permits issued pursuant to the Clean Water Act;
- environmental laws and regulations and changes in the interpretation or enforcement thereof, including those affecting selenium−related matters, those affecting our operations and those affecting our customers' coal usage;
- developments in greenhouse gas emission regulation and treatment, including any development of commercially successful carbon capture and storage techniques or market−based mechanisms, such as a cap−and−trade system, for regulating greenhouse gas emissions;
- failure to comply with debt covenants;
- the outcome of pending or future litigation;
- the impact of the restatement of our consolidated financial statements for the years ended December 31, 2011 and 2010 and the related material weakness associated with the accounting treatment for the Apogee FBR and Hobet ABMet water treatment facilities;
- changes to the costs to provide healthcare to eligible active employees and certain retirees under postretirement benefit obligations;

- increases to contribution requirements to multi−employer retiree healthcare and pension plans;
- our ability to attract and retain qualified personnel;
- negotiation of labor contracts, labor availability and relations;
- customer performance and credit risks;
- inflationary trends, including those impacting materials used in our business;
- downturns in consumer and company spending;
- supplier and contract miner performance, and the availability and cost of key equipment and commodities;
- availability and costs of transportation;
- difficulty in implementing our business strategy;
- our ability to replace proven and probable coal reserves;
- the outcome of commercial negotiations involving sales contracts or other transactions;
- our ability to respond to changing customer preferences;
- the effects of mergers, acquisitions and divestitures, including our ability to successfully integrate mergers and acquisitions;
- competition in our industry;
- interest rate fluctuation;
- wars and acts of terrorism or sabotage;
- impact of pandemic illness; and
- other factors, including those discussed in Legal Proceedings, set forth in Item 3 of this report.

These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in Item 1A. Risk Factors of this report. If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may vary materially from what we projected. Consequently, actual events and results may vary significantly from those included in or contemplated or implied by our forward−looking statements. We do not undertake any obligation (and expressly disclaim any such obligation) to update or revise the forward−looking statements, except as required by federal securities laws.

# EXPLANATORY NOTE

## Background of the Restatement

On February 23, 2012, we filed our Annual Report on Form 10−K for the year ended December 31, 2011 (Original Filing) with the Securities and Exchange Commission (SEC). This Form 10−K/A (Amendment) amends our Original Filing. As disclosed in Item 1B of our Original Filing, at the time of filing, we had received a series of comment letters, beginning in September 2011, from the Staff of the SEC (Staff) in conjunction with a routine review of our Annual Report on Form 10−K for the year ended December 31, 2010. The series of comment letters from the Staff focused on our accounting treatment related to costs to install the fluidized bed reactor (FBR) and ABMet water treatment facilities at two of our mining complexes.

As we have previously disclosed, we are installing the FBR and ABMet water treatment facilities as required by the U.S. District Court for the Southern District of West Virginia (U.S. District Court). On September 1, 2010, the U.S. District Court ordered Apogee Coal Company, LLC (Apogee), one of our subsidiaries, to install an FBR water treatment facility for three outfalls. This court order also required Hobet Mining, LLC (Hobet), one of our subsidiaries, to submit a schedule to develop a treatment plan for one outfall at our Hobet Surface Mine No. 22. In accordance with the submitted treatment plan, we are installing an ABMet water treatment facility at our Hobet Surface Mine No. 22. We refer to these facilities collectively as the Apogee FBR and the Hobet ABMet water treatment facilities. See Note 23 to our consolidated financial statements for additional discussion of this litigation.

During the SEC review process, we provided additional information to the Staff relating to, among other things, the operational and technological specifications of such water treatment facilities, including the anticipated 30 year useful life of the two water treatment facilities. The accounting treatment related to the costs of installing these two water treatment facilities involves significant operational and accounting complexities. FBR technology had not been used to remove selenium or any other minerals discharged at coal mining operations prior to our pilot project performed in 2010. The FBR water treatment facility required by the September 1, 2010 ruling will be the first facility constructed for selenium removal on a commercial scale and neither FBR nor ABMet technology has been proven effective on a full−scale commercial basis at coal mining operations. As a result of our efforts in responding to these comment letters and our communications with the Staff, we determined it was appropriate to file this Amendment to restate our consolidated financial statements for the two water treatment facilities as their primary use will be to treat selenium exceedances in water discharges resulting from past mining under legacy permit standards.

## The Restatement

As disclosed in our Original Filing, we have been recording the costs to install the Apogee FBR and Hobet ABMet water treatment facilities as capital expenditures when incurred. The total capital expenditure is estimated to be approximately $55.0 million for the Apogee FBR water treatment facility and $25.0 million for the Hobet ABMet water treatment facility. This Amendment is restating our consolidated financial statements to accrue a liability and recognize a loss for the estimated costs of installing these two water treatment facilities, rather than record the cost of these two facilities as a capital expenditure. Such restatement is increasing our asset retirement obligation expense and net loss by $23.6 million for the year ended December 31, 2011 and by $49.7 million for the year ended December 31, 2010. This restatement has no impact on our revenue or Adjusted EBITDA for any such period. The estimated cash spending for these facilities has not changed from our prior disclosures as a result of this restatement.

This Amendment amends and restates the items identified below with respect to the Original Filing:

Part I, Item 1 (Business), subsection "Certain Liabilities − Asset Retirement Obligations";
Part I, Item 1A (Risk Factors);
Part I, Item 1B (Unresolved Staff Comments);
Part I, Item 3 (Legal Proceedings);
Part II, Item 6 (Selected Financial Data);
Part II, Item 7 (Management's Discussion and Analysis of Financial Conditions and Results of Operations);
Part II, Item 8 (Financial Statements and Supplementary Data);
Part II, Item 9A (Controls and Procedures); and

Part IV, Item 15 (Exhibits and Financial Statement Schedules).

We do not intend to file any other amended Annual Reports on Form 10−K or Quarterly Reports on Form 10−Q for periods affected by this restatement. The previously issued audited consolidated financial statements and the Reports of Independent Registered Public Accounting Firm thereon for the years ended December 31, 2011 and 2010 in the Original Filing should no longer be relied upon.

This Amendment does not reflect events occurring after the Original Filing except as noted above. Except for the foregoing amended information, this Amendment continues to speak as of the date of the Original Filing and we have not otherwise updated disclosures contained therein or herein to reflect events that occurred at a later date. For convenience and ease of reference, we are filing this Annual Report in its entirety with the applicable changes noted above.

In addition, as required by Rule 12b−15 under the Securities Exchange Act of 1934, this Amendment contains new certifications by our Chief Executive Officer and our Chief Financial Officer, filed as exhibits hereto.

Internal Control Considerations

In connection with this restatement, management identified a control deficiency in its internal control over financial reporting associated with the accounting treatment for the Apogee FBR and Hobet ABMet water treatment facilities that constitutes a material weakness, as discussed in Part II, Item 9A of this Amendment. A material weakness in internal control over financial reporting is a deficiency, or combination of deficiencies, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis by our internal controls. For a discussion of management's consideration of our disclosure controls and procedures and the material weakness identified, see Part II, Item 9A included in this filing.

In remediating the material weakness that resulted in this restatement, we have added additional review procedures with the intent of widening the internal and external consultations with engineering and accounting experts in the areas that involve this breadth of complexity. In the future, such review procedures will include these increased consultations. As of May 8, 2012, management believes that as a result of implementation of these additional review procedures, the material weakness in internal control over financial reporting has been remediated and that as of May 8, 2012, our internal controls over financial reporting are effective.

GLOSSARY OF SELECTED MINING TERMS

ABMet. A technology that we are currently implementing for selenium water treatment at certain outfall(s), which was developed by General Electric.

ACOE. U.S. Army Corps of Engineers.

Adjusted EBITDA. Adjusted EBITDA is defined as net income (loss) before deducting interest income and expense; income taxes; asset retirement obligation expense; depreciation, depletion and amortization; restructuring and impairment charge; and net sales contract accretion.

Bituminous coal. The most common type of coal with moisture content less than 20% by weight and heating value of 10,500 to 14,000 Btu per pound.

British thermal unit, or "Btu." A measure of the thermal energy required to raise the temperature of one pound of pure liquid water one degree Fahrenheit at the temperature at which water has its greatest density (39 degrees Fahrenheit).

Carbon dioxide ($CO_2$). A gaseous chemical compound that is generated as a by−product of the combustions of fossil fuels or the burning of vegetable matter, among other processes.

Central Appalachia. The bituminous coal producing states and regions of eastern Kentucky, eastern Tennessee, western Virginia and southern West Virginia.

Coal ash. Impurities consisting of iron, aluminum and other incombustible matter that are contained in coal. Since ash increases the weight of coal, it adds to the cost of handling and can affect the burning characteristics of coal.

Coal seam. Coal deposits occur in layers typically separated by layers of rock. Each layer is called a "seam." A coal seam can vary in thickness from inches to a hundred feet or more.

Coke. A hard, dry carbon substance produced by heating coal to a very high temperature in the absence of air. Coke is used in the manufacture of iron and steel. Its production results in a number of useful byproducts.

Complex. An area with one or more company−operated mines and/or contractor−operated mines as well as a preparation plant.

Continuous miner. An underground mining machine that removes coal from the face.

Continuous miner mining. An underground method in which airways and transportation entries are developed by continuous mining machines, leaving "pillars" to support the roof. Continuous miner mining is also referred to as "room−and−pillar" mining. Pillars may subsequently be extracted to maximize the reserve recovery. This method is often used to mine smaller coal reserves or thinner seams.

Dragline. A large machine used in the surface mining process to remove the overburden, or layers of earth and rock covering a coal seam. The dragline has a large bucket suspended from the end of a long boom. The bucket, which is suspended by cables, is able to scoop up substantial amounts of overburden as it is dragged across the excavation area.

Dragline mining. An efficient surface method that uses large capacity draglines to remove overburden to expose the coal seams. Once mined, the coal is loaded into haul trucks for transportation to a preparation plant or transportation to a loading facility.

EPA. U.S. Environmental Protection Agency.

Face. Commonly used to describe the exposed area of a coal seam from which coal is extracted.

FBR. Fluidized Bed Reactor. A technology we are currently implementing for selenium water treatment at certain outfalls.

Force majeure. An event not anticipated as of the date of the applicable contract, which is not within the reasonable control of the party affected by such event, that partially or entirely prevents such party's ability to perform its contractual obligations. During the duration of the force majeure, the obligations of the party affected by the event may be excused to the extent required.

Fossil fuel. Fuel such as coal, petroleum or natural gas formed from the fossil remains of organic material.

Geologic Conditions. The physical nature of the coal seam and surrounding strata and their effects on the mining process. Geologic conditions that can have an adverse effect on underground mining include thinning coal seam thickness, rock partings within a coal seam, weak roof or floor rock, sandstone channel intrusions, groundwater and increased stresses within the surrounding rock mass due to over mining, under mining and overburden changes.

Highwall mining. A surface mining method generally utilized in conjunction with truck−and−shovel/loader surface mining. As the highwall is exposed by the truck−and−shovel/loader operation, a modified continuous miner with an attached auger conveyor system cuts horizontal passages from the highwall into the coal seam. These passages can penetrate to a maximum depth of up to 1,600 feet, but generally average 1,000 to 1,200 feet.

High vol metallurgical coal. Coal with volatile matter greater than approximately 30%. Volatile matter refers to the impurities that become gaseous when heated to certain temperatures.

Illinois Basin. The bituminous coal producing states and regions of Illinois, Indiana and western Kentucky.

IX. Ion Exchange. A technology we are currently testing for selenium water treatment at certain outfall(s).

Longwall mining. An underground mining method that uses hydraulic shields, varying from five feet to twelve feet in height, to support the roof of the mine while a shearing machine traverses the coal face removing a two to three foot slab of coal with each pass. An armored face conveyer then moves the coal to a standard deep mine conveyer system for delivery to the surface. Longwall mining is highly productive, but it is effective only for large blocks of medium to thick coal seams.

Low vol metallurgical coal. Coal with volatile matter between approximately 16% and 22%. Volatile matter refers to the impurities that become gaseous when heated to certain temperatures.

Metallurgical coal. The various grades of coal suitable for carbonization to make coke for steel manufacture. Also known as “met” coal and "coking" coal, it possesses four important qualities: volatility, which affects coke yield; the level of impurities, which affects coke quality; composition, which affects coke strength; and basic characteristics, which affect coke oven safety. Metallurgical coal generally has a particularly high Btu heat content, but low ash and sulfur content.

Mid vol metallurgical coal. Coal with volatile matter between approximately 24% and 28%. Volatile matter refers to the impurities that become gaseous when heated to certain temperatures.

MSHA. U.S. Mine Safety and Health Administration.

Northern Appalachia. The bituminous coal producing states and regions of Pennsylvania, Ohio and Maryland and the northern part of West Virginia.

NPDES. National Pollutant Discharge Elimination System.

OSM. Office of Surface Mining Reclamation and Enforcement. Administers the Surface Mining Control and Reclamation Act (SMCRA) and establishes mining, environmental protection and reclamation standards for all aspects of U.S. surface mining as well as many aspects of underground mining.

Outfall. A water discharge point authorized in a NPDES permit. In the case of coal mining, the discharge point is often a pipe or channel that discharges water from a sediment control structure. Also referred to as an "outlet."

Overburden. Layers of earth and rock covering a coal seam. In surface mining operations, overburden is removed prior to coal extraction.

Pillar. An area of coal left to support the overlying strata in an underground mine, sometimes left permanently to support surface structures.

Preparation plant. A facility for crushing, sizing and washing coal to remove rock and other impurities to prepare it for use by a particular customer. Preparation plants are usually located on a mine site, although one plant may serve several mines. The washing process has the added benefit of removing some of the coal's sulfur content.

Reclamation. The process of restoring land and the environment to their original state following mining activities. The process commonly includes “recontouring” or reshaping the land to its approximate original appearance, restoring topsoil and planting native grass and ground covers. Reclamation operations are usually underway before the mining of a particular site is completed. Reclamation is closely regulated by both state and federal law.

Roof. In an underground mine, the stratum of rock or other mineral above a coal seam; the overhead surface of a coal mine working area.
Roof bolting. A method of supporting the roof of underground mines by inserting long steel bolts into holes bored into the overlying strata forming a more stable roof by creating a composite beam.
Selenium. A naturally occurring element that is encountered in earthmoving operations. The extent of selenium occurrence varies depending upon site−specific geologic conditions. Selenium is encountered globally in coal mining, phosphate mining and agricultural operations. In coal mining applications, selenium can be discharged to surface water when mine tailings are exposed to rain and other natural elements. Selenium effluent limits are included in permits issued to us and other coal mining companies.
SMCRA. Surface Mining Control and Reclamation Act.
Stoker coal. A type of thermal coal that is processed to a specific size to remove the smaller particles so that it can be used in boilers at industrial plants.
Sulfur. One of the elements present in varying quantities in coal that reacts with air when coal is burned to form sulfur dioxide.
Sulfur dioxide ($SO_2$). A gaseous by−product of coal combustion.
Surface mine. A mine in which the coal lies near the surface and can be extracted by removing the covering layer of earth and rock (see “Overburden”).
Thermal coal. Coal used by power plants and industrial steam boilers to produce electricity, steam or both. It generally is lower in Btu heat content and higher in volatile matter than metallurgical coal. Also known as "steam" coal.
Tons. A “short” or net ton is equal to 2,000 pounds. A “long” or British ton is equal to 2,240 pounds; a “metric” ton (also called a "tonne") is approximately 2,205 pounds. The short ton is the unit of measure referred to in our filings.
Truck−and−Shovel/Loader Mining. A surface mining method that uses large electric− or diesel−powered shovels to remove overburden. Loading equipment is used to load coal into haul trucks for transportation to the preparation plant or transportation loading facility. Productivity depends on equipment, geological composition and the ratio of overburden to coal.
UMWA. United Mine Workers of America.
Underground mine. Also known as a “deep” mine. Usually located several hundred feet below the earth's surface, an underground mine's coal is removed mechanically and transferred by shuttle car or conveyor to the surface.
WVDEP. West Virginia Department of Environmental Protection.
ZVI. Zero Valent Iron. A technology that we are currently utilizing for selenium water treatment at certain outfall(s).

PART I

Unless the context indicates otherwise, all references in this report to Patriot, the Company, us, we, or our include Patriot Coal Corporation and our subsidiaries (Patriot). Refer to the Glossary on pages 3 through 5 for the definition of terms used throughout this document.

## Item 1. Business.

### Overview

We are a leading producer of thermal coal in the eastern United States (U.S.), with operations and coal reserves in the Appalachia and the Illinois Basin coal regions. We are also a leading U.S. producer of metallurgical quality coal. Our principal business is the mining and preparation of thermal coal, also known as steam coal, and metallurgical coal. Thermal coal is primarily sold to electricity generators, and metallurgical coal is sold to steel mills and independent coke producers.

As of December 31, 2011, our operations consisted of fourteen active mining complexes. Our operations include company−operated mines, contractor−operated mines and coal preparation facilities. The Appalachia and Illinois Basin segments consist of our operations in West Virginia and Kentucky, respectively. We control approximately 1.9 billion tons of proven and probable coal reserves. Our proven and probable coal reserves include metallurgical coal and medium and high−Btu thermal coal, with low, medium and high sulfur content.

We ship coal to electricity generators, industrial users, steel mills and independent coke producers. In 2011, we sold 31.1 million tons of coal, of which 76% was sold to domestic and global electricity generators and industrial customers and 24% was sold to domestic and global steel and coke producers. Export sales were 29% of our total volume in 2011. Coal is shipped via various company−owned and third−party loading facilities, multiple rail and river transportation routes and ocean−going vessels.

Effective October 31, 2007, Patriot was spun off from Peabody Energy Corporation (Peabody) and became a separate, public company traded on the New York Stock Exchange (symbol PCX). This transaction is referred to in this Form 10−K as the “distribution” or the “spin−off.” The spin−off from Peabody was accomplished through a dividend of all outstanding shares of Patriot.

On July 23, 2008, Patriot completed the acquisition of Magnum Coal Company (Magnum). Magnum was one of the largest coal producers in Appalachia, operating eight mining complexes with production from surface and underground mines in Appalachia and controlling more than 600 million tons of proven and probable coal reserves. Magnum results are included as of the date of the acquisition.

### Mining Operations

Our mining operations and coal reserves are as follows:

- Appalachia. As of December 31, 2011, we had ten mining complexes located in Boone, Clay, Lincoln, Logan and Kanawha counties in southern West Virginia. In northern West Virginia, we have one complex located in Monongalia County. In Appalachia, we sold 23.9 million tons of coal in the year ended December 31, 2011. As of December 31, 2011, we controlled 1.2 billion tons of proven and probable coal reserves in Appalachia, of which 491 million tons were assigned to current operations. In January 2012, we announced the idling of and production curtailment at certain metallurgical coal mines in response to weaker demand. In February 2012, we announced the closure of the Big Mountain mining complex in response to weaker thermal coal demand.
- Illinois Basin. In the Illinois Basin, we have three complexes located in Union and Henderson counties in western Kentucky. In the Illinois Basin, we sold 7.3 million tons of coal in the year ended December 31, 2011. As of December 31, 2011, we controlled 722 million tons of proven and probable coal reserves in the Illinois Basin, of which 175 million tons were assigned to current operations.

The following table provides the location and summary information of our operations for the year ended December 31, 2011.

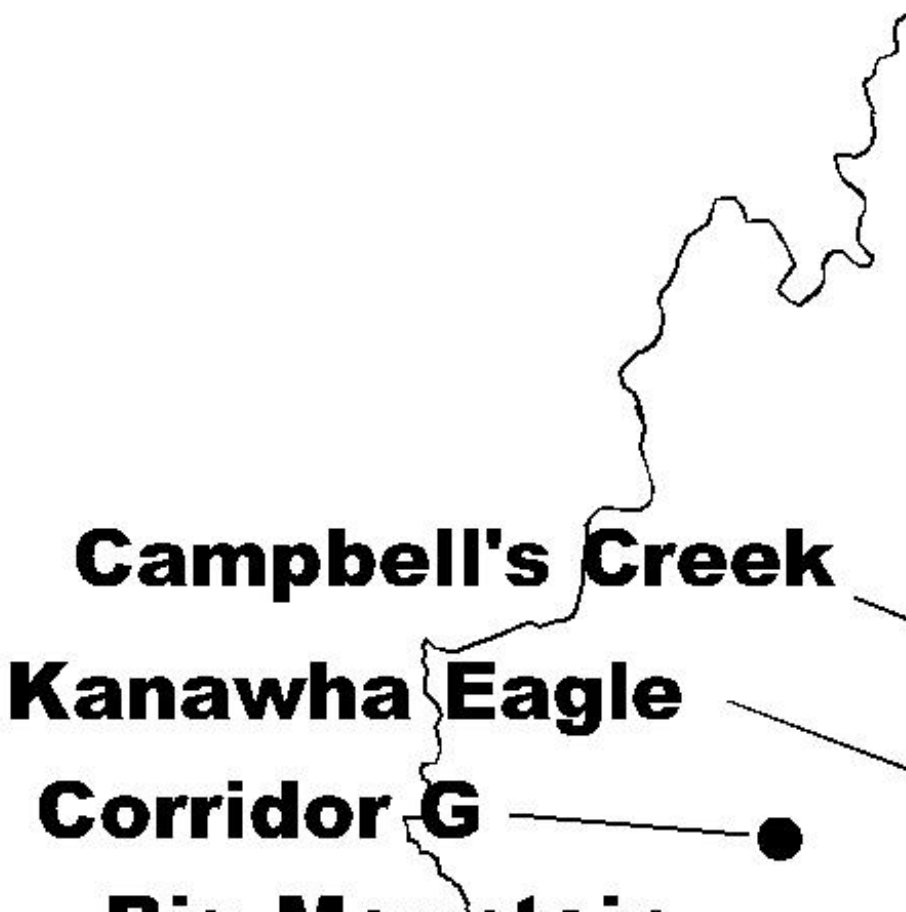
| Location | Complex | Mine(s) | Mining Method(1) | Met/Thermal | 2011 Tons Sold(2) |
|---|---|---|---|---|---|
| Appalachia | Big Mountain | Big Mountain No. 16, Contractor | CM | Thermal | 1,879 |
| | Blue Creek | Blue Creek No. 1 | CM | Thermal | 848 |
| | Campbell's Creek | Campbell's Creek No. 7, Contractor | CM | Thermal | 680 |
| | Corridor G | Job 21, Hill Fork | DL, TS | Thermal | 3,656 |
| | Kanawha Eagle | Contractor | CM | Met/Thermal | 1,445 |
| | Logan County | Guyan | TS | Thermal | 2,693 |
| | Paint Creek | Samples, Winchester | TS, HW, CM | Met/Thermal | 1,181 |
| | Panther | Panther | LW, CM | Met | 1,845 |
| | Rocklick | Black Oak, Gateway Eagle, Contractor | CM | Met | 1,294 |
| | Wells | Rivers Edge, Contractor | CM | Met | 2,840 |
| | Federal | Federal No. 2 | LW, CM | Thermal | 3,973 |
| | Purchased coal | N/A | N/A | N/A | 1,527 |
| | | | | Subtotal | 23,861 |
| Illinois Basin | | | | | |
| | Bluegrass | Patriot, Freedom | TS, CM | Thermal | 2,456 |
| | Dodge Hill | Dodge Hill No. 1 | CM | Thermal | 831 |
| | Highland | Highland No. 9 | CM | Thermal | 3,978 |
| | | | | Subtotal | 7,265 |
| | | | | Total | 31,126 |

(1)LW = Longwall, CM = Continuous Miner, TS = Truck−and−Shovel, DL = Dragline, HW = Highwall

(2) Tons sold, presented in thousands, for each complex approximated actual annual production in 2011, subject to stockpile variations.

Appalachian Mining Operations

As of December 31, 2011, our Appalachian Mining Operations included eleven active mining complexes in West Virginia.


Campbell's Creek
Kanawha Eagle
Corridor G

Appalachia

Big Mountain

As of December 31, 2011, the Big Mountain mining complex is sourced by one company−operated underground mine, Big Mountain No. 16, and one contractor−operated underground mine located in southern West Virginia. Coal is produced utilizing continuous mining methods. The coal is sold on the thermal market and was transported from the preparation plant to customers via CSX rail or trucked to a terminal on the Kanawha River and placed on barges. Coal is produced from the Coalburg and Dorothy seams. Most of the employees at the company−operated mine are represented by the United Mine Workers of America (UMWA). In February 2012, we closed our Big Mountain mining complex.

Blue Creek

The Blue Creek mining complex is located in southern West Virginia and consists of a company−operated underground mine, Blue Creek No. 1. Coal at the Blue Creek mining complex is produced from the Stockton seam. The complex utilizes continuous mining methods. Coal produced at the Blue Creek complex is sold on the thermal market and is loaded onto trucks for transportation to a barge loading facility on the Kanawha River. The employees at the company−operated mine are not represented by a union.

Campbell’s Creek

The Campbell’s Creek mining complex consists of two underground mines located in southern West Virginia. The company−operated Campbell’s Creek No. 7 mine operates in the Winifrede seam. The contractor−operated mine operates in the Stockton seam. Both mines in the Campbell’s Creek mining complex utilize the continuous mining method. After processing, the coal is transported by truck to the Kanawha River for loading onto barges. Coal produced at Campbell’s Creek mining complex is sold on the thermal and stoker coal markets. The employees at the company−operated mine are not represented by a union.

Corridor G

The Corridor G mining complex consists of two company−operated surface mines, Job 21 and Hill Fork, located in southern West Virginia. Coal is sourced from the Kittanning, Stockton and Coalburg seams. Corridor G utilizes dragline and truck−and−shovel/loader mining. Coal produced at Job 21 is transferred by belt to the on−site preparation plant and loadout facility. After processing, the coal is transported to customers by CSX rail. Hill Fork production is either trucked to a terminal on the Kanawha River and placed on barges or transported to a nearby preparation plant for processing. Coal produced at the Corridor G mining complex is sold on the thermal market. Certain employees at the Corridor G mining complex are represented by the UMWA.

Kanawha Eagle

The Kanawha Eagle complex, which is contractor−operated, is located in southern West Virginia and is sourced by three underground mines. All three mines utilize continuous mining methods. Processed coal is sold on both metallurgical and thermal markets and is transported via CSX rail directly to the customer or by private line railroad to the Kanawha River and placed on barges. Coal is produced from the Coalburg and Eagle seams. In early 2012, we opened the Peerless underground mine.

Logan County

The Logan County mining complex consists of one company−operated surface mine, Guyan, located in southern West Virginia. Coal from this complex is sold on the thermal market. The Guyan mine utilizes the truck−and−shovel/loader mining method. Coal produced at this complex is transferred by truck to its on−site preparation plant and loadout facility. Coal is principally transported from the loadout facility to customers by CSX rail. Coal at Logan County is sourced from the Freeport, Kittanning, Stockton and Coalburg seams. Certain employees at the Logan County complex are represented by the UMWA.

Paint Creek

The Paint Creek mining complex consists of one surface mine and one underground mine located in southern West Virginia. Both mines are company−operated. The surface mine, Samples, utilizes truck−and−shovel/loader and highwall mining methods, while the underground mine, Winchester, utilizes the continuous mining method. The Winchester mine operates in the Hernshaw seam. Coal from Samples is sourced from the Freeport, Kittanning, Stockton and Coalburg seams. The truck and shovel/loader method of mining the Samples surface mine has been idled since August 2009. After processing, coal is transported from the on−site preparation plant and loadout facility to customers by CSX rail. Coal can also be trucked approximately 14 miles to the Kanawha River and transported by barge. Coal from this complex is sold on both the metallurgical and thermal markets. The employees at the Paint Creek complex are not represented by a union.

Panther

The Panther mining complex consists of one company−operated underground mine, Panther, located in southern West Virginia. Coal is produced utilizing the longwall mining and continuous mining methods. All coal is processed at an on−site preparation plant and then transported via truck to barges on the Kanawha River or via CSX rail. Coal produced at the Panther complex was sold into the metallurgical market during 2010 and 2011. Coal at the Panther mining complex is produced from the Eagle seam. The employees at the Panther complex are not represented by a union.

Rocklick

The Rocklick mining complex is located in southern West Virginia and is sourced by two company−operated underground mines, Black Oak and Gateway Eagle, and two contractor−operated underground mines. Coal at the Rocklick mining complex is produced utilizing continuous mining methods. Rocklick has the capability to transport coal on both the CSX and the Norfolk Southern railroads. Metallurgical coal at the Black Oak mine is produced from the No. 2 Gas seam. The Gateway Eagle mine opened in 2011 and produces metallurgical coal from the Eagle seam. Our contract mines produce metallurgical coal from the Eagle and No. 2 Gas seams. Thermal coal can also be processed and sold at this operation. Certain employees at the company−operated facilities of the Rocklick mining complex are represented by the UMWA. In January 2012, we announced plans to idle the Gateway Eagle mine and one contractor−operated mine, as well as to reduce production at the Black Oak mine.

Wells

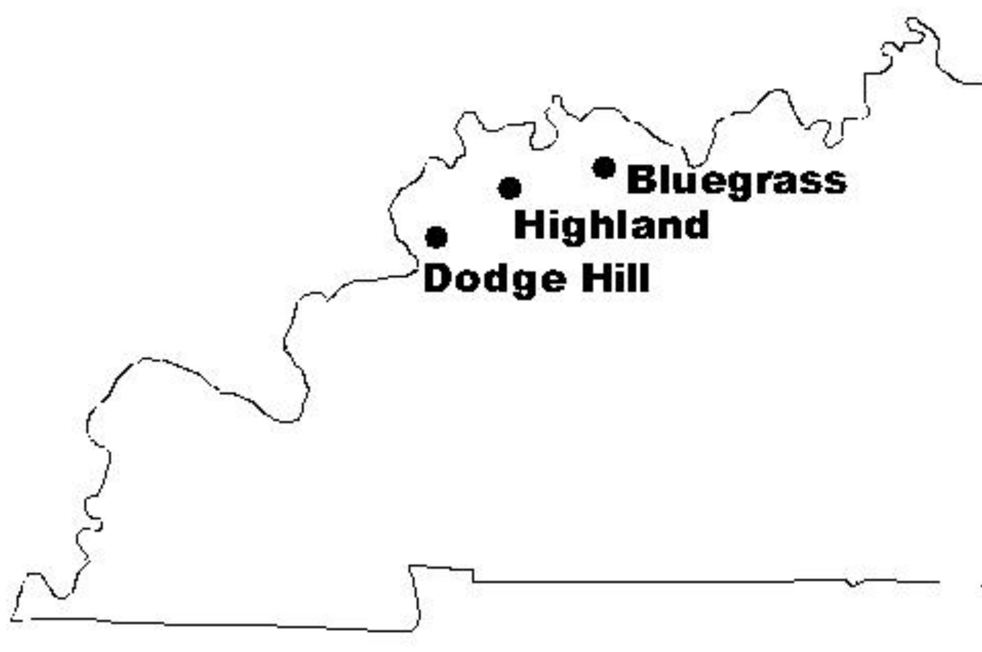
The Wells mining complex is located in southern West Virginia and is sourced by multiple contractor−operated underground mines and was sourced by one company−operated underground mine. Coal is produced utilizing continuous mining methods. Coal currently produced at the Wells mining complex is sold on the metallurgical market and is transported to customers via CSX rail. Contract mines produce coal from the Eagle, No. 2 Gas, Powellton and Lower Chilton seams. Most of the employees at the company−operated facilities of the Wells mining complex are represented by the UMWA. Rivers Edge produced coal from the Powellton seam until it reached the end of its life in April 2011. In January 2012, we announced plans to idle two contractor−operated mines in the Wells complex.

Federal

The Federal mining complex is located in northern West Virginia and is sourced by one company−operated underground mine, Federal No. 2, utilizing longwall and continuous mining methods. All coal produced at Federal is sold on the thermal market and is transported to customers via the CSX and Norfolk Southern railroads or via barges on the Ohio River. Coal is produced from the Pittsburgh seam. Most of the employees at the Federal mining complex are represented by the UMWA.

Illinois Basin Mining Operations

As of December 31, 2011, our Illinois Basin Mining Operations included three mining complexes in western Kentucky.




Illinois Basin

Bluegrass

The Bluegrass mining complex is located in western Kentucky and is sourced by two company−operated mines, Freedom, an underground mine, and Patriot, a surface mine. Coal at Freedom is produced utilizing continuous mining methods, while coal at Patriot is produced utilizing the truck−and−shovel/loader mining method. All coal is sold on the thermal market and is transported via truck or via barge loaded on the Green River. Coal is produced from the Kentucky No. 9 seam. The employees at the Bluegrass mining complex are not represented by a union.

Dodge Hill

The Dodge Hill mining complex is located in western Kentucky and is sourced by one company−operated underground mine, Dodge Hill No. 1, utilizing continuous mining methods. All coal is sold on the thermal market and transported via truck to a barge loading facility on the Ohio River. Coal at the Dodge Hill mining complex is produced from the Kentucky No. 6 seam. The employees at the Dodge Hill mining complex are not represented by a union.

Highland

The Highland mining complex is located in western Kentucky and is sourced by one company−operated underground mine, Highland No. 9, utilizing continuous mining methods. All coal is sold on the thermal market and is transported via barges loaded on the Ohio River. Coal is produced from the Kentucky No. 9 seam. Most of the employees at the Highland complex are represented by the UMWA.

Customers and Backlog

In 2011, our coal was sold to over 80 electricity generating and industrial plants in 9 countries, including the U.S., which is where we have our primary customer base.

As of December 31, 2011, we had a sales backlog of 47.2 million tons of coal, including backlog subject to price reopener and/or extension provisions. Our coal supply agreements have remaining terms of up to 6 years and an average volume−weighted remaining term of approximately 1.9 years.

| | Commitments as of December 31, 2011 | | | | |
|---|---|---|---|---|---|
| | 2012 | 2013 | 2014 | 2015 and Later | Total |
| Tons (in millions) | 25.9 | 10.6 | 4.6 | 6.1 | 47.2 |

The 2012 commitments represent approximately 90 − 95% of our currently estimated production for 2012.

In 2011, approximately 78% of our coal sales were under long−term (one year or greater) agreements. We expect to continue selling a significant portion of our coal under long−term coal supply agreements. Our approach is to selectively renew or enter into new coal supply agreements when we can do so at prices we believe are favorable. We continue to supply coal to Peabody under a contract that existed at the date of spin−off with terms into 2012. As of December 31, 2011, approximately 12% of our current projected 2012 total production was committed under this pre−existing customer relationship with Peabody, which supplies thermal coal.

Typically, customers enter into coal supply agreements to secure reliable sources of coal at predictable prices, while we seek stable sources of revenue to support the investments required to open, expand and maintain or improve productivity at the mines needed to supply these agreements. The terms and conditions of coal supply agreements result from competitive bidding and extensive negotiations with customers. Consequently, the terms and conditions of these contracts vary significantly in many respects, including price adjustment features, price reopener terms, coal quality requirements, quantity parameters, permitted sources of supply, treatment of environmental constraints, extension options, force majeure, termination and assignment provisions.

Each coal supply agreement sets a base price. Some agreements provide for a predetermined adjustment to the base price at times specified in the agreement. Base prices may be adjusted quarterly, annually or at other periodic intervals for changes in production costs and/or changes due to inflation. The inflation adjustments are measured by public indices, the most common of which is the implicit price deflator for the gross domestic product as published by the U.S. Department of Commerce. In most cases, the components of the base price represented by taxes, fees and royalties which are based on a percentage of the selling price are also adjusted for any changes in the base price and passed through to the customer.

Most long−term coal supply agreements contain provisions to adjust the base price due to new laws or changes in the language, interpretation or application of existing laws that increase our cost of performance under such agreements. Buyers often negotiate similar clauses covering changes in environmental laws. In these instances, we often negotiate the right to supply coal that complies with a new environmental requirement to avoid contract termination.

Price reopener provisions are present in some of our long−term coal supply agreements. These provisions may allow either party to commence a renegotiation of the contract price at various intervals. In most of the agreements with price reopener provisions, if the parties do not agree on a new price, the buyer or seller has an option to terminate the contract. Under some agreements with price reopener provisions, we have the right to match the pricing offered to our customers by other suppliers.

Quality and volumes for the coal are stipulated in coal supply agreements, and in some limited instances, buyers have the option to vary annual or monthly volumes, if necessary. Variations to the quality of coal may lead to adjustments in the contract price. Most coal supply agreements contain provisions requiring us to deliver coal within certain ranges for specific coal characteristics such as heat content (Btu), sulfur and ash content, grindability, ash fusion temperature and metallurgical characteristics. Failure to meet these specifications can result in economic penalties, suspension or cancellation of shipments or termination of the contract. Coal supply agreements typically stipulate procedures for sampling, analysis and weighing. In most of our agreements, we have a right of substitution, allowing us to provide coal from different mines, including third parties, as long as the replacement coal meets the contracted quality specifications and is sold at the same delivered cost.

In most cases, the provisions of coal supply agreements set out mechanisms for temporary reductions or delays in coal volumes in the case of a force majeure event, including strikes, adverse mining conditions, labor shortages, permitting or serious transportation problems that affect the seller or unanticipated plant outages that may affect the buyer. Most force majeure provisions stipulate that this tonnage can be made up by either mutual agreement or at the option of the nonclaiming party.

Coal supply agreements typically contain termination clauses if either party fails to comply with the terms and conditions of the agreement, although most termination provisions provide the opportunity to cure defaults.

Sales and Marketing

We sell coal produced by our operations and third−party producers. Our sales and marketing group includes personnel dedicated to performing sales functions, transportation, distribution, market research, contract management, and credit/risk management activities.

Transportation

Coal consumed domestically is typically sold at the mine and transportation costs are borne by the buyer. At most Appalachian mine complexes, we load coal from the preparation plant directly onto railcars. At certain locations, we utilize truck, conveyor belt and rail to transport coal from our mines to docks for transportation to customers via barges. Export coal is usually sold at the loading port, with buyers paying ocean freight. For export coal, we usually pay shipping costs from the mine to the port, trans−loading fees at the port and any applicable vessel demurrage costs associated with delayed loadings.

Of our 31.1 million tons sold in 2011, approximately 49% was shipped by rail, 40% by barge, 7% by ocean−going vessel and 4% by truck. Our transportation staff manages the loading of coal via these transportation modes.

Suppliers and Contractors

The main types of goods we purchase are mining equipment and replacement parts, steel−related (including roof control) products, belting products, lubricants, fuel, explosives and tires. Although we have many long, well−established relationships with our key suppliers, we do not believe that we are dependent on any of our individual suppliers other than for purchases of certain underground mining equipment and steel roof bolts. Purchases of certain underground mining equipment and steel roof bolts are concentrated with one principal supplier; however, supplier competition continues to exist. The supplier base providing mining materials has been relatively consistent in recent years.

We contract with third−party producers to mine our owned or leased coal reserves on a rate per ton or cost plus basis. Third−party contractors accounted for approximately 18% of our total sales volume for the year ended December 31, 2011.

Competition

The U.S. coal industry is highly competitive, both regionally and nationally. Coal production in Appalachia and the Illinois Basin totaled approximately 430 million tons in 2011, with the largest five producers (Alpha Natural Resources, Inc., CONSOL Energy Inc., Alliance Resource Partners, L.P., Patriot, and Peabody) accounting for 54% of production. In addition to competition within the eastern U.S. region, coal is transported into the region from the western U.S. and international producers for purchase by utility customers.

A number of factors beyond our control affect the markets in which we sell our coal. Continued demand for our coal and the prices obtained by us depend primarily on the coal consumption patterns of the electricity and steel industries in the U.S. and around the world and the location, availability, quality and price of competing fuels for power such as natural gas, nuclear, fuel oil, and alternative energy sources such as wind and hydroelectric power. Coal consumption patterns are affected primarily by the demand for electricity and steel, environmental and other governmental regulations, and technological developments. The most important factors on which we compete are delivered price (i.e., including transportation costs, which are paid by our customers), coal quality characteristics and reliability of supply.

Employees & Labor Relations

Relations with our employees and, where applicable, organized labor, are important to our success. As of December 31, 2011, we had approximately 4,300 employees. Approximately 50% of our employees were represented by an organized labor union. Our represented employees work at various sites in Appalachia and at the Highland complex in the Illinois Basin.

In the third quarter of 2011, certain of our subsidiaries signed new agreements with the UMWA, which were effective July 1, 2011 and generally extend through December 2016. The new agreements are substantially the same as the National Bituminous Coal Wage Agreement negotiated in mid−2011 between the Bituminous Coal Operators Association and the UMWA. We refer to this as the 2011 National Bituminous Coal Wage Agreement (2011 NBCWA).

We operate two training centers in Appalachia. Our training centers educate our workforce, particularly our most recent hires, in our rigorous safety standards, the latest in mining techniques and equipment, and serve as a center for dissemination of mining best practices across all of our operations. Our training efforts are designed with the intent of attracting new miners, in large part to replace miners expected to retire in the near term, and to develop and retain a productive and safety−oriented workforce.

Certain Liabilities

We have significant long−term liabilities for asset retirement obligations (including reclamation and selenium water treatment), retiree healthcare and work−related injuries and illnesses. In addition, labor contracts with the UMWA and certain arrangements with non−union employees include long−term benefits, notably healthcare coverage for retired employees, future retirees and their dependents.

Asset Retirement Obligations

Reclamation obligations primarily represent the present value of future anticipated costs to restore surface land to levels equal to or greater than pre−mining conditions, as required by the Surface Mining Control and Reclamation Act (SMCRA). Selenium water treatment obligations primarily represent the present value of future anticipated costs for water treatment of selenium discharges, as required by current court orders, consent decrees and mining permits.

Asset retirement obligation expense (which includes liability accretion and asset amortization) for the years ended December 31, 2011, 2010 and 2009 was $105.2 million, $112.7 million, and $35.1 million, respectively. The 2011 and 2010 expense amounts included selenium water treatment obligation charges related to a court ruling as further described below. As of December 31, 2011, our asset retirement obligations of $488.0 million included $99.4 million of reclamation obligations related to locations that are closed or inactive.

Our selenium treatment obligation associated with the Magnum−acquired sites was estimated and recorded at June 30, 2009, when the purchase accounting valuation of all assets acquired and liabilities assumed was finalized. Selenium is a naturally occurring element that is encountered in earthmoving operations. The extent of selenium occurrence varies depending upon site−specific geologic conditions. Selenium is encountered globally in coal mining, phosphate mining and agricultural operations. In coal mining applications, selenium can be discharged to surface water when mine tailings are exposed to rain and other natural elements. Selenium effluent limits are included in permits issued to us and other coal mining companies.

Our initial liability for the treatment of outfalls with known selenium exceedances was recorded at June 30, 2009 and reflected the estimated total costs of the planned Zero Valent Iron (ZVI) water treatment systems to be implemented and maintained in consideration of the requirements of our mining permits, court orders and consent decrees. This estimate was prepared considering the dynamics of legislation, capabilities of available technology and our planned selenium water treatment strategy. We utilized the cost of the most successful treatment methodology at that time based on our testing results and considering the uncertainties regarding technology, compliance parameters and deadline extensions.

Despite continued efforts, we have been unable to identify a treatment system that can remove selenium sustainably, consistently and uniformly under all variable conditions experienced at our mining operations. The lack of a known, proven technology to meet selenium effluent limits is an industry−wide challenge.

We are currently involved in various legal proceedings related to compliance with the effluent selenium limits in our mining permits. As a result of these legal proceedings, we are subject to various consent decrees and court orders that generally require us, among other things, to meet certain compliance deadlines related to selenium discharge levels at permitted outfalls. In the past, we have paid fines and penalties with respect to violations of selenium effluent limitations.

As a result of a lawsuit filed by the West Virginia Department of Environmental Protection (WVDEP) in state court in West Virginia, Hobet Mining, LLC (Hobet) entered into a settlement agreement with the WVDEP that required Hobet to pay fines and penalties with respect to past violations of selenium limitations under certain of its National Pollutant Discharge Elimination System (NPDES) permits, to meet certain compliance deadlines related to selenium discharge levels and to research, develop and implement pilot projects of potential technologies for the treatment of selenium exceedances at permitted outfalls.

The Ohio Valley Environmental Coalition, Inc. (OVEC) and another environmental group sued Apogee Coal Company, LLC (Apogee) in 2007 and Hobet in 2008 in the U.S. District Court for the Southern District of West Virginia (U.S. District Court) alleging that Apogee and Hobet had violated water discharge limits for selenium set forth in certain of their NPDES permits. On March 19, 2009, the U.S. District Court approved two separate consent decrees, one between Apogee and the plaintiffs and the other between Hobet and the plaintiffs. The consent decrees extended the deadline to comply with water discharge limits for selenium with respect to the permits covered by both lawsuits to April 5, 2010.

On September 1, 2010, the U.S. District Court found Apogee in contempt for failing to comply with the March 19, 2009 consent decree. The court found that Apogee had failed to exercise reasonable diligence in evaluating and identifying viable treatment technologies, which diminished our ability to achieve compliance. Apogee was ordered to install a Fluidized Bed Reactor (FBR) water treatment facility for three mining outfalls and to come into compliance with applicable selenium discharge limits at these outfalls by March 1, 2013. Additionally, Hobet was ordered by the court to come into compliance with applicable selenium discharge limits under the Hobet Surface Mine No. 22 permit by May 1, 2013.

The estimated costs to meet our legal obligation resulting from the September 1, 2010 ruling for selenium water treatment at the three Apogee outfalls have changed from our original estimates. As such, we increased the portion of the liability related to Apogee by updating the fair value of the costs related to these three outfalls and recorded the $69.5 million difference between this updated value and our previously recorded liability directly to income, through asset retirement obligation expense in the third quarter of 2010.

Additionally, the September 1, 2010 ruling required that we select a technology for one outfall at Hobet Surface Mine No. 22. In June 2011, we selected FBR technology for this outfall because we could utilize the knowledge gained building the Apogee FBR facility and additional research was needed to resolve certain detailed design considerations for ZVI and Ion Exchange (IX). In June 2011, we recorded an adjustment of $60.6 million to the selenium water treatment liability for the estimated installation and future operating costs of an FBR water treatment facility at this outfall. In December 2011, the U.S. District Court agreed to a change to the selenium water treatment technology from FBR to ABMet technology at this outfall. In December 2011, we adjusted the portion of the selenium water treatment liability related to Hobet Surface Mine No. 22 by $25.6 million for the decrease in the fair value of the estimated costs related to this outfall due to the change in the technology. Prior to the technology change, we spent approximately $3.0 million related to the final engineering specifications for the Hobet FBR facility. We continue to design and seek permits for the Hobet ABMet facility and anticipate beginning construction on the facility in the first half of 2012. The estimated total cost for installing the ABMet water treatment facility is approximately $25 million, which is significantly less than the estimated $40 million to build the Hobet FBR facility.

In February 2011, OVEC and two other environmental groups filed a lawsuit against us, Apogee, Catenary Coal Company, LLC (Catenary) and Hobet, in the U.S. District Court alleging violations of ten NPDES permits and certain SMCRA permits. In late 2011, we substantially agreed to the terms of a settlement agreement with the plaintiffs. On January 18, 2012, we finalized a comprehensive consent decree with OVEC and the other two environmental groups, which sets technology selection and compliance dates for the outfalls in the ten permits included in this litigation on a staggered basis, allowing us to continue testing certain technologies as well as to take advantage of technology that is still in the development stage. We also agreed to, among other things, waive our rights to mine certain coal reserves and to pay a civil penalty of $7.5 million. The plaintiffs agreed to, among other things, refrain from instituting new lawsuits with respect to the permits and outfalls identified in the comprehensive consent decree for certain periods, provided we meet the specified requirements. The comprehensive consent decree also established a framework under which we will interface with the plaintiffs with respect to the identified permits and outfalls. The amounts paid per the comprehensive consent decree of $7.5 million and the write−off of the forfeited coal reserves of approximately $2.3 million are reflected in asset retirement obligation expense in the fourth quarter of 2011.

Our liability to treat selenium discharges at the other outfalls not addressed in the September 1, 2010 ruling is based on the use of ZVI technology. We have installed ZVI systems according to our original water treatment strategy, while also performing a further review of other potential water treatment solutions. Our water treatment strategy reflects implementing scalable ZVI installations at each of the other outfalls due to its modular design that can be reconfigured as further knowledge and certainty is gained. Initial pilot testing of ZVI technology began in 2008 and has identified potential shortfalls requiring additional research to resolve certain detailed design considerations. To date, ZVI technology has not been demonstrated to perform consistently and sustainably in achieving effluent selenium limitations or in treating the expected water flows at all outfalls. However, based on the flexibility of the scalable system for configuration adjustments, improvements in the system design and demonstrated success in reducing selenium at certain flows, we plan to continue to pursue the ZVI−based water treatment installations and determine whether modifications to the technology could result in its ability to treat selenium successfully at outlets identified in the February 2011 litigation.

At this time, there is no definitive plan to install FBR, ABMet or any technology other than ZVI technology at the other outfalls not included in the September 1, 2010 ruling as none of the other technologies has been proven effective on a full−scale basis. Our comprehensive consent decree with the plaintiffs in the February 2011 litigation requires that we select water treatment technology by category beginning with the first category in September 2012 and ending with the last category in September 2014. We are continuing to research and evaluate various treatment solutions in addition to ZVI−based water treatment for the other outfalls. Results of pilot testing in the first half of 2011 indicated that ZVI, FBR and IX may be viable selenium treatment options. We are continuing to test modifications to these treatment options and we are pilot testing alternative solutions. Alternative technology solutions that we may ultimately select are still in the early phases of development and their related costs can not be estimated at this time.

Retiree Healthcare and Pension Obligations for Active and Retired Employees

Retiree healthcare obligations primarily represent the estimated cost of providing retiree healthcare benefits to current retirees and active employees who will retire in the future. Provisions for active employees represent the amount recognized to date, based on their service to date. Additional amounts are accrued periodically so that the total estimated liability is accrued when the employee retires.

Our retiree healthcare liabilities were $1.5 billion and $1.3 billion as of December 31, 2011 and 2010, respectively, of which $81.4 million and $65.6 million was a current liability, respectively. Expense for the years ended December 31, 2011, 2010 and 2009 was $125.0 million, $117.2 million and $92.5 million, respectively.

In connection with the spin−off, a subsidiary of Peabody assumed certain of our pre−spin−off obligations associated with the Coal Industry Retiree Health Benefits Act of 1992 (the Coal Act), the 2007 National Bituminous Coal Wage Agreement (2007 NBCWA) and certain salaried employee retiree healthcare benefits. At December 31, 2011, the present value of the liability assumed by Peabody at spin−off was $696.8 million. We continue to administer these benefits. Certain Patriot subsidiaries remain jointly and severally liable for the Coal Act obligations and remain secondarily liable for the 2007 NBCWA obligations and the salaried employee obligations.

In March 2010, the Patient Protection and Affordable Care Act, and a companion bill, the Health Care and Education Reconciliation Act of 2010 (collectively, the 2010 healthcare legislation), were enacted, potentially impacting our costs to provide healthcare benefits to our eligible active and certain retired employees and workers' compensation benefits related to occupational disease resulting from coal workers' pneumoconiosis (black lung disease). The 2010 healthcare legislation has both short−term and long−term implications on healthcare benefit plan standards. Implementation of the 2010 healthcare legislation will occur in phases, with plan standard changes taking effect beginning in 2010, but to a greater extent with the 2011 benefit plan year and extending through 2018. Plan standard changes that affect us in the short term include raising the maximum age for covered dependents to continue to receive benefits, the elimination of lifetime dollar limits per covered individual and restrictions on annual dollar limits per covered individual, among other standard requirements. Plan standard changes that could affect us in the long term include a tax on "high cost" plans (excise tax) and the elimination of annual dollar limits per covered individual, among other standard requirements.

Beginning in 2018, the 2010 healthcare legislation will impose a 40% excise tax on employers to the extent that the value of their healthcare plan coverage exceeds certain dollar thresholds. We anticipate that certain government agencies will provide additional regulations or interpretations concerning the application of this excise tax. Until these regulations or interpretations are published, it is impractical to reasonably estimate the ultimate impact of the excise tax on our future healthcare costs or postretirement benefit obligation. We have incorporated changes to our actuarial assumptions to determine our postretirement benefit obligations utilizing basic assumptions related to pending interpretations. Based on preliminary estimates and basic assumptions regarding the pending interpretations of these regulations, the present value of the excise tax does not have a material impact on our postretirement benefit obligation. With the exception of the excise tax, we do not believe any other plan standard changes will be significant to our future healthcare costs for eligible active employees and our postretirement benefit obligation for certain retired employees. However, we will continue to evaluate the impact of the 2010 healthcare legislation in future periods as additional information and guidance becomes available.

The Coal Act provides for the funding of health benefits for certain UMWA retirees. The Coal Act established the United Mine Workers of America Combined Fund (Combined Fund) into which “signatory operators” and “related persons” are obligated to pay annual premiums for beneficiaries. This multi−employer fund provides healthcare benefits to a closed group of our retired former employees who last worked prior to 1976, as well as orphaned beneficiaries of bankrupt companies who were receiving benefits as orphans prior to the 1992 law. No new retirees will be added to this group. The liability is subject to increases or decreases in per capita healthcare costs, offset by the mortality curve in this aging population of beneficiaries. The Coal Act also created a second benefit fund, the 1992 Benefit Plan, for miners who retired between July 21, 1992, and September 30, 1994, and whose former employers are no longer in business. Beneficiaries may continue to be added to this fund as employers default in providing their former employees with retiree medical benefits, but the overall exposure for new beneficiaries into this fund is limited to retirees covered under their employer’s plan who retired prior to October 1, 1994. A third fund, the 1993 Benefit Plan, was established through collective bargaining and provides benefits to qualifying former employees, who retired after September 30, 1994, of certain signatory companies who have gone out of business and have defaulted in providing their former employees with retiree medical benefits. Beneficiaries may continue to be added to this fund as employers go out to business. The collective bargaining agreement with the UMWA, which specifies the payments to be made to the 1993 Benefit Plan, was renegotiated in 2011 and generally extends through 2016.

In December 2006, the Surface Mining Control and Reclamation Act Amendments of 2006 (2006 Act) was enacted. Under the 2006 Act, the orphan benefits paid to the Combined Fund and the 1992 Benefit Plan will be the responsibility of the federal government on a phased−in basis. The legislation authorizes $490 million per year in general fund revenues to pay for these and other benefits under the bill. In addition, future interest from the federal Abandoned Mine Land (AML) trust fund and previous unused interest from the AML trust fund will be available to offset orphan retiree healthcare costs. Under current projections for the health funds, these available resources are sufficient to cover all anticipated costs of orphan retirees. These amounts are in addition to any amounts that may be appropriated by Congress at its discretion. The legislation also revises the AML fees paid by coal producers based on coal production, effective in October 2007, with the imposition of such fees currently scheduled to expire in its entirety on September 30, 2021. See additional details about the AML trust fund in Mine Closure Costs below.

The 2006 Act specifically amended the federal laws establishing the Combined Fund, the 1992 Benefit Plan and the 1993 Benefit Plan. The 2006 Act provided new and additional funding to all three programs, subject to the limitations described below. The 2006 Act guaranteed full funding of all beneficiaries in the Combined Fund by supplementing the annual transfers of interest earned on the AML trust fund. The 2006 Act further provided federal funding for the annual orphan health costs under the 1992 Benefit Plan on a phased−in basis, reaching 100% in 2011. The coal producers that signed the 1988 labor agreement, including some of our subsidiaries, remain responsible for the costs of their beneficiaries of the 1992 Benefit Plan. The 2006 Act also included the 1993 Benefit Plan as one of the statutory funds and authorized the trustees of the 1993 Benefit Plan to determine the contribution rates through 2010 for pre−2007 beneficiaries. The funding and claims during the guarantee period from January 1, 2007 through December 31, 2010 were reviewed by the trustees with no additional liability to the employers. Our subsidiaries that have agreed to the 2011 NBCWA will pay $1.10 per hour worked to the 1993 Benefit Plan in 2012. New inexperienced miners hired after January 1, 2007 cannot receive benefits from the 1993 Benefit Plan unless they are disabled as the result of a mine accident. The 1993 Benefit Plan is now effectively closed to new miners.

Under the 2006 Act, these new and additional federal expenditures to the Combined Fund, 1992 Benefit Plan, 1993 Benefit Plan and certain AML payments to the states and Indian tribes are collectively limited by an aggregate annual cap of $490 million as described above. To the extent that (i) the annual funding of the programs exceeds this amount (plus the amount of interest from the AML trust fund paid with respect to the Combined Fund), and (ii) Congress does not allocate additional funds to cover the shortfall, contributing employers and affiliates, including some of our subsidiaries, would be responsible for the additional costs.

The actuarially−determined liability for these benefit plans was $40.8 million as of December 31, 2011, $5.4 million of which was a current liability. The actuarially−determined liability for these benefit plans was $44.9 million as of December 31, 2010, $5.9 million of which was a current liability. Expenses for the years ended December 31, 2011, 2010 and 2009 were $2.1 million, $3.2 million and $3.2 million, respectively. Cash payments to these funds were $5.4 million, $6.0 million and $6.3 million for 2011, 2010 and 2009, respectively. The benefit plans that qualify as multi−employer plans are expensed as payments are made and no liability was recorded other than amounts due and unpaid. Expense related to these funds was $2.5 million, $10.0 million and $11.2 million for the years ended December 31, 2011, 2010 and 2009, respectively.

Certain of our subsidiaries participate in two defined benefit multi−employer pension funds (the 1950 Plan and the 1974 Plan) that were established as a result of collective bargaining with the UMWA pursuant to the 2007 NBCWA as periodically negotiated and adjusted based on the 2011 NBCWA. These plans provide pension and disability pension benefits to qualifying represented employees retiring from a participating employer where the employee last worked prior to January 1, 1976, in the case of the 1950 Plan, or after December 31, 1975, in the case of the 1974 Plan. In December 2006, the 2007 NBCWA was signed, which required funding of the 1974 Plan through 2011 under a phased funding schedule. The funding is based on an hourly rate for active UMWA workers. Under the labor contract, the per hour funding rate increased annually, beginning in 2007, until reaching $5.50 in 2011. The 2011 NBCWA requires funding at $5.50 per hour for certain UMWA workers. Our subsidiaries with UMWA−represented employees are required to contribute to the 1974 Plan. The 1974 Plan funding rate could change during the term of the 2011 NBCWA if deemed necessary to guarantee benefit payments.

New inexperienced miners hired after January 1, 2012 will not participate in the 1974 Plan. These new hires will instead receive a payment of $1.00 per hour worked into the UMWA Cash Deferral Plan, increasing to $1.50 on January 1, 2014. Effective January 1, 2012, employers will also pay $1.50 per hour to a new Retiree Bonus Account Trust for the term of the 2011 NBCWA. This Trust will make a payment to pensioners in November of 2014, 2015 and 2016 in the amount of $580 for most retirees and $455 for disabled retirees. This payment was also made in November 2011. If Trust funding is not sufficient to make these annual bonus payments, employers will pay the difference directly to their retirees.

Effective January 1, 2012, employers will also make an additional supplemental pension contribution of $1.00 per hour worked into the UMWA Cash Deferred Savings Plan for each active miner with at least 20 years of credited service under the 1974 Plan, increasing to $1.50 per hour on January 1, 2014. Effective January 1, 2012, any participant in the 1974 Plan may make an irrevocable election to opt out of the 1974 Plan. Such employee will cease to accrue any further service or benefits under the 1974 Plan. Effective with the election, employers will contribute $1.00 per hour worked to the UMWA Cash Deferred Plan on the employee's behalf as a Supplemental Pension Contribution, increasing to $1.50 on January 1, 2014.

Contributions to these funds could increase in the future as a result of future collective bargaining with the UMWA, a shrinking contribution base as a result of the insolvency of other coal companies who currently contribute to these funds, lower than expected returns on pension fund assets or other funding deficiencies. Expense related to these funds was $24.3 million, $21.0 million and $18.3 million for the years ended December 31, 2011, 2010 and 2009, respectively.

Workers’ Compensation Obligations

These liabilities represent the estimates for compensable, work−related injuries (traumatic claims) and occupational disease, principally black lung disease, and are based primarily on actuarial valuations. The Federal Black Lung Benefits Act requires employers to pay black lung awards to former employees who filed successful claims after June 1973. These liabilities were $258.3 million and $246.3 million as of December 31, 2011 and 2010, respectively, of which $26.7 million and $25.5 million was a current liability, respectively. Expense for the years ended December 31, 2011, 2010 and 2009 was $39.8 million, $38.2 million and $31.3 million, respectively.

The 2010 healthcare legislation also amended previous legislation related to black lung disease, providing automatic extension of awarded lifetime benefits to surviving spouses and providing changes to the legal criteria used to assess and award claims. In March 2010, we increased our liability by $11.5 million based on an estimate of the impact of these changes to our current population of beneficiaries and claimants. At that time we were not able to estimate the full impact of the legislation on our obligation related to future black lung claims due to uncertainty around the number of claims that will be filed and how impactful the new award criteria will be to these populations. We continue to evaluate the impact of this legislation on both our current and future population of claimants and to adjust our liability based on actual claim and award information.

Regulatory Matters

Federal and state authorities regulate the U.S. coal mining industry with respect to matters such as employee health and safety, permitting and licensing requirements, the protection of the environment, plants and wildlife, the reclamation and restoration of mining properties after mining has been completed, surface subsidence from underground mining and the effects of mining on surface and groundwater quality and availability. In addition, the industry is affected by significant legislation mandating certain benefits for current and retired coal miners. We have in the past, and will in the future, be required to incur significant costs to comply with these laws and regulations.

Future legislation and regulations are expected to become increasingly restrictive, and there may be more focus on the enforcement of existing and future laws and regulations. Depending on the development of future laws and regulations, we may experience substantial increases in equipment and operating costs and may experience delays, interruptions or termination of operations. Failure to comply with these laws and regulations may result in the assessment of administrative, civil and criminal fines or penalties, the acceleration of cleanup and site restoration costs, the issuance of injunctions to limit or cease operations and the suspension or revocation of permits and other enforcement measures that could have the effect of limiting production from our operations.

Black Lung

In the U.S., under the Black Lung Benefits Revenue Act of 1977 and the Black Lung Benefits Reform Act of 1977, as amended in 1981, each U.S. coal mine operator must pay federal black lung benefits and medical expenses to claimants who are current and former employees and last worked for the operator for at least one year after July 1, 1973. Coal mine operators must also make payments to a trust fund for the payment of benefits and medical expenses to claimants who last worked in the coal industry prior to July 1, 1973. Historically, less than 7% of the miners currently seeking federal black lung benefits have been awarded these benefits. The trust fund is funded by an excise tax on U.S. production of up to $1.10 per ton for coal from underground mines and up to $0.55 per ton for surface−mined coal, neither amount to exceed 4.4% of the gross sales price.

Mine Safety and Health

Our goal is to achieve excellent mine safety and health performance. We measure our progress in this area primarily through the use of accident frequency rates. We believe that it is our responsibility to our employees to provide a superior safety and health environment. We seek to implement this goal by training employees in safe work practices; openly communicating with employees; establishing, following and improving safety standards; involving employees in the establishment of safety standards; and recording, reporting and investigating all accidents, incidents and losses to avoid re−occurrence. We utilize best practices in emergency preparedness, which includes maintaining multiple mine rescue teams. A portion of the annual performance incentive for eligible Patriot personnel is tied to our safety record.

Stringent health and safety standards have been in effect since Congress enacted the Coal Mine Health and Safety Act of 1969. The Federal Mine Safety and Health Act of 1977 (the 1977 Act) significantly expanded the enforcement of safety and health standards and imposed safety and health standards on all aspects of mining operations. In 1978, the Mine Safety and Health Administration (MSHA) was created to carry out the mandates of the 1977 Act.

Congress enacted the Mine Improvement and New Emergency Response Act of 2006 (MINER Act) as a result of an increase in fatal accidents. Among the MINER Act's requirements, each miner must have at least two, one−hour Self Contained Self Rescue (SCSR) devices for use in the event of an emergency (each miner had at least one SCSR device prior to the MINER Act) and we must provide additional caches of SCSR devices in the escape routes leading to the surface. Our evacuation training programs have been expanded to include more comprehensive training with the SCSR devices and frequent escape drills, as well as mine−wide simulated disaster training. The MINER Act also requires installation of two−way communication systems that allow communication between rescue workers and trapped miners following an accident as mine operators must have the ability to locate each miner’s last known position immediately before and after a disaster occurs.

MSHA mandated additional requirements for two−way communication and electronic tracking for use in mine emergencies in January 2009. In September 2010, MSHA issued an emergency temporary standard requiring mine operators to increase the incombustible content of combined coal dust, rock dust, and other dust to at least 80 percent in underground areas of bituminous coal mines. This requirement is further increased for mines containing methane gas. Finally, MSHA has proposed several additional regulations, including a proposal to require the use of continuous personal dust monitors and expanded requirements for medical surveillance. Compliance with these regulations has and will continue to result in additional expense.

In the aftermath of the April 5, 2010 accident at a competitor's underground mine in Central Appalachia, MSHA continues to make changes in seal design and ventilation system approvals. Through Emergency Temporary Standards, Program Policy Bulletins and discretionary approval criteria issued by the MSHA District Manager, the guidelines governing seals and ventilation evaluation points have reduced the action levels of the various gases while increasing the frequency of withdrawals from the mine. Once withdrawal levels are reached, the resumption of operation is solely at MSHA's discretion and the criteria for plan approval is based on the MSHA District Manager's requirements. New regulations and changes in the interpretation, enforcement or application of existing laws and regulations have resulted in higher scrutiny during inspections and lower production.

The states in which we operate also have programs for mine safety and health regulation and enforcement. As a result of industry−wide fatal accidents in recent years, primarily at underground mines, several states, including West Virginia and Kentucky, have adopted new safety and training regulations. In addition, MSHA has issued numerous new policies and regulations addressing, but not limited to: emergency notification and response plans, increased fines for violations and additional training and mine rescue coverage requirements. Collectively, federal and state safety and health regulation in the coal mining industry is perhaps the most comprehensive and pervasive system for protection of employee health and safety affecting any segment of U.S. industry. While these changes have had a significant effect on our operating costs, our U.S. competitors with underground mines are subject to the same degree of regulation.

Mining Control and Reclamation Regulations

SMCRA is administered by the Office of Surface Mining Reclamation and Enforcement (OSM) and establishes mining, environmental protection and reclamation standards for all aspects of U.S. surface mining as well as many aspects of underground mining. Mine operators must obtain SMCRA permits and permit renewals for mining operations from the OSM. Where state regulatory agencies have adopted federal mining programs under SMCRA, the state becomes the regulatory authority. States in which we have active mining operations have achieved primary control of enforcement through federal authorization. On October 26, 2011, the U.S. Department of Interior (DOI) proposed to consolidate certain functions of the OSM into the Bureau of Land Management, and it is uncertain how any future consolidation will affect the administration of SMCRA.

SMCRA permit provisions include requirements for coal prospecting; mine plan development; topsoil removal, storage and replacement; selective handling of overburden materials; mine pit backfilling and grading; protection of the hydrologic balance; subsidence control for underground mines; surface drainage control; mine drainage and mine discharge control and treatment; and revegetation.

The mining permit application process in the U.S. is initiated by collecting baseline data to adequately characterize the pre−mining environmental condition of the permit area. We develop mine and reclamation plans by utilizing this geologic data and incorporating elements of the environmental data. Our mine and reclamation plans incorporate the provisions of SMCRA, the state programs and the complementary environmental programs that impact coal mining. Also included in the permit application are documents defining ownership and agreements pertaining to coal, minerals, oil and gas, water rights, rights of way and surface land, and documents required of the OSM's Applicant Violator System, including the mining and compliance history of officers, directors and principal stockholders of the applicant.

Once a permit application is prepared and submitted to the regulatory agency, it goes through a completeness and technical review. Public notice of the proposed permit is given for a comment period before a permit can be issued. Some SMCRA mine permit applications take over a year to prepare, depending on the size and complexity of the mine, and often take two years or more to be issued. Regulatory authorities have considerable discretion in the timing of the permit issuance and the public has the right to comment on and otherwise engage in the permitting process, including public hearings and through intervention in the courts.

SMCRA requires compliance with many other major environmental programs. These programs include the Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act (RCRA), the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) and employee right−to−know provisions. Besides OSM, other federal regulatory agencies are involved in monitoring or permitting specific aspects of mining operations. The Environmental Protection Agency (EPA) is the lead agency for states with no authorized programs under the Clean Water Act, RCRA and CERCLA. The U.S. Army Corps of Engineers (ACOE) regulates activities affecting navigable waters and the U.S. Bureau of Alcohol, Tobacco and Firearms regulates the use of explosive blasting.

Mine Closure Costs

Various federal and state laws and regulations, including SMCRA, require us to obtain surety bonds or other forms of financial security to secure payment of certain long−term obligations, including mine closure or reclamation costs, federal and state workers' compensation costs and other miscellaneous obligations. Many of these bonds are renewable on a yearly basis. As of December 31, 2011, we had outstanding surety bonds and total letters of credit of $534.4 million, including: $325.0 million for post−mining reclamation; $132.2 million related to workers' compensation obligations; $56.7 million for retiree health obligations; and $20.4 million for other obligations (including collateral for surety companies and bank guarantees, road maintenance and performance guarantees). Changes in these laws and regulations could require us to obtain additional surety bonds or other forms of financial assurance.

The AML Fund, which is part of SMCRA, requires a fee on all coal produced in the United States. The proceeds are used to rehabilitate land mined and left unreclaimed prior to August 3, 1977 and to pay healthcare benefit costs of orphan beneficiaries of the Combined Fund. Under current law, from October 1, 2007 through September 30, 2012, the fee is $0.315 per ton for surface−mined coal and $0.135 per ton for underground−mined coal and from October 1, 2012 through September 30, 2021, the fee will be $0.28 per ton for surface−mined coal and $0.12 per ton for underground−mined coal.

Environmental Laws

We are subject to various federal and state environmental laws and regulations that impose significant requirements on our operations. The cost of complying with current and future environmental laws and regulations and our liabilities arising from past or future releases of, or exposure to, hazardous substances may adversely affect our business, results of operations and financial condition. In addition, environmental laws and regulations, particularly relating to air emissions, can reduce the demand for coal. Significant public opposition has been raised with respect to the proposed construction of certain new coal−fueled electricity generating plants due to the potential air emissions that would result. Such opposition could also reduce the demand for coal.

Numerous federal, state and local governmental permits and approvals are required for mining operations. When we apply for these permits or approvals, we may be required to prepare and present to governmental authorities data pertaining to the effect or impact that a proposed exploration for, or production or processing of, coal may have on the environment. Compliance with these requirements can be costly and time−consuming and can delay exploration or production operations. A failure to obtain or comply with permits could result in significant fines and penalties and could adversely affect the issuance of other permits for which we may apply.

Certain key environmental issues, laws and regulations facing us are described further below.

Clean Water Act

The federal Clean Water Act and corresponding state and local laws and regulations affect coal mining operations by restricting the discharge of pollutants, including dredged or fill materials, into waters of the U.S. The Clean Water Act provisions and associated state and federal regulations are complex and subject to amendments, legal challenges and changes in implementation. As a result of several court decisions and regulatory actions, permitting requirements have increased and could continue to increase the cost and time we expend on compliance with water pollution regulations.

For example, in January 2011, the EPA took the unprecedented step of rescinding a federal Clean Water Act permit held by another coal mining company for a surface mine in Appalachia. In explaining its position, the EPA cited significant and irreversible damage to wildlife and fishery resources and severe degradation of water quality caused by mining pollution. This was the first time that the EPA has canceled a federal water permit after it was issued. While our operations are not directly impacted, this could be an indication that other surface mining water permits could be subject to more substantial review in the future.

These and other regulatory requirements, which have the potential to change due to legal challenges, legislative actions and other developments, increase the cost of, or could restrict or even prohibit, certain current or future mining operations. Our operations may not be able to remain in full compliance with all obligations and permit requirements under the Clean Water Act or corresponding state or local laws, and as a result we have, at times, been subject to compliance orders and third−party litigation seeking fines or penalties or changes to our operations. See Certain Liabilities – Asset Retirement Obligations above for discussion of selenium−related matters.

Clean Water Act requirements that may affect our operations include the following:

Section 404

Section 404 of the Clean Water Act requires mining companies to obtain ACOE permits to place material in streams for the purpose of creating slurry ponds, water impoundments, refuse areas, valley fills or other mining activities. As is the case with other coal mining companies operating in Appalachia, our construction and mining activities, including our surface mining operations, frequently require Section 404 permits. The issuance of Section 404 permits for surface mining operations has been the subject of many court cases and increased regulatory oversight which may result in permitting delays, increased permitting and operating costs and possible suspension of current operations or prevention of opening new mines.

For example, on June 17, 2010, the ACOE announced that it would suspend the use of the nationwide (or “general”) permit for the construction of valley fills and refuse impoundments under Section 404 of the Clean Water Act, commonly described as Nationwide Permit 21 (NWP 21), by surface coal operations in West Virginia and other Appalachian states. The regional suspension will remain in effect until March 18, 2012. On February 15, 2012, the ACOE announced revisions to NWP 21, which are scheduled to take effect on March 18, 2012, with significant modifications that would prohibit the use of NWP 21 to authorize valley fills. Individual permits are required for surface coal mining projects while NWP 21 is suspended, and will continue to be required to authorize valley fills. We have converted any pending permit applications that were submitted under NWP 21 to individual permit applications and believe that the revisions to the NWP 21 permit will have a minimal effect on our future production. However, individual permits require a public notice and review period, take longer to process and are more costly to obtain.

In September 2009, the EPA announced that proposed mining related to certain pending Section 404 permits in Appalachia would require additional enhanced review under the Clean Water Act due to the potential water quality impacts. At that time, seventy−nine permit applications were identified for further, detailed reviews, including six of our permit applications. In January 2010, the permit for our Hobet 45 mine was issued after it had been selected for enhanced review. In October 2011, a federal district court set aside the enhanced review procedure. The EPA and ACOE have reportedly ceased using the enhanced review procedure but, consistent with the Clean Water Act and applicable regulations, continue to collaborate to review Section 404 permit applications.

In November 2009, the DOI issued an advance notice of proposed rule making regarding the use of valley fills within a set distance of a stream. The notice set forth a number of potential options the DOI is considering in order to meet the goals of a Memorandum of Understanding (MOU) among the DOI, the EPA and the ACOE. The DOI is currently developing an environmental impact statement for use in drafting the anticipated stream protection rule. If additional restrictions are ultimately imposed, certain mining activities could become prohibited.

The DOI is also considering establishing, in the context of new permit applications under SMCRA, new standards for restoring mountaintops affected by surface mining, removing the rights of states to revise or grant exemptions to federal restoration standards and developing a federal definition of “material damage” to be used in the context of existing watershed area protections. It is also considering requiring surface mining companies to collect more information on the environmental health of watersheds near their operations, to monitor conditions before and after mining and to change or close operations if unpermitted damage to the watersheds occurs.

Additionally, through the Clean Water Act Section 401 certification program, states have approval authority over federal permits or licenses that might result in a discharge to their waters. States consider whether the activity will comply with their water quality standards and other applicable requirements in deciding whether or not to certify the activity.

National Pollutant Discharge Elimination System

The Clean Water Act requires effluent limitations and treatment standards for wastewater discharge through the NPDES program. NPDES permits govern the discharge of pollutants into water and require regular monitoring and reporting and performance standards. States are empowered to develop and enforce “in stream” water quality standards. These standards are subject to change and must be approved by the EPA. Discharges must either meet state water quality standards or be authorized through available regulatory processes such as alternate standards or variances. “In stream” standards vary from state to state. Total Maximum Daily Load (TMDL) regulations establish a process by which states designate stream segments not meeting present water quality standards as impaired. Industrial dischargers, including coal mining operations, may be required to meet new TMDL effluent standards for these stream segments.

States must also develop anti−degradation policies to help protect high quality waters and existing quality of other waters. In general, the issuance and renewal of permits to discharge to non−impaired waters are subject to anti−degradation review and other limitations that could cause increases in the costs, time and difficulty associated with obtaining new and complying with existing NPDES permits and could adversely affect our coal production.

EPA Water Quality Standards

On July 21, 2011, the EPA issued comprehensive guidance to clarify the EPA’s roles and expectations in coordinating with its federal and state partners to assure more consistent, effective and timely compliance by Appalachian surface coal mining operations with the provisions of the Clean Water Act, the National Environmental Policy Act and the Environmental Justice Executive Order. This guidance establishes threshold conductivity levels to be used as a basis for evaluating compliance with narrative water quality standards. Conductivity is a measure that reflects levels of salt, sulfides and other chemical constituents present in water. The EPA Administrator has stated that it may be difficult for most surface mining operations to meet these water quality standards. Additionally, the guidance makes recommendations with regard to assessing, avoiding and minimizing environmental impacts to water quality, including establishing protective water quality parameters and requiring best management practices and other permit requirements. As a result of the EPA's guidance, we and other mining companies are subject to more stringent permit requirements imposed through our NPDES and Section 404 permits. There can be no guarantee that we will be able to meet these permit requirements or any other standards imposed by our permits.

It is unknown what other future changes will be implemented to the permitting review and issuance process or to other aspects of mining operations, but the increased regulatory focus, recent attention in Congress, the announced regulatory changes and reviews and any additional future permitting changes could materially and adversely affect all coal mining companies operating in Appalachia, including us. In particular, we could be unable to obtain new permits or maintain existing permits, which could result in the suspension of current operations or prevent the opening of new mines, we could be required to change operations in a manner that could be costly and we could incur fines, penalties and other costs, any of which could materially adversely affect our business.

Clean Air Regulations

The Clean Air Act and the corresponding state laws that regulate the emissions of materials into the air affect U.S. coal mining operations both directly and indirectly. Direct impacts on coal mining and processing operations may occur through Clean Air Act permitting requirements and/or emission control requirements, including with respect to particulate matter. In November 2011, advocates for further regulation of coal mining sued the EPA in an effort to force further restrictions on methane, volatile organic compounds, nitrogen oxide and other air emissions. The Clean Air Act and equivalent state laws also indirectly affect the coal industry by extensively regulating the air emissions of sulfur dioxide, nitrogen oxide, mercury and other compounds emitted by our customers that operate coal−fueled electricity generating plants or other regulated combustion sources. Additionally, the EPA has begun regulating carbon dioxide and other greenhouse gas emissions under the Clean Air Act. In recent years Congress has also considered legislation that would require increased reductions in emissions of carbon dioxide and other greenhouse gases, sulfur dioxide, nitrogen oxide and mercury. Existing and new legislation and regulations may lead to some electricity generating customers switching to other sources of fuel in an attempt to lower levels of regulated emissions.

Clean Air Act requirements that may directly affect our customers include the following:

Sulfur Dioxide and Nitrogen Oxide Emissions

The EPA promulgated the Clean Air Interstate Rule (CAIR) in March 2005. CAIR requires the reduction of sulfur dioxide and nitrogen oxide emissions from electricity generating plants in 28 eastern states and the District of Columbia. CAIR has been subject to a complex series of legal challenges since its promulgation. In July 2011, the EPA finalized the Cross−State Air Pollution Rule (CSAPR) to replace CAIR. CSAPR limits sulfur dioxide and nitrogen oxide emissions from power plants in 28 eastern states.

On December 30, 2011, the U.S. Court of Appeals for the District of Columbia (D.C. Circuit Court) effectively stayed CSAPR, leaving CAIR in effect pending judicial review. The court is expected to hear oral arguments in April 2012. Many of our customers would be affected by CSAPR, which would require emission reductions beginning in 2012 and significant additional reductions in 2014. CSAPR may affect coal quality price adjustments in certain of our contracts. In addition, Congress has, in the past, considered legislation to reduce sulfur dioxide and nitrogen oxide emissions from power plants. Any of the foregoing legislative or regulatory initiatives could cause our customers to change their coal sources or reduce their demand for coal.

Mercury and Other Air Pollutant Emissions

The EPA promulgated the Clean Air Mercury Rule (CAMR) in March 2005 to establish a market−based cap−and−trade program to reduce nationwide mercury emissions from new and existing coal−fueled power plants. CAMR was vacated on February 8, 2008 by the D.C. Circuit Court. In December 2011, the EPA finalized the Mercury and Air Toxics Standards for power plants (MATS), which will impose on power plants by early 2015 emission standards for heavy metals, including mercury, arsenic, chromium and nickel, and acid gases, including hydrogen chloride and hydrogen floride.

In February 2011, the EPA issued emission standards for mercury, other metals and organic air toxics from certain boilers and process heaters. In May 2011, the EPA stayed the effective date of such standards and, in December 2011, it proposed a revised version of such standards. In January 2012, the U.S. District Court for the District of Columbia vacated the May 2011 stay, effectively reinstating the February 2011 standards. However, the EPA has indicated that it expects to finalize the revised suite of emission standards issued in December 2011 for boilers and process heaters as early as April 2012.

Congress has in the past also considered legislation to reduce mercury emission from power plants. Existing and future regulations and legislation that reduce emissions of mercury and other hazardous air pollutants from power plants, and other combustion sources could adversely affect the demand for coal. For example, the EPA estimates that MATS could cause coal production in Appalachia for use by the electric power sector to decline by 6% in 2015 relative to projected production levels in the absence of MATS.

Particulate Matter

In October 2006, the EPA updated the National Ambient Air Quality Standards (NAAQS) applicable to fine and coarse particulate matter. In February 2009, the D.C. Circuit Court remanded to the EPA certain aspects of the fine particulate matter standards, which the EPA has indicated it will review by June 2013. Existing and possible future restrictions, including any that arise out of the EPA’s review, on the emission of fine or coarse particulate matter could result in additional and expensive control requirements for coal−fueled power plants, which could adversely affect the demand for coal. In addition, any such restrictions could adversely affect our ability to develop new mines or require us to modify our existing operations.

Ozone

Nitrogen oxides, which are a by−product of coal combustion, can lead to the creation of ozone. In 2008, the EPA lowered the eight−hour ozone standards to 0.075 parts per million. The EPA is expected to review these standards by 2013. Any revisions to these standards may require more stringent emissions controls on sources of nitrogen oxides, including coal−fueled electricity generating plants, which could adversely affect the demand for coal from our mining operations.

New Source Review Regulations

Pursuant to the EPA's new source review (NSR) program, existing coal−fueled power plants could be required under certain circumstances to install the more stringent air emissions control equipment required of new plants. Our electricity generating customers may be subject to NSR enforcement actions and, if found not to be in compliance, could be required to install additional control equipment at the affected plants or they could decide to close some or all of those plants. The EPA has predicted that its enforcement of the NSR program will lead to the closure of aging, coal−fueled power plants, in particular. Changes to the NSR program and/or its enforcement may adversely impact demand for coal.

Regional Haze

On June 15, 2005, the EPA amended the 1999 regional haze rule, which established planning and emissions reduction timelines for states to use to improve visibility in national parks throughout the U.S. Under the amended rule, certain older power plants may be required to implement best available retrofit technology (BART), which could include the installation of additional controls for nitrogen oxide, sulfur dioxide and particulate matter. The EPA has indicated that states may implement the CAIR or CSAPR trading programs, as applicable, for sulfur dioxide and nitrogen oxide as an alternative to requiring source−specific BART for power plants.

Acid Rain

Title IV of the Clean Air Act regulates sulfur dioxide emissions by coal−fueled power plants with generating capacity greater than 25 megawatts. The affected electricity generators have sought to meet these requirements by, among other compliance methods, switching to lower sulfur fuels, installing pollution control devices, reducing electricity generating levels or purchasing sulfur dioxide emission allowances. Title IV also requires that certain categories of electric generating stations install certain types of nitrogen oxide controls.

State Laws

Several states have recently proposed or adopted legislation or regulations further limiting emissions of sulfur dioxide, nitrogen oxide and hazardous air pollutants. Limitations imposed by states on emissions of any of these substances could cause our customers to switch to other fuels to the extent it becomes economically preferable for them to do so.

Global Climate Change

One by−product of burning coal is carbon dioxide, which has been linked in certain studies as a contributor to climate change. Pursuant to the Clean Air Act, the EPA has begun regulating carbon dioxide and other greenhouse gas emissions, as a result of which certain facilities, including coal−fueled power plants, are subject to permitting and other requirements under the Clean Air Act. The EPA's Greenhouse Gas Tailoring Rule (GHG Tailoring Rule) sets forth criteria for determining which facilities are required to obtain permits to construct, modify or operate on account of, and to implement the best available control technology (BACT) for, their greenhouse gas emissions pursuant to the Clean Air Act Prevention of Significant Deterioration and Title V operating permit programs. Under the GHG Tailoring Rule, permitting requirements are being phased in through successive steps that expand the scope of covered sources over time. The EPA has issued guidance on what BACT entails for the control of greenhouse gases and individual states are required to determine what controls are required for facilities within their jurisdiction on a case−by−case basis. More recently, the EPA has announced that it plans to issue federal performance standards and state emission guidelines for greenhouse gas emissions from certain power plants by May 2012. These measures could require the installation of additional pollution controls or other emission reduction measures at certain coal−fueled power plants. In addition, we and many of our customers are required to report annual greenhouse gas emissions from certain operations. Although it is not yet possible to predict the effect of the GHG Tailoring Rule, greenhouse gas reporting requirements or any future greenhouse gas performance standards or emission guidelines, such regulations may cause a reduction in the amount of coal that our customers purchase from us, which could adversely affect our results of operations.

In addition, legislators, including Congress, have considered significant new laws to address climate change. In 2009, the U.S. House of Representatives passed legislation that would, among other things, impose a nationwide cap on carbon dioxide and other greenhouse gas emissions and require large emitters, including coal−fueled power plants, to obtain "emission allowances" to meet that cap. Legislators have considered several other energy and air emission measures with the ultimate goal of reducing greenhouse gas emissions.

In the absence of federal legislation, many states, regions and local authorities have adopted greenhouse gas regulations and initiatives. For example, nine northeastern and midatlantic states participate in the Regional Greenhouse Gas Initiative, pursuant to which they have agreed to reduce carbon dioxide emissions from the power sector by 2018. In addition, more than half of the states in the U.S. have implemented renewable portfolio standards, which generally mandate that a specified percentage of electricity sales in the state come from renewable energy, and in 2009 and 2010, Congress considered legislation that would impose a similar federal mandate.

These and other federal, state and regional climate change rules will likely require additional controls on coal−fueled sources and may even cause some users of coal to switch from coal to a lower carbon fuel. In addition, some states, municipalities and individuals have initiated common law nuisance suits against power, coal, oil and gas companies alleging that their operations are contributing to climate change. The plaintiffs in these cases seek various remedies, including punitive and compensatory damages and injunctive relief. If successful, these or similar suits could lead to reductions in or other limitations on the amount of coal our customers could utilize.

The permitting of new coal−fueled power plants has also recently been contested by state regulators and environmental organizations based on concerns relating to greenhouse gas emissions. As a result, certain power generating companies may reconsider short−term or long−term plans to build coal−fueled plants or may elect to build capacity using alternative forms of electrical generation.

Demand for and use of coal also may be limited by any global treaties which place restrictions on greenhouse gas emissions. As part of the United Nations Framework Convention on Climate Change, the U.S. has participated in negotiations regarding greenhouse gas emissions reductions and has committed to non−binding emissions reductions targets. Any treaty or other arrangement ultimately adopted by the U.S. or other countries to implement this commitment or otherwise reduce greenhouse gas emissions may have a material adverse impact on the global demand for coal, which in turn could have an adverse impact on our business.

Any of the foregoing current or future laws, regulations or other initiatives to address greenhouse gas emissions could affect coal−fueled power plants in particular and reduce the amount of coal that our customers purchase from us, thereby adversely affecting our results of operations.

Hazardous Waste

The RCRA established comprehensive requirements for the treatment, storage and disposal of hazardous wastes. Coal mine wastes, such as overburden and coal cleaning wastes, generally are not considered hazardous waste materials under the RCRA. In May 2010, the EPA released two competing proposals for the regulation of coal combustion by−products (CCB). One approach would regulate the by−products as hazardous or special waste, and the other would classify the by−products as non−hazardous waste. If CCB were classified as special or hazardous waste, regulations may impose restrictions on CCB disposal, provide specifications for storage facilities, require groundwater testing and impose restrictions on storage locations. These regulations, or any other regulations which increase the costs associated with the management or disposal of CCB, could adversely impact our customers' operating costs and potentially reduce their demand for coal.

Toxic Release Reporting

Under the EPA's Toxic Release Inventory process, companies are required to annually report the use, manufacture or processing of listed toxic materials that exceed defined thresholds, including chemicals used by us in equipment maintenance, reclamation and water treatment.

Federal and State Superfund Statutes

CERCLA and similar state laws impose liability for investigation and clean−up of contaminated properties and for damages to natural resources. Under CERCLA or similar state laws, strict, joint and several liability may be imposed on waste generators, site owners or operators and others regardless of fault. Thus, coal mines or other sites that we currently own or operate or have previously owned or operated and sites to which we have sent waste material may be subject to liability under CERCLA and similar state laws. In the past, we have been identified as a potentially responsible party at some sites, but based on current information, we do not believe any liability under CERCLA or similar state laws will be material.

Additional Information

We file annual, quarterly and current reports, and any amendments to those reports, proxy statements and other information with the Securities and Exchange Commission (SEC). You may access and read our SEC filings free of charge through our website, at www.patriotcoal.com, or the SEC's website, at www.sec.gov. You may read and copy any document we file at the SEC's public reference room located at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1−800−SEC−0330 for further information on the public reference room.

You may also request copies of our filings, free of charge, by telephone at (314) 275−3680 or by mail at: Patriot Coal Corporation, 12312 Olive Boulevard, St. Louis, Missouri 63141, attention: Investor Relations.

Executive Officers

Set forth below are the names, ages and current positions of our officers. Executive officers are appointed by, and hold office at, the discretion of our Board of Directors.

| Name | Age | Positions |
|---|---|---|
| Richard M. Whiting | 57 | President, Chief Executive Officer & Director |
| Bennett K. Hatfield | 55 | Executive Vice President & Chief Operating Officer |
| Mark N. Schroeder | 55 | Senior Vice President & Chief Financial Officer |
| Charles A. Ebetino, Jr. | 59 | Senior Vice President − Global Strategy & Corporate Development |
| Robert W. Bennett | 49 | Senior Vice President & Chief Marketing Officer |
| Joseph W. Bean | 49 | Senior Vice President − Law & Administration & General Counsel |
| Christopher K. Knibb | 42 | Vice President − Controller & Chief Accounting Officer |

Richard M. Whiting
President, Chief Executive Officer & Director

Richard M. Whiting, age 57, serves as President, Chief Executive Officer and as a Director. Mr. Whiting joined Peabody's predecessor company in 1976 and held a number of operations, sales and engineering positions both at the corporate offices and at field locations. Prior to the spin−off, he was Peabody's Executive Vice President & Chief Marketing Officer from May 2006 to 2007, with responsibility for all marketing, sales and coal trading operations, as well as Peabody's joint venture relationships. Mr. Whiting previously served as President & Chief Operating Officer and as a director of Peabody from 1998 to 2002. He also served as Executive Vice President — Sales, Marketing & Trading from 2002 to 2006, and as President of Peabody COALSALES Company from 1992 to 1998.

Mr. Whiting currently serves as a member of the Executive Committee of the NMA, Chairman of the NMA's Audit and Finance Committee, and COALPAC Chairman. He is the former Chairman of NMA's Safety and Health Committee, the former Chairman of the Bituminous Coal Operators' Association, and a past board member of the National Coal Council. He is also currently a director of the Society of Mining Engineers Foundation. Mr. Whiting holds a Bachelor of Science degree in mining engineering from West Virginia University.

Bennett K. Hatfield
Executive Vice President & Chief Operating Officer

Bennett K. Hatfield, age 55, serves as Executive Vice President & Chief Operating Officer. Mr. Hatfield has previously held a number of key executive operating and commercial positions during a 30−plus year career in the coal industry. Prior to joining Patriot, Mr. Hatfield served as President, Chief Executive Officer and Director of International Coal Group, Inc., from March 2005 until the company was sold in June 2011. Mr. Hatfield previously served as President, Eastern Operations of Arch Coal, Inc., from March 2003 until March 2005, and Executive Vice President & Chief Commercial Officer of Coastal Coal Company, from December 2001 through February 2003. Mr. Hatfield joined Massey Energy Company in 1979, where he served in a number of management roles, most recently as Executive Vice President and Chief Operating Officer, from June 1998 through December 2001.

Mr. Hatfield is a board member of the West Virginia Coal Association and a past board member of the NMA. Mr. Hatfield is a Licensed Professional Engineer with a Bachelor of Science degree in mining engineering from Virginia Polytechnic Institute and State University.

Mark N. Schroeder
Senior Vice President & Chief Financial Officer

Mark N. Schroeder, age 55, serves as Senior Vice President & Chief Financial Officer. Prior to the spin−off, Mr. Schroeder held several key management positions in his career at Peabody which began in 2000. These positions included President of Peabody China from 2006 to 2007, Vice President of Materials Management from 2004 to 2006, Vice President of Business Development from 2002 to 2004 and Vice President and Controller from 2000 to 2002. He has more than 30 years of business experience, including as Chief Financial Officer of Franklin Equity Leasing Company from 1998 to 2000, Chief Financial Officer of Behlmann Automotive Group from 1997 to 1998, and financial management positions with McDonnell Douglas Corporation and Ernst & Young, LLP.

Mr. Schroeder is a certified public accountant and holds a Bachelor of Science degree in business administration from Southern Illinois University — Edwardsville.

Charles A. Ebetino, Jr.
Senior Vice President − Global Strategy & Corporate Development

Charles A. Ebetino, Jr., age 59, serves as Senior Vice President − Global Strategy and Corporate Development. From August 2010 through September 2011, Mr. Ebetino also served as Senior Vice President & Chief Operating Officer. From our spin−off through August 2010, Mr. Ebetino served as Senior Vice President − Corporate Development for Patriot. Prior to the spin−off, Mr. Ebetino was Senior Vice President — Business and Resource Development for Peabody since May 2006. Mr. Ebetino also served as Senior Vice President — Market Development for Peabody's sales and marketing subsidiary from 2003 to 2006 and was directly responsible for COALTRADE, LLC. He joined Peabody in 2003 after more than 25 years with American Electric Power Company, Inc. (AEP) where he served in a number of management roles in the fuel procurement and supply group, including Senior Vice President of Fuel Supply and President & Chief Operating Officer of AEP's coal mining and coal−related subsidiaries from 1993 until 2002. In 2002, he formed Arlington Consulting Group, Ltd., an energy industry consulting firm.

Mr. Ebetino is a past board member of NMA, former Chairman of the NMA Environmental Committee, a former Chairman and Vice Chairman of the Edison Electric Institute's Power Generation Subject Area Committee, a former Vice Chairman of the Inland Waterway Users Board, and a past board member and President of the Western Coal Transportation Association. Mr. Ebetino has a Bachelor of Science degree in civil engineering from Rensselaer Polytechnic Institute. He also attended the New York University School of Business for graduate study in finance.

Robert W. Bennett
Senior Vice President & Chief Marketing Officer

Robert W. Bennett, age 49, serves as Senior Vice President & Chief Marketing Officer. Mr. Bennett has over 23 years of experience in the coal sales, marketing and trading arena. From the time of the Magnum acquisition through March 2009, Mr. Bennett served as Patriot's Senior Vice President of Sales and Trading and was responsible for Patriot's thermal coal sales. Prior to the Magnum acquisition, Mr. Bennett served as Senior Vice President – Sales and Trading of Magnum Coal Company and President of Magnum Coal Sales, LLC, positions he held from 2006 to 2008. During 2005 and 2006, Mr. Bennett served as Vice President – Appalachia Sales for Peabody's sales and marketing subsidiary, COALSALES, LLC. Mr. Bennett served as Vice President – Brokerage and Agency Sales for Peabody's coal trading subsidiary, COALTRADE, LLC from 1997 to 2005, where he was responsible for all coal brokerage and agency relationships in the eastern United States.

Prior to 1997, Mr. Bennett held various leadership positions with AGIP Coal Sales and Neweagle Corporation. Mr. Bennett holds a Bachelor of Arts in Finance from Marshall University.

Joseph W. Bean

Senior Vice President − Law & Administration & General Counsel

Joseph W. Bean, age 49, serves as Senior Vice President — Law & Administration & General Counsel. From the spin−off to February 2009, Mr. Bean served as Senior Vice President, General Counsel & Corporate Secretary for Patriot. Prior to the spin−off, Mr. Bean served as Peabody's Vice President & Associate General Counsel and Assistant Secretary from 2005 to 2007 and as Senior Counsel from 2001 to 2005. During his tenure at Peabody, he directed the company's legal and compliance activities related to mergers and acquisitions, corporate governance, corporate finance and securities matters.

Mr. Bean has more than 25 years of corporate law experience, including over 20 years as in−house legal counsel. He was counsel and assistant corporate secretary for The Quaker Oats Company prior to its acquisition by PepsiCo in 2001 and assistant general counsel for Pet Incorporated prior to its 1995 acquisition by Pillsbury. He also served as a corporate law associate with the law firms of Mayer, Brown & Platt in Chicago and Thompson & Mitchell in St. Louis. Mr. Bean holds a Bachelor of Arts degree from the University of Illinois and a Juris Doctorate from Northwestern University School of Law.

Christopher K. Knibb

Vice President − Controller & Chief Accounting Officer

Christopher K. Knibb, age 42, serves as Vice President — Controller and Chief Accounting Officer. From the spin−off to September 2011, Mr. Knibb served as Vice President and Controller for Patriot. Mr. Knibb has more than 18 years of business experience including roles as Vice President, Finance of American Power Conversion during 2006 and 2007 and Vice President − Corporate Controller of SAVVIS, Inc. from 2003 to 2006. Prior to 2003, Mr. Knibb held various financial management positions with Artesyn Technologies, Inc, Seisint, Inc., PricewaterhouseCoopers and Deloitte.

Mr. Knibb is a veteran of the U.S. Army, a certified public accountant and holds a Bachelor of Arts degree in accounting from University of South Florida.

Item 1A. Risk Factors.

RISK FACTORS

You should carefully consider the risks described below, together with all of the other information included in this report, in evaluating our company and our common stock. If any of the risks described below actually occur, our business, financial results, financial condition and stock price could be materially adversely affected.

Risk Factors Relating to Demand for our Products

Any change in coal consumption patterns, in particular by global steel producers or global electric power generators, could result in a decrease in the use of our coal by those consumers, which could result in lower prices for our coal, a reduction in our revenues and the value of our coal reserves as well as an adverse impact on our results of operations.

Metallurgical coal accounted for approximately 24%, 22% and 17% of our coal sales volume during the years ended December 31, 2011, 2010 and 2009, respectively. Metallurgical coal was sold to the domestic steel producers and to steel producers in the global export markets. Industry−wide global export markets are primarily driven by steel production in growing countries such as China and India, as well as Europe, Brazil and the U.S., and are impacted by the availability of metallurgical coal from coal producing countries such as Australia. The majority of our metallurgical coal production is priced annually, and as a result, a decrease in near term metallurgical coal prices could decrease our profitability.

The steel industry also relies on electric arc furnaces or pulverized coal processes to make steel. These processes do not use furnace coke, an intermediate product produced from metallurgical coal. Therefore, growth in future steel production may not be directly correlated to increased demand for metallurgical coal. If the demand or pricing for metallurgical coal decreases in the future, the amount of metallurgical coal we sell and prices that we receive for it could decrease, thereby reducing our revenues and adversely impacting our earnings and the value of our coal reserves.

Thermal coal accounted for approximately 76%, 78% and 83% of our coal sales volume during the years ended December 31, 2011, 2010 and 2009, respectively. The majority of our sales of thermal coal were to U.S. electric power generators with an increasing percentage sold into the global export market. The amount of coal consumed for U.S. electric power generation is affected primarily by the overall demand for electricity; the location, availability, quality and price of competing fuels for power such as natural gas, nuclear, fuel oil and alternative energy sources such as wind and hydroelectric power; technological developments; limitations on financings for coal−fueled power plants; and governmental regulations, including increasing difficulties in obtaining permits for coal−fueled power plants and more burdensome restrictions in the permits received for such facilities. In addition, the increasingly stringent requirements of the Clean Air Act or other laws and regulations, including tax credits that have been or may be provided for alternative energy sources and renewable energy mandates that have been or may be imposed on utilities, may result in more electric power generators shifting away from coal−fueled generation, the closure of existing coal−fueled plants and the building of more non−coal fueled electrical generating sources in the future. Current developments in natural gas production processes have lowered the cost and increased the supply, resulting in greater use of natural gas for electricity generation. All of the foregoing could reduce demand for our coal, which could reduce our revenues, earnings and the value of our coal reserves.

During 2011, headwinds created by low natural gas prices, mild weather and weaker international and domestic economies have impacted coal markets, and market weakness continues as we enter 2012. The demand for metallurgical coal, in particular, is dependent on the strength of global economies. Concerns over the pace of growth in China, the European financial crisis, and the strength of the U.S. recovery have caused pressure on steel demand. In early 2012, metallurgical coal demand trended downward, especially in export markets.

Weather patterns can greatly affect electricity generation. Extreme temperatures, both hot and cold, cause increased power usage and, therefore, increased generating requirements from all sources. Mild temperatures, on the other hand, result in lower electricity demand. Accordingly, significant changes in weather patterns impact the demand for our coal.

Overall economic activity and the associated demands for power by industrial users can also have significant effects on overall electricity demand. Deterioration in U.S. electric power demand would reduce the demand for our thermal coal.

Any decrease in coal prices, whether due to increased use of alternative energy sources, changes in weather patterns, decreases in overall demand or otherwise, would reduce our revenues and likely adversely impact our earnings and the value of our coal reserves. Additionally, if global recessions or general economic downturns result in sustained decreases in the global demand for electricity and steel production, our financial condition, results of operations and cash flows could be materially and adversely affected.

Prolonged global recessionary conditions could adversely affect our financial condition and results of operations.

Because we sell substantially all of our coal to electricity generators and steel producers, our business and results of operations are closely linked to global demand for electricity and steel production. Historically, global demand for basic inputs, including for electricity and steel production, has decreased during periods of economic downturn. Prolonged decreases in global demand for electricity and steel production could adversely affect our financial condition and results of operations. If there is a worsening of global and U.S. economic and financial market conditions and additional tightening of global credit markets, as currently experienced in Greece and certain other European countries, demand for electricity and steel production may suffer.

The recent recession and distressed international financial markets have created economic uncertainty, and steel producers responded by decreasing production. As the demand for coal declines, certain of our customers may request delays in shipments or request deferrals pursuant to existing long−term coal supply agreements. Customer deferrals, if agreed to, could affect the amount of revenue we recognize in a certain period and could adversely affect our results of operations and liquidity if we do not receive equivalent value from such customers and we are unable to sell committed coal at the contracted prices under our existing coal supply agreements. To the extent we or a customer do not fully perform under our contracts, our results of operations and operating profit in the reporting period during which such non−performance occurs would be materially and adversely affected.

Increased competition both within the coal industry, and outside of it, such as competition from alternative fuel providers, may adversely affect our ability to sell coal, and any excess production capacity in the industry could put downward pressure on coal prices.

The coal industry is intensely competitive both within the industry and with respect to alternative fuel sources. The most important factors with which we compete are price, coal quality and characteristics, transportation costs from the mine to the customer and reliability of supply. Our principal competitors include Alpha Natural Resources, Inc., Arch Coal, Inc., CONSOL Energy, Inc., James River Coal Company, Peabody Energy Corporation and Walter Energy, Inc. We also compete directly with all other Central Appalachian coal producers, as well as producers from other basins including Northern and Southern Appalachia, the Illinois Basin, and the Western U.S., and foreign countries, including Colombia, Venezuela, Australia and Indonesia.

Depending on the strength of the U.S. dollar relative to currencies of other coal−producing countries, coal from such origins could enjoy cost advantages that we do not have. Several domestic coal−producing regions have lower−cost production than Central Appalachia, including the Illinois Basin and the Powder River Basin. Coal with lower delivered costs shipped east from these regions and from offshore sources can result in increased competition for coal sales in regions historically sourced from Appalachian producers.

During the mid−1970s and early 1980s, a growing coal market and increased demand for coal attracted new investors to the coal industry, spurred the development of new mines and resulted in production capacity in excess of market demand throughout the industry. We could experience decreased profitability if future coal production is consistently greater than coal demand. Increases in coal prices could encourage the development of expanded coal producing capacity in the U.S. and abroad. Any resulting overcapacity from existing or new competitors could reduce coal prices and, therefore, our revenue and profitability.

We also face competition from renewable energy providers, like biomass, wind and solar, and other alternative fuel sources, like natural gas and nuclear energy. Should renewable energy sources become more competitively priced, which may be more likely to occur given the federal tax incentives for alternative fuel sources that are already in place and that may be expanded in the future, or sought after as an energy substitute for fossil fuels, the demand for such fuels may adversely impact the demand for coal. Existing fuel sources also compete directly with coal. For example, weak natural gas prices have caused certain utilities to run more production through their natural gas−fueled plants instead of their coal−fueled plants.

New developments in the regulation of greenhouse gas and other air emissions, coal ash and other environmental matters could materially adversely affect our customers' demand for coal and our financial condition, results of operations and cash flows.

One by−product of burning coal is carbon dioxide, which has been linked in certain studies as a contributor to climate change. Legislators, including Congress, have considered the passage of significant new laws to address climate change, such as those that would impose a nationwide cap on carbon dioxide and other greenhouse gas emissions and require large sources, including coal−fueled power plants, to obtain "emission allowances" to meet that cap, and other measures are being imposed or proposed with the ultimate goal of reducing carbon dioxide and other greenhouse gases. The EPA and other regulators are using existing laws, including the federal Clean Air Act, to impose obligations, including emission limits and technology−based requirements, on carbon dioxide and other greenhouse gas emissions. In addition, more than half of the states in the U.S. have implemented renewable portfolio standards, which generally mandate that a specified percentage of electricity sales in the state be attributable to renewable energy sources, and Congress has considered legislation that would impose a similar federal mandate. Further, governmental agencies have been providing grants and other financial incentives to entities developing or selling alternative energy sources with lower levels of greenhouse gas emissions, which may lead to more competition from those subsidized entities. Global treaties are also being considered that place restrictions on carbon dioxide and other greenhouse gas emissions. See Item 1. Environmental Laws for additional discussion of greenhouse gas emission regulation.

In addition, several new regulations under the Clean Air Act have recently been finalized or are expected to be finalized in 2012 that would regulate emissions of sulfur dioxide, nitrogen oxide, mercury and other air pollutants from power plants and industrial boilers. The new regulations include the Cross−State Air Pollution Rule, which is expected to require reductions in emissions of sulfur dioxide and nitrogen oxide from power plants in 28 eastern U.S. states, the Mercury and Air Toxics Standards, which will regulate emissions of mercury and other heavy metals from power plants, and National Emission Standards for Hazardous Air Pollutants, which will regulate emissions of mercury and other metals and organic air toxics from industrial, commercial and institutional boilers.

A well−publicized failure in December 2008 of a coal ash slurry impoundment maintained by the Tennessee Valley Authority has prompted the EPA to propose regulations governing coal combustion residuals. These regulations, if finalized, may impose significant obligations on us and our customers, which could reduce demand for coal.

These current and potential future international, federal, state, regional or local laws, regulations or court orders addressing greenhouse gas emissions and/or coal ash, or emissions of sulfur dioxide, nitrogen oxides, mercury and other hazardous air pollutants and/or particulate matter, will likely require additional controls on coal−fueled power plants and industrial boilers and may cause some users of coal to close existing facilities, reduce construction of new facilities or switch from coal to alternative fuels. These ongoing and future developments may have a material adverse impact on the global supply and demand for coal, and as a result could materially adversely affect our financial condition, results of operations and cash flows. Even in the absence of future regulatory developments, increased awareness of, and any adverse publicity regarding, greenhouse gas and other air emissions and coal ash disposal associated with coal and coal−fueled power plants, could affect our and our customers' reputations and reduce demand for coal.

As our coal supply agreements expire, our revenues and operating profits could be negatively impacted if we are unable to extend existing agreements or enter new long−term supply agreements due to competition, changing coal purchasing patterns or other variables.

As our coal supply agreements expire, we will compete with other coal suppliers to renew these agreements or to obtain new sales. If we cannot renew these coal supply agreements or find alternate customers willing to purchase our coal, our revenue and operating profits could suffer. We continue to supply coal to Peabody under contracts that existed at the date of spin−off. The pre−existing customer arrangement between Patriot and Peabody with the longest term will expire on December 31, 2012. Contracts with Peabody to purchase coal sourced from our operations accounted for approximately 10% and 18% of our revenues for the years ended December 31, 2011 and 2010, respectively.

Our customers may decide not to extend existing agreements or enter into new long−term contracts or, in the absence of long−term contracts, may decide to purchase fewer tons of coal than in the past or on different terms, including under different pricing terms. In recent years, a global recession resulted in decreased demand worldwide for steel and electricity. Decreases in demand may cause our customers to delay negotiations for new contracts and/or request lower pricing. Furthermore, uncertainty caused by laws and regulations affecting electricity generators could deter our customers from entering into long−term coal supply agreements. Some long−term contracts contain provisions for termination due to environmental changes if these changes prohibit utilities from burning the contracted coal. To the degree that we operate outside of long−term contracts, our revenues are subject to pricing in the spot market that can be significantly more volatile than the pricing structure negotiated through a long−term coal supply agreement. This volatility could adversely affect the profitability of our operations if spot market pricing for coal is unfavorable.

In addition to typical contract remedies for failure to perform, many of our long−term coal supply agreements also contain provisions which may result in price adjustments. In certain situations, these provisions may allow either party to terminate the agreement or suspend performance if certain conditions are met.

Many of our long−term thermal coal supply agreements contain price re−opener provisions, under which the parties negotiate contract pricing for future periods. If we are unable to reach agreement with our customers under these provisions, either party may have the right to terminate the contract or submit the dispute to arbitration.

Many of our long−term thermal coal supply agreements contain provisions that permit the parties to adjust the contract price for specific events, including inflation and changes in the laws regulating the production, sale or use of coal. Additionally, the majority of our long−term coal supply agreements contain provisions that allow a purchaser to terminate the contract if legislation is passed that either restricts the use or type of coal permissible at the purchaser’s plant or results in specified increases in the cost of coal or its use.

Our coal supply agreements also typically contain force majeure provisions which allow the temporary suspension of performance by the affected party during the duration of specified events beyond the affected party's control.

In addition, most of our coal supply agreements contain provisions which require us to deliver coal within certain ranges for specific coal characteristics such as heat content (Btu), sulfur and ash content, moisture, grindability and ash fusion temperature. Failure to meet these specifications could result in economic penalties, including price adjustments, the rejection of deliveries, purchasing replacement coal in a higher priced open market or termination of the contract.

To the extent our customers exercise their rights under any of the foregoing provisions, our results of operations and operating profit could be adversely affected.

Risk Factors Relating to our Operations

Our operations are subject to geologic, equipment and operational risks, including events beyond our control, which could result in higher operating expenses and/or decreased production and sales and adversely affect our results of operations.

Our coal mining operations are conducted in underground and surface mines. The level of our production at these mines is subject to operating conditions and events beyond our control that could disrupt operations, affect production and the cost of mining at particular mines for varying lengths of time and have a significant impact on our operating results. Adverse operating conditions and events that coal producers have experienced in the past include changes or variations in geologic conditions, such as the thickness of the coal deposits and the amount of rock embedded in or overlying the coal deposit; mining and processing equipment failures and unexpected maintenance problems; adverse weather and natural disasters, such as snowstorms, ice storms, heavy rains and flooding; accidental mine water inflows; and unexpected suspension of mining operations to prevent, or due to, a safety accident, including fires and explosions from methane and other sources.

If any of these conditions or events occur in the future at any of our mines or affect deliveries of our coal to customers, they may increase our cost of mining, delay or halt production at particular mines, or negatively impact sales to our customers either permanently or for varying lengths of time, which could adversely affect our financial condition, results of operations and cash flows. We cannot assure you that these risks would be covered by our insurance policies.

In addition, the geological characteristics of underground coal reserves in Appalachia and the Illinois Basin, such as thinning coal seam thickness, rock partings within a coal seam, weak roof or floor rock, sandstone channel intrusions, groundwater and increased stresses within the surrounding rock mass due to over mining, under mining and overburden changes, make these coal reserves complex and costly to mine. As mines become depleted, replacement reserves may not be mineable at costs comparable to those characteristic of the depleting mines. These factors could materially and adversely affect the mining operations and the cost structures of our mining complexes and customers’ willingness to purchase our coal.

A prolonged shortage of skilled labor and qualified managers in our operating regions could pose a risk to labor productivity and competitive costs and could adversely affect our profitability.

Efficient coal mining using modern techniques and equipment requires skilled laborers with mining experience and proficiency as well as qualified managers and supervisors. We are subject to the risk that we will not be able to effectively replace the knowledge and expertise of an aging workforce as those workers retire. In recent years, a shortage of experienced coal miners and managers in Appalachia and the Illinois Basin has at times negatively impacted our production levels and increased our costs. A prolonged shortage of experienced labor could have an adverse impact on our productivity, our costs and our ability to expand production in the event there is an increase in the demand for our coal, all of which could adversely affect our profitability.

We could be negatively affected if we fail to maintain satisfactory labor relations.

As of December 31, 2011, Patriot had approximately 4,300 employees. Approximately 50% of our employees were represented by an organized labor union. Relations with our employees and, where applicable organized labor, are important to our success. Union labor is represented by the UMWA. In the third quarter of 2011, certain of our subsidiaries signed new labor agreements with the UMWA which generally extend through December 31, 2016. Our represented employees work at various sites in Appalachia and at the Highland complex in the Illinois Basin.

The outcome of future UMWA contract renewal negotiations is subject to many uncertainties and could cause a work stoppage if the labor negotiations are not completed on mutually acceptable terms. The contract negotiations could result in higher operating costs for our union operations due to increased salaries and benefits. Additionally, contributions to multi−employer pension funds could increase as a result of negotiations. The multi−employer pension funds have become materially underfunded due to an increased retirement rate, a smaller employer base contributing to the fund, lower than expected returns on pension fund assets primarily caused by the difficult equity markets in recent years or other funding deficiencies. Our costs could increase significantly if this deficit is passed on to the current UMWA−employer base, including us. Any significant increases to wages or benefits as a result of future UMWA contract renewal negotiations could have a significant impact on our financial condition and results of operations.

Due to the increased risk of strikes and other work−related stoppages that may be associated with union operations in the coal industry, our competitors who operate without union labor may have a competitive advantage in areas where they compete with our unionized operations. If some or all of our current non−union operations or those of third−party contract miners were to become organized, we could incur additional costs and an increased risk of work stoppages.

Our ability to operate our company effectively could be impaired if we lose key personnel or fail to attract qualified personnel.

We manage our business with a number of key personnel, the loss of a number of whom could have a material adverse effect on us. In addition, as our business develops and expands, we believe that our future success will depend greatly on our continued ability to attract and retain highly skilled and qualified personnel. We cannot be certain that key personnel will continue to be employed by us or that we will be able to attract and retain qualified personnel in the future. Failure to retain or attract key personnel could have a material adverse effect on us.

A decrease in the availability or increase in costs of key supplies, capital equipment or commodities used in our mining operations could decrease our profitability.

Our purchases of some items of underground mining equipment and steel roof bolts are concentrated with one principal supplier. Further, our coal mining operations use significant amounts of steel, diesel fuel, explosives and tires. Steel is used for roof bolts that are required for the room−and−pillar method of mining. If the cost of any of these inputs increases significantly, or if a source for such mining equipment or supplies was unavailable to meet our replacement demands, our profitability could be reduced.

Failures of contractor−operated sources to fulfill the delivery terms of their contracts with us could reduce our profitability.

Within our normal mining operations, we utilize third−party sources for some coal production, including contract miners, to fulfill deliveries under our coal supply agreements. Approximately 18% of our total sales volume for the year ended December 31, 2011 was attributable to third−party contractor−operated mines. Certain of these operations have experienced adverse geologic conditions, escalated operating costs and/or financial difficulties that have made their delivery of coal to us at the contracted price difficult or uncertain and, in many instances, these costs have been passed along to us. Our profitability or exposure to loss on transactions or relationships such as these is dependent upon a variety of factors, including the availability and reliability of the third−party supply; the price and financial viability of the third−party supply; our obligation to supply coal to our customers in the event that adverse geologic conditions restrict deliveries from our suppliers; our willingness to reimburse temporary cost increases experienced by third−party coal suppliers; our ability to pass on temporary cost increases to customers; our ability to substitute, when economical, third−party coal sources with internal production or coal purchased in the market; and other factors.

Fluctuations in transportation costs, the availability or reliability of transportation facilities and our dependence on a single rail carrier for transport from certain of our mining complexes could affect the demand for our coal or temporarily impair our ability to supply coal to our customers.

Coal producers depend upon rail, trucks, overland conveyors, barges, river docks, ocean−going vessels and port facilities to deliver coal to customers. While our coal customers typically arrange and pay for transportation of coal from the mine or port to the point of use, disruption of these transportation services because of weather−related problems, infrastructure damage, strikes, lock−outs, lack of fuel or maintenance items, transportation delays, lack of rail or port capacity or other events could temporarily impair our ability to supply coal to customers and thus could adversely affect our financial condition, results of operations and cash flows.

Transportation costs represent a significant portion of the total cost of coal for our customers, and the cost of transportation is an important factor in a customer's purchasing decision. Increases in transportation costs, including increases resulting from emission control requirements and fluctuations in the price of diesel fuel and demurrage, could make coal a less competitive source of energy when compared to alternative fuels such as natural gas, or could make Appalachian and/or Illinois Basin coal production less competitive than coal produced in other regions of the U.S. or abroad.

Significant decreases in transportation costs could result in increased competition from coal producers in other parts of the country and from abroad. Coordination of the many eastern loading facilities, the large number of small shipments, terrain and labor issues all combine to make shipments originating in the eastern U.S. inherently more expensive on a per ton−mile basis than shipments originating in the western U.S. Historically, high coal transportation rates from the western coal producing areas into Central Appalachian markets limited the use of western coal in those markets. However, a decrease in rail rates from the western coal producing areas to markets served by eastern U.S. producers could create major competitive challenges for eastern producers. Increased competition due to changing transportation costs could have an adverse effect on our business, financial condition and results of operations.

Coal produced at certain of our mining complexes is transported to our customers by a single rail carrier. If there are significant disruptions in the rail services provided by that carrier or if the rail rates rise significantly, costs of transportation for our coal could increase substantially. Additionally, if there are disruptions of the transportation services provided by the railroad and we are unable to find alternative transportation providers to ship our coal, our business and profitability could be adversely affected.

Our future success depends upon our ability to develop our existing coal reserves and to acquire additional reserves that are economically recoverable.

Our recoverable reserves decline as we produce coal. We have not yet applied for many of the permits required or developed the mines necessary to use all of our proven and probable coal reserves that are economically recoverable. Furthermore, we may not be able to mine all of our proven and probable coal reserves as profitably as we do at our current operations. Our future success depends upon our conducting successful exploration and development activities and acquiring properties containing economically recoverable proven and probable coal reserves. Our current strategy includes using our existing properties and increasing our proven and probable coal reserves through acquisitions of leases and producing properties.

Our planned mine development projects and acquisition activities may not result in significant additional proven and probable coal reserves and we may not have continuing success developing additional mines. A substantial portion of our proven and probable coal reserves is not located adjacent to current operations and will require significant capital expenditures to develop. In order to develop our proven and probable coal reserves, we must receive various governmental permits. We make no assurances that we will be able to obtain the governmental permits that we would need to continue developing our proven and probable coal reserves.

Our mining operations are conducted on properties owned or leased by us. We may not be able to negotiate new leases from private parties or obtain mining contracts for properties containing additional proven and probable coal reserves or maintain our leasehold interest in properties on which mining operations are not commenced during the term of the lease.

Inaccuracies in our estimates of economically recoverable coal reserves could result in lower than expected revenues, higher than expected costs or decreased profitability.

We base our proven and probable coal reserve information on engineering, economic and geologic data assembled and analyzed by our staff, which includes various engineers and geologists, and outside firms. The reserve estimates as to both quantity and quality are annually updated to reflect production of coal from the reserves and new drilling or other data received. There are numerous uncertainties inherent in estimating quantities and qualities of coal reserves and the costs to mine recoverable reserves, including many factors beyond our control. Estimates of economically recoverable coal reserves and net cash flows necessarily depend upon a number of variable factors and assumptions relating to geologic and mining conditions, relevant historical production statistics, the assumed effects of regulation and taxes, future coal prices, operating costs, mining technology improvements, development costs and reclamation costs.

For these reasons, estimates of the economically recoverable quantities and qualities attributable to any particular group of properties, classifications of coal reserves based on risk of recovery and estimates of net cash flows expected from particular reserves prepared by different engineers or by the same engineers at different times may vary substantially. Actual coal tonnage recovered from identified reserve areas or properties, revenues and expenditures with respect to our proven and probable coal reserves may vary materially from estimates. These estimates, thus, may not accurately reflect our actual coal reserves. Any inaccuracy in our estimates related to our proven and probable coal reserves could result in lower than expected revenues, higher than expected costs and decreased profitability.

Any defects in title of leasehold interests in our properties could limit our ability to mine these properties or could result in significant unanticipated costs.

We conduct a significant part of our mining operations on properties that we lease. These leases were entered into over a period of many years by certain of our predecessors and title to our leased properties and mineral rights may not be thoroughly verified until a permit to mine the property is obtained. Our right to mine some of our proven and probable coal reserves may be materially adversely affected if there were defects in title or boundaries. In order to obtain leases or mining contracts to conduct our mining operations on property where these defects exist, we may in the future have to incur unanticipated costs, which could adversely affect our profitability.

Industry Regulatory Risks

Environmental, mine safety and health, and other regulations of federal and state authorities governing the coal mining industry could have a significant impact on our production and could adversely affect our financial condition and results of operations.

Federal and state authorities regulate the U.S. coal mining industry with respect to matters such as employee health and safety, permitting and licensing requirements, the protection of the environment, plants and wildlife, the reclamation and restoration of mining properties after mining has been completed, surface subsidence from underground mining and the effects of mining on groundwater quality and availability. In addition, the industry is affected by significant legislation mandating certain benefits for current and retired coal miners. We have in the past, and will in the future, be required to incur significant costs to comply with these laws and regulations.

Future legislation and regulations may become increasingly restrictive, and there may be more rigorous enforcement of existing and future laws and regulations. Depending on the development and enforcement of such laws and regulations, we may experience substantial increases in equipment and operating costs and may experience delays, interruptions or termination of operations. Failure to comply with these laws and regulations may result in the assessment of administrative, civil and criminal fines or penalties, the acceleration of cleanup and site restoration costs, the issuance of injunctions to limit or cease operations and the suspension or revocation of permits and other enforcement measures that could have the effect of limiting production from our operations. Additional information about the risks associated with environmental, mine safety and health, and other regulations that affect our operations and overall demand for coal is included below. Any significant changes to the requirements or enforcement of environmental and other regulations could have a significant impact on our financial condition and results of operations.

Increased focus by regulatory authorities on the effects of surface coal mining on the environment and recent regulatory developments related to surface coal mining operations could make it more difficult or increase our costs to receive new permits or to comply with our existing permits to mine coal in Appalachia or otherwise adversely affect us.

Regulatory agencies are increasingly focused on the effects of surface coal mining on the environment, particularly as it relates to water quality, which has resulted in more rigorous permitting requirements and enforcement efforts.

Section 404 of the Clean Water Act requires mining companies to obtain ACOE permits to place material in streams for the purpose of creating slurry ponds, water impoundments, refuse areas, valley fills or other mining activities. As is the case with other coal mining companies operating in Appalachia, our construction and mining activities, including certain of our surface mining operations, frequently require Section 404 permits. The issuance of permits to construct valley fills and refuse impoundments under Section 404 of the Clean Water Act has been the subject of many court cases and increased regulatory oversight, resulting in additional permitting requirements that are expected to delay or even prevent the opening of new mines. See Item 1. Environmental Laws for additional description of Section 404 of the Clean Water Act.

For example, in July 2011, the EPA issued final comprehensive guidance in part to assure more consistent, effective and timely compliance by Appalachian surface coal mining operations with the provisions of the Clean Water Act. This guidance establishes threshold conductivity levels to be used as a basis for evaluating compliance with narrative water quality standards. As a result of the EPA's guidance, we and other mining companies are subject to more stringent permit requirements. There can be no guarantee that we will be able to meet these permit requirements or any other standards imposed by our permits.

Additionally, in January 2011, the EPA rescinded a federal Clean Water Act permit held by another coal mining company for a surface mine in Appalachia citing associated environmental damage and degradation. While our operations are not directly impacted, this could be an indication that other surface mining water permits could be subject to more substantial review in the future.

It is unknown what future changes will be implemented to the permitting review and issuance process or to other aspects of surface mining operations, but increased regulatory focus, future laws and judicial decisions and any other future changes could materially and adversely affect all coal mining companies operating in Appalachia, including us. In particular, we will incur additional permitting and operating costs, could be unable to obtain new permits or maintain existing permits and could incur fines, penalties and other costs, any of which could materially adversely affect our business. If surface coal mining methods are limited or prohibited, it could significantly increase our operational costs and make it more difficult to economically recover a significant portion of our reserves. In the event that we cannot increase the price we charge for coal to cover the higher production costs without reducing customer demand for our coal, there could be a material adverse effect on our financial condition and results of operations. In addition, increased public focus on the environmental, health and aesthetic impacts of surface coal mining could harm our reputation and reduce demand for coal.

Like many of our competitors, we cannot always completely comply with permit restrictions relating to the discharge of selenium into surface water, which has led to court challenges and related orders and settlements, our payment of fines and penalties and the imposition of requirements that may in the future require us to incur material additional costs and may be difficult to resolve or satisfy on a timely basis given current technology.

Selenium is a naturally occurring element that is encountered in earthmoving operations. The extent of selenium occurrence varies depending upon site specific geologic conditions. Selenium is encountered globally in coal mining, phosphate mining and agricultural operations. In coal mining applications, selenium can be discharged to surface water when mine tailings are exposed to rain and other natural elements. Selenium effluent limits are included in permits issued to us and other coal mining companies.

We have established a liability for the treatment of outfalls with known selenium exceedances. The liability reflects the estimated total costs of the planned Zero Valent Iron (ZVI) water treatment systems to be implemented and maintained. This estimate was prepared considering the dynamics of legislation, capabilities of available technology and our planned remediation strategy. We utilized the cost of the most successful treatment methodology at that time based on our testing results for our best estimate based on uncertainties regarding technology, compliance parameters and deadline extensions.

Despite our continued efforts, we have been unable to identify a treatment system that can remove selenium sustainably, consistently and uniformly under all variable conditions experienced at our mining operations. Accordingly, we cannot currently meet the effluent selenium limits in our mining permits. We are currently involved in various legal proceedings related to compliance with the effluent selenium limits in our mining permits. As a result of these legal proceedings, we are subject to various consent decrees and court orders that generally require us, among other things, to meet certain compliance deadlines related to selenium discharge levels and to research, develop and implement potential technologies for the treatment of selenium exceedances at permitted outfalls. In the past, we have paid fines and penalties with respect to violations of selenium effluent limitations.

In 2010, one of our subsidiaries was found in contempt for failing to comply with a consent decree regarding selenium discharge limits. In January 2012, we entered into a comprehensive consent decree with certain environmental groups that will, when entered by the court, set technology selection and compliance dates for the outfalls in ten of our permits on a staggered basis, allowing us to continue testing certain technologies as well as to take advantage of technology that is still in the development stage. See Item 1. Certain Liabilities − Asset Retirement Obligations for more information about selenium−related matters.

Pursuant to a September 1, 2010 order from the U.S. District Court, we are required to install a Fluidized Bed Reactor (FBR) water treatment facility for three mining outfalls and to comply with applicable selenium discharge limits at these outfalls by March 1, 2013. Additionally, the September 1, 2010 ruling required that we select a technology for one outfall at Hobet Surface Mine No. 22. In June 2011, we selected FBR technology for this outfall because we could utilize the knowledge gained building the Apogee FBR facility and additional research was needed to resolve certain detailed design considerations for ZVI and IX. In December 2011, the U.S. District Court agreed to a change to the selenium water treatment technology from FBR to ABMet technology at this outfall.

At this time, there is no plan to install any technology other than ZVI at the other outfalls not addressed in the September 1, 2010 court ruling as no technology has been proven effective on a full−scale basis. Because the levels of water flow and selenium discharges at each outfall differ, the solution for each outfall may be very different and a variety of solutions may ultimately be required. We are continuing to research various treatment alternatives in addition to ZVI for the other outfalls. If ZVI is not ultimately successful in treating the effluent selenium exceedances at these additional outfalls, we will be required to install alternative treatment technologies. The cost of other technologies could be materially higher than the costs reflected in our liability. Furthermore, costs associated with potential modifications to ZVI or the scale of the planned ZVI systems to be installed could also cause the costs to be materially higher than the costs reflected in our liability.

While we are actively continuing to explore options, there can be no assurance as to if or when a definitive solution will be identified and implemented, whether we can meet applicable compliance deadlines or when other uncertainties will be finally resolved. As a result, we may incur additional costs beyond those that we have projected in our current estimates. Additionally, the existence of these federal and state consent decrees may not preclude further enforcement actions or other lawsuits. Any failure to meet the deadlines in our permits, consent decrees and court orders or to otherwise comply with selenium limits in our permits could result in further litigation against us, an inability to obtain new permits or to maintain existing permits, the incurrence of significant and material fines and penalties or other costs and could otherwise materially adversely affect our financial condition, results of operations and cash flows.

The environmental, health and safety regulations applicable to our mining operations impose significant costs on us, and future regulations or changes in the interpretation or application or enforcement of existing regulations could increase those costs and limit our ability to produce coal.

Federal and state authorities regulate the coal mining industry with respect to matters such as employee health and safety, permitting and licensing requirements, the protection of the environment, plants and wildlife, reclamation and restoration of mining properties after mining is completed, surface subsidence from underground mining and the effects that mining has on groundwater quality and availability. Federal and state authorities inspect our operations, and in the aftermath of the April 5, 2010 accident at a competitor's underground mine in Central Appalachia, we and other mining companies have experienced, and may in the future continue to experience, a significant increase in the frequency and scope of these inspections. Numerous governmental permits and approvals are required for mining operations. We are required to prepare and present to federal, state and/or local authorities data pertaining to the effect or impact that any proposed exploration for or production of coal may have upon the environment. In addition, significant legislation mandating specified benefits for retired coal miners affects our industry.

In response to the April 5, 2010 accident mentioned above, federal and West Virginia authorities instituted enhanced inspections of coal mines for, among other safety concerns, the accumulation of coal dust and the proper ventilation of gases such as methane. We experienced some of these enhanced inspections throughout the remainder of 2010 and 2011. In September 2010, MSHA issued an emergency temporary standard requiring mine operators to increase the incombustible content of combined coal dust, rock dust, and other dust to at least 80% in underground areas of bituminous coal mines. This requirement is further increased for mines containing methane gas. In October 2010, MSHA proposed, among other things, lowering existing concentration limits for respirable coal mine dust, requiring the use of personal dust monitors and expanding medical surveillance for workers. This measure is part of MSHA's efforts to reduce the incidence of lung disease among mine workers.

In addition, Congress is currently considering legislation to enhance mine safety laws, which could result in additional or enhanced mine safety equipment and procedure requirements, more frequent mine inspections, stricter enforcement practices, enhanced reporting and miner training requirements, higher penalties for certain violations of safety rules and increased authority for MSHA. West Virginia regulatory authorities are also considering enhanced mine safety laws, which could potentially result in more stringent equipment and procedure requirements.

The costs, liabilities and requirements associated with addressing the outcome of inspections and complying with these environmental, health and safety requirements are often significant and time−consuming and may delay commencement or continuation of exploration or production. New or revised legislation or administrative regulations (or a change in judicial or administrative interpretation, application or enforcement of existing laws and regulations), including proposals related to the protection of the environment or employee health and safety, that would further regulate and tax the coal industry and/or users of coal, may also require us or our customers to change operations significantly or incur increased costs, which may materially adversely affect our mining operations and our cost structure. Additionally, MSHA may order the temporary closure of mines in the event of certain violations of safety rules. Our customers may challenge our issuance of force majeure notices in connection with such closures. If these challenges are successful, we could be obligated to make up lost shipments, to reimburse customers for the additional costs to purchase replacement coal, or, in some cases, to terminate certain sales contracts. These factors could have a material adverse effect on our financial condition, results of operations and cash flows.

Our operations may impact the environment or cause exposure to hazardous substances, and our properties may have environmental contamination, which could result in material liabilities to us.

Certain of our current and historical coal mining operations have used hazardous materials and, to the extent that such materials are not recycled, they could become hazardous waste. We may be subject to claims under federal and state statutes and/or common law doctrines for toxic torts and other damages, as well as for natural resource damages and for the investigation and remediation of soil, surface water, groundwater, and other media under laws such as CERCLA, commonly known as Superfund. Such claims may arise, for example, out of current or former conditions at sites that we own or operate currently, as well as at sites that we and companies we acquired, owned or operated in the past, and at contaminated sites that have always been owned or operated by third parties who we do business with. Liability may be without regard to fault and may be strict, joint and several, so that we may be held responsible for more than our share of the contamination or related damages, or even for the entire share.

We maintain coal slurry impoundments at a number of our mines. Such impoundments are subject to extensive regulation. Structural failure of an impoundment can result in extensive damage to the environment and natural resources, such as streams or bodies of water and wildlife, as well as related personal injuries and property damage, which in turn can give rise to extensive liability. Some of our impoundments overlie areas where some mining has occurred, which can pose a heightened risk of failure and of damages arising out of failure. If one of our impoundments were to fail, we could be subject to substantial claims for the resulting environmental contamination and associated liability, as well as for fines and penalties.

These and other similar unforeseen impacts that our operations may have on the environment, as well as exposures to hazardous substances or wastes associated with our operations, could result in costs and liabilities that could adversely affect us.

We are involved in legal proceedings, and may become subject to other legal proceedings in the future, that, if determined adversely to us, could significantly impact our financial condition, results of operations and cash flows.

We are involved in various legal proceedings that arise in the ordinary course of business and may become subject to other legal proceedings in the future. Some of the lawsuits seek fines or penalties and damages in very large amounts, or seek to restrict our business activities. It is currently unknown what the ultimate resolution of these proceedings will be, but the costs of resolving these proceedings could be material, and could result in an obligation to change our operations in a manner that could have an adverse effect on us. See Item 3. Legal Proceedings for a full description of our current claims and litigation.

If our actual benefit plan costs vary from our estimates, then expenditures for these benefits could be materially higher than we have estimated and could adversely affect our financial condition and results of operations.

We provide various health and welfare benefits to eligible active and certain retired employees. We make assumptions in order to calculate our obligations for future spending related to these employee benefit plans, including costs related to the 2010 healthcare legislation.

The 2010 healthcare legislation impacts our costs to provide healthcare benefits to our eligible active and certain retired employees and to provide workers' compensation benefits related to occupational disease resulting from black lung disease. The 2010 healthcare legislation has both short−term and long−term implications on healthcare benefit plan standards. Implementation of the 2010 healthcare legislation will occur in phases, with plan standard changes taking effect in 2010, but to a greater extent in the 2011 benefit plan year and extending through 2018. Plan standard changes that affect us in the short term include raising the maximum age for covered dependents to continue to receive benefits, the elimination of lifetime dollar limits per covered individual and restrictions on annual dollar limits per covered individual, among other standard requirements. Plan standard changes that could affect us in the long term include a tax on "high cost" plans (excise tax) and the elimination of annual dollar limits per covered individual, among other standard requirements.

Beginning in 2018, the 2010 healthcare legislation will impose a 40% excise tax on employers to the extent that the value of their healthcare plan coverage exceeds certain dollar thresholds. We anticipate that certain government agencies will provide additional regulations or interpretations concerning the application of this excise tax. Until these regulations or interpretations are published, it is impractical to reasonably estimate the ultimate impact of the excise tax on our future healthcare costs or postretirement benefit obligation. We have incorporated changes to our actuarial assumptions to determine our postretirement benefit obligations utilizing preliminary estimates and basic assumptions around the pending interpretations of these regulations.

We provide postretirement health and life insurance benefits to eligible union and non−union employees. We calculated the total accumulated postretirement benefit obligation according to the guidance provided by U.S. accounting standards. We estimated the present value of the obligation to be $1.5 billion as of December 31, 2011. We have estimated these unfunded obligations based on actuarial assumptions described in the notes to our consolidated financial statements.

Additional regulations or interpretations concerning the 2010 healthcare legislation could have a material adverse impact on our healthcare costs. Additionally, if our actual experience does not match our assumptions, it could have a material adverse impact on our financial condition, results of operations and cash flows and our cash expenditures and costs incurred for employee benefit plans could be materially higher.

Due to our participation in multi−employer pension plans and statutory retiree healthcare plans, we may have exposure that extends beyond what our obligations would be with respect to our employees.

Certain of our subsidiaries participate in two defined benefit multi−employer pension funds that were established as a result of collective bargaining with the UMWA pursuant to the 2007 NBCWA as periodically negotiated, such as with the 2011 NBCWA. These plans provide pension and disability pension benefits to qualifying represented employees retiring from a participating employer where the employee last worked prior to January 1, 1976, in the case of the UMWA 1950 Pension Plan, or after December 31, 1975, in the case of the UMWA 1974 Pension Plan. In December 2006, the 2007 NBCWA was signed, which required funding of the 1974 Pension Plan through 2011 under a phased funding schedule. The funding is based on an hourly rate for active UMWA workers. Under the labor contract, the per hour funding rate increased annually beginning in 2007, until reaching $5.50 in 2011. Our subsidiaries with UMWA−represented employees are required to contribute to the 1974 Plan. The 2011 NBCWA requires funding at $5.50 per hour for certain UMWA workers. The 1974 Plan funding rate could change during the term of the 2011 NBCWA if deemed necessary to guarantee benefit payments.

New inexperienced miners hired after January 1, 2012 will not participate in the 1974 Plan. Such new hires will instead receive a payment of $1.00 per hour worked into the UMWA Cash Deferral Plan, increasing to $1.50 on January 1, 2014. Effective January 1, 2012, employers will also pay $1.50 per hour to a new Retiree Bonus Account Trust for the term of the 2011 NBCWA. This Trust will make a payment to pensioners in November of 2014, 2015 and 2016 in the amount of $580 for most retirees and $455 for disabled retirees. This payment was also made in November 2011. If the Trust funding is not sufficient to make these annual bonus payments, employers will pay the difference directly to their retirees.

Effective January 1, 2012, employers will also make an additional supplemental pension contribution of $1.00 per hour worked into the UMWA Cash Deferred Savings Plan for each active miner with at least 20 years of credited service under the 1974 Plan, increasing to $1.50 per hour on January 1, 2014. Effective January 1, 2012, any participant in the 1974 Plan may make an irrevocable election to opt out of the 1974 Plan. Such employee will cease to accrue any further service or benefits under the 1974 Plan. Effective with the election, employers will contribute $1.00 per hour worked to the UMWA Cash Deferred Plan on his behalf as a Supplemental Pension Contribution, increasing to $1.50 on January 1, 2014.

Contributions to these funds could increase as a result of future collective bargaining with the UMWA, a shrinking contribution base as a result of the insolvency of other coal companies who currently contribute to these funds, lower than expected returns on pension fund assets or other funding deficiencies. Even with these increased rates, the difficult equity markets over recent years have resulted in materially underfunded multi−employer pension funds and any new rates assigned for 2012 and forward may be higher than the 2011 rate as this deficit is addressed.

The 2006 Act authorized $490 million in general fund revenues to pay for certain benefits, including the healthcare costs under the Combined Fund, 1992 Benefit Plan and 1993 Benefit Plan for former employees of defunct entities (orphans) who are retirees and their dependents. Under the 2006 Act, these orphan benefits will be the responsibility of the federal government on a phased−in basis through 2012. If Congress were to amend or repeal the 2006 Act or if the $490 million authorization were insufficient to pay for these healthcare costs, certain of our subsidiaries, along with other contributing employers and their affiliates, would be responsible for the excess costs.

We could be liable for certain retiree healthcare obligations assumed by Peabody in connection with the spin−off.

In connection with the spin−off, a Peabody subsidiary assumed certain retiree healthcare obligations of Patriot and its subsidiaries having a present value of $696.8 million as of December 31, 2011. These obligations arise under the Coal Act, the 2007 NBCWA and predecessor and successor agreements and a subsidiary’s salaried retiree healthcare plan.

Although the Peabody subsidiary is obligated to pay such obligations, certain Patriot subsidiaries also remain jointly and severally liable for the Coal Act obligations, and secondarily liable for the assumed 2007 NBCWA obligations and retiree healthcare obligations for certain participants under a subsidiary’s retiree healthcare plan. As a consequence, Patriot’s recorded retiree healthcare obligations and related cash costs could increase substantially if the Peabody subsidiary would fail to perform its obligations under the liability assumption agreements. These additional liabilities and costs, if incurred, could have a material adverse effect on our financial condition, results of operations and cash flows.

We have significant reclamation and mine closure obligations. If our actual costs vary from our estimates, we could be required to expend greater amounts than anticipated.

SMCRA establishes operational, reclamation and closure standards for all aspects of surface mining, as well as most aspects of deep mining. We calculated the total estimated reclamation and mine−closing liabilities in accordance with authoritative accounting guidance. Estimates of our total reclamation and mine−closing liabilities are based upon permit requirements and our engineering expertise related to these requirements. As of December 31, 2011, we had accrued reserves of $124.5 million for reclamation liabilities and an additional $167.5 million for mine closure costs, including medical benefits for employees and water treatment due to mine closure. The estimate of ultimate reclamation liability is reviewed annually by our management and engineers. The estimated liability could change significantly if actual costs or timing vary from assumptions, if the underlying facts change or if governmental requirements change significantly.

Risk Factors Relating to Financial and Other Aspects of our Business

If our business does not generate sufficient cash for operations, we may not be able to repay borrowings under our credit facility and outstanding notes, to refinance our accounts receivable securitization program or fund other liquidity needs, and the amount of our indebtedness could affect our ability to grow and compete.

Our ability to pay principal and interest on our debt and to refinance our debt, if necessary, will partially depend upon our operating performance. Our business may not generate sufficient cash flows from operations, and future borrowings may not be available to us under our credit facility or otherwise in an amount sufficient to enable us to repay any borrowings under any of our obligations or to fund our other liquidity needs. We also have significant lease and long−term royalty obligations. Our ability to meet our debt, lease and royalty obligations will depend upon our operating performance, which will be affected by economic conditions and a variety of other business factors, many of which are beyond our control.

The amount of our indebtedness could have significant consequences, including, but not limited to: (i) limiting our ability to pay principal on our obligations; (ii) limiting our ability to refinance our indebtedness on commercially reasonable terms, or terms acceptable to us or at all; (iii) limiting our ability to obtain additional financing to fund capital expenditures, future acquisitions, working capital or other general corporate requirements; (iv) placing us at a competitive disadvantage with competitors with lower amounts of debt or more advantageous financing options; and (v) limiting our flexibility in planning for, or reacting to, changes in the coal industry. Any inability by us to obtain financing in the future on favorable terms could have a negative effect on our financial condition, results of operations and cash flows.

Our operations may depend on the availability of additional financing and access to funds under our credit facility and accounts receivable securitization program.

We expect to have sufficient liquidity to support the development of our business. In the future, however, we may require additional financing for liquidity, capital requirements and growth initiatives. We are dependent on our ability to generate cash flows from operations and to borrow funds and issue securities in the capital markets to maintain and expand our business. We may need to incur debt on terms and at interest rates that may not be as favorable as they have been.

Our current credit facility is comprised of a group of lenders, each of which has severally agreed to make loans to us under the facility. Currently each of these lenders has met its individual obligation; however, based on the continued uncertainty related to financial institutions we can make no assurances that all future obligations will be met. A failure by one or more of the participants to meet its obligation in the future could have a materially adverse impact on our financial condition, results of operations and cash flows.

Failure to obtain or renew surety bonds in a timely manner and on acceptable terms could affect our ability to secure reclamation and employee−related obligations, which could adversely affect our ability to mine coal.

U.S. federal and state laws require us to secure certain of our obligations relating to reclaiming land used for mining, paying federal and state workers' compensation, and satisfying other miscellaneous obligations. The primary method for us to meet those obligations is to provide a third−party surety bond or letter of credit. As of December 31, 2011, we had outstanding surety bonds and letters of credit aggregating $534.4 million, of which $325.0 million was for post−mining reclamation, $132.2 million related to workers' compensation obligations, $56.7 million was for retiree health obligations and $20.4 million was for other obligations (including collateral for surety companies and bank guarantees, road maintenance and performance guarantees). These bonds are typically renewable on an annual basis and the letters of credit are available through our credit facility and accounts receivable securitization program.

As of December 31, 2011, Arch Coal, Inc. (Arch) held surety bonds of $39.4 million related to properties acquired by Patriot in the Magnum acquisition, of which $38.5 million related to reclamation. We posted a letter of credit in Arch's favor, as required.

Economic recession, volatility and disruption in the credit markets could result in surety bond issuers deciding not to continue to renew the bonds or to demand additional collateral upon those renewals. Our failure to maintain, or inability to acquire, surety bonds or to provide a suitable alternative would have a material adverse effect on us. That failure could result from a variety of factors including lack of availability, higher expense or unfavorable market terms of new surety bonds, restrictions on the availability of collateral for current and future third−party surety bond issuers under the terms of our revolving credit facility and account receivable securitization program and the exercise by third−party surety bond issuers of their right to refuse to renew the surety.

We could be adversely affected by a decline in the creditworthiness or financial condition of our customers.

Our ability to receive payment for coal sold and delivered depends on the continued creditworthiness of our customers. Our customer base has changed with deregulation as some utilities have sold their power plants to their non−regulated affiliates or third parties. These new power plant owners or other customers may have credit ratings that are below investment grade. If the creditworthiness of our customers declines significantly and customers fail to stay current on their payments, our business could be adversely affected.

For the year ended December 31, 2011, approximately 10% of our revenue was generated through sales to a marketing affiliate of Peabody. A portion of these sales relate to contracts to supply coal in order for Peabody to meet commitments under customer agreements in existence prior to the spin−off which were sourced from our operations. Our remaining sales are made to electricity generators, industrial companies and steelmakers.

In addition, during and subsequent to economic recessions, many companies struggle to maintain their businesses and are subject to an increased risk of bankruptcy. If our customers seek protection under the federal bankruptcy laws, they could terminate all or a portion of their business with us and/or originate new business with our competitors. If our customers are significantly and negatively impacted by the challenging economic conditions, or by other business factors, or if any of our significant customers seek bankruptcy protection, our financial condition and results of operations could be materially adversely affected.

The covenants in our credit facility and other debt indentures impose restrictions that could limit our operational and financial flexibility.

Our credit facility and our other debt indentures contain certain customary covenants, including certain limitations on, among other things, additional debt, liens, investments, acquisitions and capital expenditures, future dividends, and asset sales. Our credit facility also contains financial covenants related to net debt coverage and cash interest expense coverage. Compliance with debt covenants may limit our ability to draw on our credit facility. In addition, the indenture for our convertible notes prohibits us from engaging in certain mergers or acquisitions unless, among other things, the surviving entity assumes our obligations under the notes. These and other provisions could prevent or deter a third party from acquiring us even where the acquisition could be beneficial to our stockholders.

As described in other risk factors, issues such as global economic conditions, volatile financial markets, changing governmental regulation related to the production and use of our products, as well as competition from natural gas, create challenges for the coal industry and us. As a result, it has become more difficult to predict the future impact of these challenges including the results of Management's actions to deal with them.

Our credit facility contains financial covenants which require us to maintain specified ratios of Consolidated Interest Coverage and Consolidated Net Leverage (each as defined in the credit facility). In addition, the indenture governing our subordinated bonds includes a Fixed Charge Coverage Ratio Test related to the incurrence of additional debt. The credit facility calls for quarterly reporting of compliance with financial covenants. Our credit facility, the indenture governing our subordinated bonds and the agreements governing our other indebtedness also include additional covenants, that limit, among other things, additional debt, investments, acquisitions and capital expenditures, future dividends and asset sales. The aforementioned risks and challenges make it possible that we may not comply with our financial covenants in the future.

Upon the occurrence of an event of default under the credit facility, our lenders will be entitled to, among other things, accelerate payments of all outstanding loans, plus all accrued and unpaid interest thereon and any other amounts payable under the credit facility. Certain events of default under, and acceleration of, our credit facility could also result in the cross−acceleration of our subordinated bonds and subordinated convertible debentures. If an event of default occurs under the credit facility, we may be unable to negotiate a mutually acceptable amendment or waiver with our lenders and we may not have sufficient funds to pay the total amount of accelerated obligations. In addition, our lenders may exercise rights and remedies in respect of the collateral securing the credit facility (including, among other things, to take possession and dispose of such collateral). Any acceleration in the repayment of our debt, or the exercise of rights and remedies in respect of the collateral by our lenders in connection therewith, would adversely affect our business.

The negotiation of a mutually acceptable amendment or waiver with our lenders to maintain compliance with the covenants under our credit facility, if any, may be expensive. In January 2011 and 2012, we entered into amendments to our credit facility which, among other things, modified certain limits and minimum requirements of our financial covenants. However, there can be no assurance that we would be able to obtain additional amendments or waivers in the future.

The impact of the restatement of our consolidated financial statements for the years ended December 31, 2011 and 2010 and the related material weakness may have an adverse effect on us.

We have restated certain of our historical consolidated financial statements for the year ended December 31, 2011 and 2010 with respect to the recording of the costs to install the Apogee FBR and Hobet ABMet water treatment facilities as more fully described in Note 30 in the Notes to the Consolidated Financial Statements included in this Form 10−K/A. In connection with this restatement, management identified a material weakness associated with the accounting treatment for the Apogee FBR and Hobet ABMet water treatment facilities.

The impact of these events, or any discovery or occurrence of any additional material weaknesses or significant deficiencies in our internal control in the future, could result in a decline in our stock price and investor confidence or other adverse effects on our business, reputation, results of operations, financial condition or liquidity and could expose us to potential civil litigation, including shareholder class action lawsuits and derivative claims made on behalf of us, the defense of which may require us to devote significant management attention and to incur significant legal expense and which litigation, if decided against us, could require us to pay substantial judgments, settlements or other penalties.

The ownership and voting interest of Patriot stockholders could be diluted as a result of the issuance of shares of our common stock to the holders of convertible notes upon conversion.

The issuance of shares of our common stock upon conversion of the convertible notes could dilute the interests of Patriot's existing stockholders. The convertible notes are convertible at the option of the holders, under certain circumstances, during the period from issuance to February 15, 2013 into a combination of cash and shares of our common stock, unless we elect to deliver cash in lieu of the common stock portion. The number of shares of our common stock that we may deliver upon conversion will depend on the price of our common stock during an observation period as described in the indenture. Specifically, the number of shares deliverable upon conversion will increase as the common stock price increases above the conversion price of $67.67 per share during the observation period. The maximum number of shares that we may deliver is 2,955,560. However, if certain fundamental changes occur in our business that are deemed "make−whole fundamental changes" as defined by the indenture, the number of shares deliverable on conversion may increase, up to a maximum amount of 4,137,788 shares. These maximum amounts, the conversion rate and conversion price are subject to adjustment for certain dilutive events, such as a stock split or a distribution of a stock dividend.

The net share settlement feature of our convertible notes may have adverse consequences on our liquidity.

We will pay an amount in cash equal to the aggregate principal portion of our convertible notes calculated as described under the indenture for the convertible notes. Because we must settle at least a portion of the conversion obligation with regard to the convertible notes in cash, the conversion of our convertible notes may significantly reduce our liquidity.

Terrorist attacks and threats, escalation of military activity in response to such attacks or acts of war may negatively affect our business, financial condition and results of operations.

Terrorist attacks against U.S. targets, rumors or threats of war, actual conflicts involving the U.S. or its allies, or military or trade disruptions affecting our customers or the economy as a whole may materially adversely affect our operations or those of our customers. As a result, there could be delays or losses in transportation and deliveries of coal to our customers, decreased sales of our coal and extension of time for payment of accounts receivable from our customers. Strategic targets such as energy−related assets may be at greater risk of future terrorist attacks than other targets in the United States. In addition, disruption or significant increases in energy prices could result in government−imposed price controls. Any of these occurrences, or a combination of them, could have a material adverse effect on our business, financial condition and results of operations.

Item 1B. Unresolved Staff Comments.

We have received no comments regarding our periodic or current reports from the staff of the SEC (the staff) that were issued 180 days or more preceding the end of our 2011 fiscal year and that remain unresolved. However, within the 180 days preceding the end of our 2011 fiscal year, we have received comments from the staff regarding our selenium water treatment requirements. This review has resulted in this Amendment, as described in Note 30, Restatement of Consolidated Financial Statements, in the Notes to the Consolidated Financial Statements.

Item 2. Properties.

Coal Reserves

We had an estimated 1.9 billion tons of proven and probable coal reserves as of December 31, 2011 located in Appalachia and the Illinois Basin. Of our proven and probable coal reserves 14%, or 272 million tons, are compliance coal and 1,659 million tons are non−compliance coal. We own approximately 36% of these reserves and lease property containing the remaining 64%. Compliance coal is coal which, when burned, emits 1.2 pounds or less of sulfur dioxide per million Btu and complies with certain requirements of the Clean Air Act. Electricity generators are able to use non−compliance coal by using emissions reduction technology, using emission allowance credits or blending higher sulfur coal with lower sulfur coal.

Below is a table summarizing the locations and reserves of our major operating regions.

| | Proven and Probable Reserves as of December 31, 2011(1) | | |
|---|---|---|---|
| Geographic Region | Owned Tons | Leased Tons | Total Tons |
| | | (In millions) | |
| Appalachia | 306 | 903 | 1,209 |
| Illinois Basin | 389 | 333 | 722 |
| Total proven and probable coal reserves | 695 | 1,236 | 1,931 |

(1) Reserves have been adjusted to take into account recoverability factors in producing a saleable product.

Reserves are defined by SEC Industry Guide 7 as that part of a mineral deposit which could be economically and legally extracted or produced at the time of the reserve determination. Proven and probable coal reserves are defined by SEC Industry Guide 7 as follows:

•Proven (Measured) Reserves. Reserves for which (a) quantity is computed from dimensions defined by outcrops, trenches, workings or drill holes; grade and/or quality are computed from the results of detailed sampling and (b) the sites for inspection, sampling and measurement are spaced so close and the geologic character is so well defined that size, shape, depth and mineral content of coal reserves are well−established.

•Probable (Indicated) Reserves. Reserves for which quantity and grade and/or quality are computed from information similar to that used for proven (measured) reserves, but the sites for inspection, sampling and measurement are farther apart or are otherwise less adequately spaced. The degree of assurance, although lower than that for proven (measured) reserves, is high enough to assume continuity between points of observation.

Our estimates of 1,139 million tons of proven and 792 million tons of probable coal reserves are established within these guidelines. Patriot does not include sub−economic coal within these proven and probable reserve estimates. Proven reserves require the coal to lie within one−quarter mile of a valid point of measure or point of observation, such as exploratory drill holes or previously mined areas. Estimates of probable reserves may lay more than one−quarter mile, but less than three−quarters of a mile, from a point of thickness measurement. Estimates within the proven category have the highest degree of assurance, while estimates within the probable category have only a moderate degree of geologic assurance. Further exploration is necessary to place probable reserves into the proven reserve category. Our active properties generally have a much higher degree of reliability because of increased drilling density.

Reserve estimates as of December 31, 2011 were prepared by our Vice President – Engineering and his geology and engineering staff, by updating the December 31, 2010 estimates. The reserve estimation process includes evaluating select reserve areas, updating estimates to reflect remodeling and additional available drilling information and coordinating third−party reviews when deemed necessary. This process confirmed that Patriot had approximately 1.9 billion tons of proven and probable reserves as of December 31, 2011.

Our reserve estimates are predicated on information obtained from an ongoing drilling program, which totals more than 35,000 individual data points. We compile data from individual data points in a computerized drill−hole database from which the depth, thickness and, where core drilling is used, the quality of the coal are determined. The density of the data determines whether the reserves will be classified as proven or probable. The reserve estimates are then input into a computerized land management system, which overlays the geological data with data on ownership or control of the mineral and surface interests to determine the extent of our proven and probable coal reserves in a given area. The land management system contains reserve information, including the quantity and quality (where available) of coal reserves as well as production rates, surface ownership, lease payments and other information relating to our coal reserves and land holdings. We periodically update our reserve estimates to reflect production of coal from the reserves and new drilling or other data received. Accordingly, reserve estimates will change from time to time to reflect mining activities, analysis of new engineering and geological data, changes in reserve holdings, modification of mining methods and other factors.

Our estimate of the economic recoverability of our proven and probable coal reserves is based upon a comparison of unassigned reserves to assigned reserves currently in production in the same geologic setting to determine an estimated mining cost. These estimated mining costs are compared to existing market prices for the quality of coal expected to be mined and take into consideration typical contractual sales agreements for the region and product. Where possible, we also review production by competitors in similar mining areas. Only coal reserves expected to be mined economically are included in our reserve estimates. Finally, our coal reserve estimates include reductions for recoverability factors to estimate a saleable product.

With respect to the accuracy of our reserve estimates, our experience is that recovered reserves are within plus or minus 10% of our proven and probable estimates, on average. Our probable estimates are generally within the same statistical degree of accuracy when the necessary drilling is completed to move reserves from the probable to the proven classification. The expected degree of variance from reserve estimate to tons produced is lower in the Illinois Basin due to the continuity of the coal seams as confirmed by the mining history. Appalachia has a higher degree of risk due to the mountainous nature of the topography which makes exploration drilling more difficult. Our proven and probable reserves in Appalachia are less predictable and may vary by an additional one to two percent above the threshold discussed above.

Private coal leases normally have terms of between 10 and 20 years and usually give us the right to renew the lease for a stated period or to maintain the lease in force until the exhaustion of mineable and merchantable coal contained on the relevant site. These private leases provide for royalties to be paid to the lessor either as a fixed amount per ton or as a percentage of the sales price. Many leases also require payment of a lease bonus or minimum royalty, payable either at the time of execution of the lease or in periodic installments.

The terms of our private leases are normally extended by active production on or near the end of the lease term. Leases containing undeveloped reserves may expire or these leases may be renewed periodically. With a portfolio of approximately 1.9 billion tons, we believe that we have sufficient reserves to replace capacity from depleting mines for an extensive period of time and that our significant base of proven and probable coal reserves is one of our strengths. We believe our reserves are adequate to sustain our desired production levels for the foreseeable future.

Consistent with industry practice, we conduct only limited investigation of title to our coal properties prior to leasing. Title to land and reserves of the lessors or grantors and the boundaries of our leased properties are not completely verified until we prepare to mine those reserves.

The following chart provides a summary, by geographic region and mining complex, of production for the years ended December 31, 2011, 2010 and 2009, tonnage of coal reserves assigned to our operating mines, property interest in those reserves and other characteristics of the facilities.

PRODUCTION AND ASSIGNED RESERVES(1)

| | Production | | | Sulfur Content(2) | | | | | As of December 31, 2011 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | Reserve Control | | Mining Method | |
| Geographic Region/ Mining Complex | Year Ended Dec 31, 2011 | Year Ended Dec 31, 2010 | Year Ended Dec 31, 2009 | <1.2 lbs. Sulfur Dioxide per Million Btu | >1.2 to 2.5 lbs. Sulfur Dioxide per Million Btu | >2.5 lbs. Sulfur Dioxide per Million Btu | Type of Coal(3) | As Received Btu per Pound(4) | Assigned Proven and Probable Reserves | Owned | Leased | Surface | Under−ground |
| | | | | | | | (Tons in millions) | | | | | | |
| Appalachia: | | | | | | | | | | | | | |
| Big Mountain | 1.8 | 2.0 | 2.0 | 5 | 11 | — | Thermal | 12,200 | 16 | — | 16 | — | 16 |
| Blue Creek | 0.8 | 0.8 | 0.1 | 21 | 52 | — | Thermal | 12,700 | 72 | — | 72 | 11 | 61 |
| Campbell's Creek | 0.7 | 0.7 | 1.0 | 14 | 20 | — | Thermal | 13,100 | 34 | 24 | 10 | — | 34 |
| Corridor G | 3.6 | 4.0 | 3.6 | 5 | 45 | 1 | Thermal | 12,400 | 51 | 1 | 50 | 51 | — |
| Jupiter | — | — | — | 1 | 7 | — | Thermal | 11,500 | 8 | — | 8 | 1 | 7 |
| Kanawha Eagle | 1.4 | 1.5 | 1.9 | 36 | 1 | — | Met/Thermal | 12,600 | 38 | — | 38 | — | 38 |
| Logan County | 2.6 | 2.7 | 2.6 | 44 | 35 | — | Thermal | 12,500 | 79 | 10 | 69 | 66 | 13 |
| Paint Creek | 1.2 | 1.1 | 2.3 | 18 | 32 | 1 | Met/Thermal | 13,100 | 51 | — | 51 | 5 | 46 |
| Panther | 1.9 | 2.0 | 2.1 | 32 | 1 | — | Met | 13,200 | 33 | 1 | 32 | — | 33 |
| Rocklick | 1.1 | 0.4 | 1.5 | — | 23 | — | Met | 13,000 | 23 | — | 23 | — | 23 |
| Wells | 2.8 | 3.1 | 3.4 | 24 | 17 | — | Met | 13,400 | 41 | — | 41 | — | 41 |
| Federal | 3.7 | 3.7 | 3.8 | — | — | 45 | Thermal | 13,300 | 45 | 41 | 4 | — | 45 |
| Total | 21.6 | 22 | 24.3 | 200 | 244 | 47 | | | 491 | 77 | 414 | 134 | 357 |
| Illinois Basin: | | | | | | | | | | | | | |
| Bluegrass | 2.4 | 2.3 | 2.5 | — | — | 64 | Thermal | 11,100 | 64 | 14 | 50 | 4 | 60 |
| Dodge Hill | 0.9 | 0.9 | 0.9 | — | — | 24 | Thermal | 12,700 | 24 | 3 | 21 | — | 24 |
| Highland | 3.9 | 3.5 | 3.7 | — | — | 87 | Thermal | 11,400 | 87 | 28 | 59 | — | 87 |
| Total | 7.2 | 6.7 | 7.1 | — | — | 175 | | | 175 | 45 | 130 | 4 | 171 |
| Total | 28.8 | 28.7 | 31.4 | 200 | 244 | 222 | | | 666 | 122 | 544 | 138 | 528 |

The following chart provides a summary of the amount of our proven and probable coal reserves in each U.S. state, the predominant type of coal mined in the applicable location, our property interest in the reserves and other characteristics of the facilities.

ASSIGNED AND UNASSIGNED PROVEN AND PROBABLE COAL RESERVES(1)

AS OF DECEMBER 31, 2011

| | | | | | | Sulfur Content(2) | | | | | Reserve Control | | Mining Method | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Coal Seam Location | Total Assigned(1) | Tons Un−assigned(1) | Proven and Probable Reserves | Proven (Measured) | Probable (Indicated) | < 1.2 lbs. Sulfur Dioxide per Million Btu (Phase II) | >1.2 to 2.5 lbs. Sulfur Dioxide per Million Btu (Phase I) | >2.5 lbs. Sulfur Dioxide per Million Btu (Non−Com−pliance) | Type of Coal(3) | As Received Btu per Pound(4) | Owned | Leased | Surface | Under−ground |
| | | | | | | (Tons in millions) | | | | | | | | |
| Appalachia | | | | | | | | | | | | | | |
| Ohio | — | 26 | 26 | 19 | 7 | — | — | 26 | Thermal | 11,700 | 26 | — | — | 26 |
| West Virginia | 491 | 692 | 1,183 | 798 | 385 | 269 | 646 | 268 | Met/Thermal | 12,200 | 280 | 903 | 239 | 943 |
| Total | 491 | 718 | 1,209 | 817 | 392 | 269 | 646 | 294 | | | 306 | 903 | 239 | 969 |
| Illinois Basin: | | | | | | | | | | | | | | |
| Illinois | — | 230 | 230 | 89 | 141 | 3 | 18 | 209 | Thermal | 11,100 | 228 | 2 | — | 230 |
| Kentucky | 175 | 317 | 492 | 233 | 259 | — | 3 | 489 | Thermal | 11,300 | 161 | 331 | 33 | 460 |
| Total | 175 | 547 | 722 | 322 | 400 | 3 | 21 | 698 | | | 389 | 333 | 33 | 690 |
| Total proven and probable | 666 | 1,265 | 1,931 | 1,139 | 792 | 272 | 667 | 992 | | | 695 | 1,236 | 272 | 1,659 |

1) Assigned reserves represent recoverable coal reserves that we have committed to mine at locations operating as of December 31, 2011. Unassigned reserves would require new mine development, mining equipment or plant facilities before operations could begin on the property.

2) Compliance coal is coal which, when burned, emits 1.2 pounds or less of sulfur dioxide per million Btu. Electricity generators are able to use coal that exceeds these specifications by using emissions reduction technology, using emissions allowance credits or blending higher sulfur coal with lower sulfur coal.

3) Type of coal is based on the type of coal produced and/or the type of coal in our reserves.

4) As−received Btu per pound includes the weight of moisture in the coal on an as−sold basis.

Item 3. Legal Proceedings.

From time to time, we are involved in legal proceedings, arbitration proceedings and administrative procedures arising in the ordinary course of business. It is currently unknown what the ultimate resolution of these proceedings will be, but the costs of resolving these proceedings could be material, and could result in an obligation to change our operations in a manner that could have an adverse effect on us. Our significant legal proceedings are discussed below.

Environmental Claims and Litigation

We are subject to applicable federal, state and local environmental laws and regulations including SMCRA, the Clean Water Act, the Clean Air Act, CERCLA (also known as Superfund), RCRA and their state equivalents.

Clean Water Act Permit Issues

The federal Clean Water Act (CWA) and corresponding state and local laws and regulations affect coal mining operations by restricting the discharge of pollutants, including dredged or fill materials, into waters of the U.S. In particular, the CWA requires effluent limitations and treatment standards for wastewater discharge through the NPDES program. NPDES permits, which we must obtain for both active and historical mining operations, govern the discharge of pollutants into water, require regular monitoring and reporting and set forth performance standards. States are empowered to develop and enforce “in−stream” water quality standards, which are subject to change and must be approved by the EPA. In−stream standards vary from state to state.

Environmental claims and litigation in connection with our various NPDES permits, and related CWA requirements, include the following:

EPA Consent Decree

In February 2009, we entered into a consent decree with the EPA and the WVDEP to resolve certain claims under the CWA and the West Virginia Water Pollution Control Act relating to our NPDES permits at several mining operations in West Virginia. The consent decree was entered by the federal district court on April 30, 2009. The consent decree, among other things, requires us to implement an enhanced company−wide environmental management system, which includes regular compliance audits, electronic tracking and reporting, and annual training for all employees and contractors with environmental responsibilities. We could be subject to stipulated penalties in the future for failure to comply with certain permit requirements as well as certain other terms of the consent decree. Because our operations are complex and periodically experience exceedances of our permit limitations, it is possible that we will have to pay stipulated penalties in the future, but we do not expect the amounts of any such penalties to be material.

Hobet WVDEP Action

In 2007, Hobet was sued for exceedances of effluent limits contained in four of its NPDES permits in state court in Boone County by the WVDEP. We refer to this case as the Hobet WVDEP Action. The Hobet WVDEP Action was resolved by a settlement and consent order entered in the Boone County Circuit Court on September 5, 2008. The settlement required us, among other things, to complete supplemental environmental projects, to gradually reduce selenium discharges from our Hobet Job 21 surface mine, to achieve full compliance with our NPDES permits by April 2010 and to study potential treatment alternatives for selenium.

On October 8, 2009, a motion to enter a modified settlement and consent order in the Hobet WVDEP Action was submitted to the Boone County Circuit Court. This motion to modify the settlement and consent order was jointly filed by Patriot and the WVDEP. On December 3, 2009, the Boone County Circuit Court approved and entered a modified settlement and consent order to, among other things, extend coverage of the September 5, 2008 settlement and consent order to two additional permits and extend the date to achieve full compliance with our NPDES permits from April 2010 to July 2012. One of the two additional permits subject to such extension, Hobet Surface Mine No. 22, was subsequently addressed in the September 1, 2010 U.S. District Court Ruling, as further discussed below.

Selenium Matters

Federal Apogee Case and Federal Hobet Case

In 2007, Apogee was sued in the U.S. District Court by the Ohio Valley Environmental Coalition, Inc. (OVEC) and another environmental group (pursuant to the citizen suit provisions of the CWA). We refer to this lawsuit as the Federal Apogee Case. This lawsuit alleged that Apogee had violated effluent limits for selenium set forth in one of its NPDES permits. The lawsuit sought compliance with the effluent limits, fines and penalties as well as injunctive relief prohibiting Apogee from further violating laws and its permit.

In 2008, OVEC and another environmental group filed a lawsuit against Hobet and WVDEP in the U.S. District Court (pursuant to the citizen suit provisions of the CWA). We refer to this case as the Federal Hobet Case and it is very similar to the Federal Apogee Case. Additionally, the Federal Hobet Case involved the same four NPDES permits that were the subject of the original Hobet WVDEP Action in state court. However, the Federal Hobet Case focused exclusively on selenium exceedances in permitted water discharges, while the Hobet WVDEP Action addressed all effluent limits, including selenium, established by the permits.

On March 19, 2009, the U.S. District Court approved two separate consent decrees, one between Apogee and the plaintiffs and the other between Hobet and the plaintiffs. The consent decrees extended the deadline to comply with effluent limits for selenium with respect to the permits covered by the Federal Apogee Case and the Federal Hobet Case to April 5, 2010 and added interim reporting requirements up to that date. We agreed to, among other things, undertake pilot projects at Apogee and Hobet involving reverse osmosis technology along with interim reporting obligations and to comply with our NPDES permits' effluent limits for selenium by April 5, 2010. On February 26, 2010, we filed a motion requesting a hearing to discuss the modification of the March 19, 2009 consent decrees to, among other things, extend the compliance deadline to July 2012 in order to continue our efforts to identify viable treatment alternatives. On April 18, 2010, the plaintiffs in the Federal Apogee Case filed a motion asking the court to issue an order to show cause why Apogee should not be found in contempt for its failure to comply with the terms and conditions of the March 19, 2009 consent decree. The remedies sought by the plaintiffs included compliance with the terms of the consent decree, the imposition of fines and an obligation to pay plaintiffs' attorneys fees. A hearing to discuss these motions was held beginning on August 9, 2010. See September 1, 2010 U.S. District Court Ruling below for the outcome of this hearing.

Federal Hobet Surface Mine No. 22 Case

In March 2010, the U.S. District Court permitted a lawsuit to proceed that was filed in October 2009 by OVEC and other environmental groups against Hobet, alleging that Hobet has in the past violated, and continued to violate, effluent limitations for selenium in an NPDES permit and the requirements of a SMCRA permit for Hobet Surface Mine No. 22 and seeking injunctive relief. We refer to this as the Federal Hobet Surface Mine No. 22 Case. In addition to the Federal Apogee Case, the scope and terms of injunctive relief in the Federal Hobet Surface Mine No. 22 Case were discussed at the hearing that began on August 9, 2010. See September 1, 2010 U.S. District Court Ruling below for the outcome of this hearing.

Other WVDEP Actions

On April 23, 2010, WVDEP filed a lawsuit against Catenary Coal Company, LLC (Catenary), one of our subsidiaries, in the Boone County Circuit Court. We refer to this case as the Catenary WVDEP Action. This lawsuit alleged that Catenary had discharged selenium from its surface mining operations in violation of certain of its NPDES and surface mining permits. On June 11, 2010, WVDEP filed a lawsuit against Apogee in the Logan County Circuit Court, alleging discharge of pollutants, including selenium, in violation of certain of its NPDES and SMCRA permits. We refer to this case as the Apogee WVDEP Action. The permits contained in the Catenary WVDEP Action and the Apogee WVDEP Action are also involved in the February 2011 Litigation discussed below. WVDEP is seeking fines and penalties as well as injunctions prohibiting Catenary and Apogee from discharging pollutants, including selenium, in violation of laws and NPDES permits. A July 2012 trial date has been set for the Apogee WVDEP Action. The Catenary WVDEP Action has not been set for hearing. We are unable to predict the likelihood of success of the plaintiffs' claims. Although we intend to defend ourselves vigorously against these allegations, we may consider alternative resolutions to these matters if they would be in the best interest of the Company.

September 1, 2010 U.S. District Court Ruling

On September 1, 2010, the U.S. District Court found Apogee in contempt for failing to comply with the March 19, 2009 consent decree entered in the Federal Apogee Case. Apogee was ordered to install a Fluidized Bed Reactor (FBR) water treatment facility for three outfalls and to come into compliance with applicable selenium discharge limits at these three outfalls by March 1, 2013. In September 2010, we increased the portion of the selenium water treatment liability related to Apogee by $69.5 million ($48.8 million related to installation costs and $20.7 million related to operating costs) for the fair value of the estimated costs related to these three outfalls. This charge is reflected in “Asset retirement obligation expense” in the consolidated statement of operations. As of December 31, 2011, we have spent approximately $12.6 million on the Apogee FBR facility and the total expenditures are estimated to be approximately $55 million. We began construction on the Apogee FBR facility in the third quarter of 2011.

Additionally, the U.S. District Court ordered Hobet to submit a proposed schedule to develop a treatment plan for a Hobet Surface Mine No. 22 outfall by October 1, 2010 and to come into compliance with applicable discharge limits under the permit by May 1, 2013. We submitted the required schedule, which included conducting additional pilot projects related to certain technological alternatives. A treatment technology to be utilized at this Hobet Surface Mine No. 22 outfall was filed with the U.S. District Court in June 2011 in accordance with the submitted schedule. In June 2011, we recorded an adjustment of $60.6 million ($36.6 million related installation costs and $24.0 million related to operating costs) to the selenium water treatment liability primarily related to the fair value of the estimated costs of an FBR water treatment facility at this outfall. This charge is reflected in “Asset retirement obligation expense” in the consolidated statement of operations.

In December 2011, the Special Master appointed by the U.S. District Court to oversee the Hobet Surface Mine No. 22 project approved Hobet's request to substitute ABMet selenium treatment technology for the FBR technology at this outfall. The U.S. District Court subsequently confirmed this substitution. We continue to design and seek permits for the Hobet ABMet facility and anticipate beginning construction on the facility in the first half of 2012. The estimated total cost for installing the ABMet water treatment facility is approximately $25 million, which is significantly less than the estimated $40 million to build the Hobet FBR facility.

In December 2011, we adjusted the portion of the selenium water treatment liability related to Hobet Surface Mine No. 22 by $25.6 million ($15.3 million related to installation costs and $10.3 million related to operating costs) for the decrease in the fair value of the estimated costs related to this outfall due to the change in the technology approved by the Special Master. Prior to the technology change, we spent approximately $3.0 million related to the final engineering specifications for the Hobet FBR facility.

FBR technology had not been used to remove selenium or any other minerals discharged at coal mining operations prior to our pilot project performed in 2010. The FBR water treatment facility required by the September 1, 2010 ruling will be the first facility constructed for selenium removal on a commercial scale. Neither FBR nor ABMet technology has been proven effective on a full−scale commercial basis at coal mining operations and there can be no assurance that either of these technologies will be successful under all variable conditions experienced at our mining operations.

February 2011 Litigation

In February 2011, OVEC and two other environmental groups filed a lawsuit against us, Apogee, Catenary and Hobet, in the U.S. District Court alleging violations of ten NPDES permits and certain SMCRA permits. We refer to this case as the February 2011 Litigation. The February 2011 Litigation involves the same four NPDES permits that are the subject of the Catenary WVDEP Action, the same Apogee permit that is the subject of the Apogee WVDEP Action, the same four NPDES permits that are the subject of the Hobet WVDEP Action and one additional NPDES permit held by Hobet that is not the subject of any action by WVDEP. The plaintiffs were seeking fines, compliance with permit limits and other requirements, and injunctive relief.

In late 2011, we substantially agreed to the terms of a settlement agreement with OVEC and the other environmental groups. On January 18, 2012, we finalized a comprehensive consent decree that, when entered by the U.S. District Court, will resolve the February 2011 Litigation. The comprehensive consent decree also sets technology selection and compliance dates for the outfalls in the ten permits included in the February 2011 Litigation on a staggered basis, allowing us to continue testing certain technologies as well as to take advantage of technology that is still in the development stage. See our discussion below in relation to the uncertainties experienced in making technology selections. The comprehensive consent decree separates the outfalls included in these ten NPDES permits into categories based on the average gallons per minute water flow at each outfall. The comprehensive consent decree requires that we select water treatment technology alternatives by category beginning with the first category in September 2012 and ending with the last category in September 2014.

Additionally, we agreed to, among other things, come into compliance with applicable selenium discharge limits at each outfall in the category beginning with the first category within 24 months of the effective date of the agreement and ending with the last category within 60 months of the effective date of the agreement. We also agreed to, among other things, waive our rights to mine certain coal reserves and to pay $7.5 million in civil penalties. The plaintiffs agreed to, among other things, refrain from instituting new lawsuits with respect to the permits and outfalls identified in the comprehensive consent decree for certain periods, provided we meet the specified requirements. The comprehensive consent decree also established a framework under which we will interface with the plaintiffs with respect to the identified permits and outfalls. See the table below for additional details. The comprehensive consent decree will become effective upon entry by the U.S. District Court after the conclusion of a public comment period.

The amounts paid per the comprehensive consent decree of approximately $7.5 million and the write−off of the forfeited coal reserves of approximately $2.3 million are reflected in “Asset retirement obligation expense” in our consolidated statement of operations.

| Category/Gallons Per Minute | Technology Selection Date | Projected Compliance Date |
|---|---|---|
| I / 0−200 | September 1, 2012 | 24 months from the effective date of the agreement |
| II / 201−400 | December 31, 2012 | 36 months from the effective date of the agreement |
| III / 401−600 | March 31, 2013 | 45 months from the effective date of the agreement |
| IV / 601−1000 | September 1, 2013 | 50 months from the effective date of the agreement |
| V / 1000 + | September 1, 2014 | 60 months from the effective date of the agreement |

Selenium Water Treatment Liability

We estimated the costs to treat our selenium discharges in excess of allowable limits at a fair value of $85.2 million at the Magnum acquisition date. This liability was recorded in the purchase accounting for the Magnum acquisition and included the estimated costs of installing Zero Valent Iron (ZVI) water treatment technology, which was the most successful methodology at the time based on our testing results. At the time we recorded this liability, it reflected the estimated total costs of the planned ZVI water treatment installations to be implemented and maintained in consideration of the requirements of our mining permits, court orders, and consent decrees. This estimate was prepared considering the dynamics of legislation, capabilities of available technology and our planned water treatment strategy.

At the time of the Magnum acquisition, various outfalls across the acquired operations had been tested for selenium discharges. Of the outfalls tested, 88 were identified as potential sites of selenium discharge limit exceedances, of which 78 were identified as having known exceedances. The estimated liability recorded at fair value in the purchase allocation took into consideration the 78 outfalls with known exceedances at the acquisition date.

As of December 31, 2011, we have a $196.0 million liability recorded for the treatment of selenium discharges related to the 78 outfalls acquired in the Magnum acquisition. The current portion of the estimated liability is $63.1 million and is included in “Accounts payable and accrued expenses” and the long−term portion is recorded in “Asset retirement obligations” on our consolidated balance sheets. This total liability is inclusive of the adjustments that were recorded in connection with the September 1, 2010 U.S. District Court Ruling described above.

Our liability to treat selenium discharges at the other outfalls not addressed in the September 1, 2010 ruling is based on the use of ZVI technology. We have installed ZVI systems according to our original water treatment strategy, while also performing a further review of other potential water treatment solutions. Our water treatment strategy reflects implementing scalable ZVI installations at each of the other outfalls due to its modular design that can be reconfigured as further knowledge and certainty is gained. Initial pilot testing of ZVI technology began in 2008 and has identified potential shortfalls requiring additional research to resolve certain detailed design considerations. To date, ZVI technology has not been demonstrated to perform consistently and sustainably in achieving effluent selenium limitations or in treating the expected water flows at all outfalls. However, based on the flexibility of the scalable system for configuration adjustments, improvements in the system design and demonstrated success in reducing selenium at certain flows, we plan to continue to pursue the ZVI−based water treatment installations and determine whether modifications to the technology could result in its ability to treat selenium successfully at outlets identified in the February 2011 Litigation.

At this time, there is no definitive plan to install any technology other than ZVI−based technology at the other outfalls not included in the September 1, 2010 ruling as none of the other technologies has been proven effective on a full−scale basis. Our comprehensive consent decree with the plaintiffs in the February 2011 Litigation requires that we select water treatment technology by category beginning with the first category in September 2012 and ending with the last category in September 2014. We are continuing to research and evaluate various treatment solutions in addition to ZVI−based systems for the other outfalls. Results of pilot testing in the first half of 2011 indicated that ZVI−based systems, FBR and an additional technology may be viable selenium treatment options. We are continuing to test modifications to these treatment options and we are pilot testing alternative solutions. Alternative technology solutions that we may ultimately select are still in the early phases of development and their related costs can not be estimated at this time.

We continue to implement treatment installations at various permitted outfalls, but we have been unable to comply with selenium discharge limits due to the ongoing inability to identify a water treatment solution that can remove selenium sustainably, consistently and uniformly under all variable conditions experienced at our mining operations. While we are actively continuing to explore new treatment options and modifying existing technologies, a definitive solution has not been identified and it is unknown when or if such a solution will be identified. Even if a definitive solution would have existed as of December 31, 2011, it likely would not have been possible to install such technology at all of the outfalls included in the Hobet WVDEP Action by the July 2012 compliance deadline, and we are taking the requisite steps to seek an extension approved by the court.

If ZVI−based systems are not ultimately successful in treating the effluent selenium exceedances at the outfalls covered by the Hobet WVDEP Action and the February 2011 Litigation, we will be required to install alternative treatment solutions. The cost of other water treatment solutions could be materially higher than the costs reflected in our liability. Furthermore, costs associated with potential modifications to ZVI or the scale of our current ZVI−based systems could also cause the costs to be materially higher than the costs reflected in our liability. We cannot provide an estimate of the possible additional range of costs associated with alternate treatment solutions at this time as no solution has been proven to be effective on a full−scale commercial basis and we have not made any changes to our treatment plans for these outfalls as of December 31, 2011. Potential installations of selenium treatment alternatives are further complicated by the variable geological and topographical considerations of each individual outfall.

While we are actively continuing to explore treatment options, there can be no assurance as to if or when a definitive solution will be identified and implemented. As a result, actual costs may differ from our current estimates. We will make additional adjustments to our liability when it becomes probable that we will utilize a different technology or modify the current technology, whether due to developments in our ongoing research, technology changes or modifications according to the comprehensive consent decree or other legal obligations to do so. Additionally, there are no assurances we will meet the timetable stipulated in the various court orders, consent decrees and permits.

General Clean Water Act Matters

With respect to all outfalls with known exceedances for selenium or any other parameter, including the specific sites discussed above, any failure to meet the deadlines set forth in our consent decrees or established by the federal government, the U.S. District Court or the State of West Virginia or to otherwise comply with our permits could result in further litigation against us, an inability to obtain new permits or to maintain existing permits, which could impact our ability to mine our coal reserves, and the imposition of significant and material fines and penalties or other costs and could otherwise materially adversely affect our results of operations, cash flows and financial condition. The specific sites discussed above were created prior to the Magnum acquisition under legacy permitting standards and resulted in violations of current selenium requirements, which were promulgated in West Virginia in 2007.

In addition to the uncertainties related to technology discussed above, future changes to legislation, compliance with judicial rulings, consent decrees and regulatory requirements, findings from current research initiatives and the pace of future technological progress could result in costs that differ from our current estimates, which could have a material adverse affect on our results of operations, cash flows and financial condition.

We may incur costs relating to the lawsuits discussed above and possible additional costs, including potential fines and penalties relating to selenium matters. Additionally, as a result of these ongoing litigation matters and federal regulatory initiatives related to water quality standards that affect valley fills, impoundments and other mining practices, including the selenium discharge matters described above, the process of applying for new permits has become more time−consuming and complex, the review and approval process is taking longer, and in certain cases, new permits may not be issued.

CERCLA

CERCLA and similar state laws create liability for investigation and remediation in response to releases of hazardous substances in the environment and for damages to natural resources. Under CERCLA and many similar state statutes, joint and several liability may be imposed on waste generators, site owners and operators and others regardless of fault. These laws and related regulations could require us to do some or all of the following: (i) remove or mitigate the effects on the environment at various sites from the disposal or release of certain substances; (ii) perform remediation work at such sites; and (iii) pay damages for loss of use and non−use values.

Although waste substances generated by coal mining and processing are generally not regarded as hazardous substances for the purposes of CERCLA and similar legislation, and are generally covered by SMCRA, some products used by coal companies in operations, such as chemicals, and the disposal of these products are governed by CERCLA. Thus, coal mines currently or previously owned or operated by us, and sites to which we have sent waste materials, may be subject to liability under CERCLA and similar state laws. A predecessor of one of our subsidiaries has been named as a potentially responsible party at a third−party site, but given the large number of entities involved at the site and our anticipated share of expected cleanup costs, we believe that its ultimate liability, if any, will not be material to our financial condition and results of operations.

Flood Litigation

In 2006, Hobet and Catenary were named as defendants along with various other property owners, coal companies, timbering companies and oil and natural gas companies in lawsuits arising from flooding that occurred on May 30, 2004 in various watersheds, primarily located in southern West Virginia. This litigation is pending before two different judges in the Circuit Court of Logan County, West Virginia. In the first action, the plaintiffs have asserted that (i) Hobet failed to maintain an approved drainage control system for a pond on land near, on, and/or contiguous to the sites of flooding; and (ii) Hobet participated in the development of plans to grade, blast, and alter the land near, on, and/or contiguous to the sites of the flooding. Hobet has filed a motion to dismiss both claims based upon the assertion that insufficient facts have been stated to support the claims of the plaintiffs.

In the second action, motions to dismiss have been filed, asserting that the allegations by the plaintiffs are conclusory in nature and likely deficient as a matter of law. Most of the other defendants also filed motions to dismiss. Both actions were stayed during the pendency of the appeals to the West Virginia Supreme Court of Appeals in a similar case which was dismissed in April 2010.

The outcome of the flood litigation is subject to numerous uncertainties. Based on our evaluation of the issues and their potential impact, the amount of any future loss cannot be reasonably estimated. However, based on current information, we believe this matter is likely to be resolved without a material adverse effect on our financial condition, results of operations and cash flows.

Other Litigation and Investigations

Apogee has been sued, along with eight other defendants, including Monsanto Company (Monsanto), Pharmacia Corporation and Akzo Nobel Chemicals, Inc., by certain plaintiffs in state court in Putnam County, West Virginia. In total, 243 similar lawsuits have been served on Apogee, which are identical except for the named plaintiff. Of the 243 lawsuits, 75 were served in February 2008, 167 were served in December 2009, and one was served in January 2011. Each lawsuit alleges personal injury occasioned by exposure to dioxin generated by a plant owned and operated by certain of the other defendants during production of a chemical, 2,4,5−T, from 1949−1969. Apogee is alleged to be liable as the successor to the liabilities of a company that owned and/or controlled a dump site known as the Manila Creek landfill, which allegedly received and incinerated dioxin−contaminated waste from the plant. The lawsuits seek compensatory and punitive damages for personal injury. As of December 31, 2011, 47 of the lawsuits have been dismissed. Under the terms of the governing lease, Monsanto has assumed the defense of these lawsuits and has agreed to indemnify Apogee for any related damages. The failure of Monsanto to satisfy its indemnification obligations under the lease could have a material adverse effect on us.

We were a defendant in litigation involving Peabody in relation to their negotiation and June 2005 sale of two properties previously owned by two of our subsidiaries. Environmental Liability Transfer, Inc. (ELT) and its subsidiaries commenced litigation against these subsidiaries in the Circuit Court of the City of St. Louis in the State of Missouri alleging, among other claims, fraudulent misrepresentation, fraudulent omission, breach of duty and breach of contract. In May 2011, we entered into a litigation settlement agreement with ELT and its subsidiaries.

A predecessor of one of our subsidiaries operated the Eagle No. 2 mine located near Shawneetown, Illinois from 1969 until closure of the mine in July 1993. In March 1999, the State of Illinois brought a proceeding before the Illinois Pollution Control Board against the subsidiary alleging that groundwater contamination due to leaching from a coal waste pile at the mine site violated state standards. The subsidiary has developed a remediation plan with the State of Illinois and is in litigation before the Illinois Pollution Control Board with the Illinois Attorney General's office with respect to its claim for a civil penalty of $1.3 million.

One of our subsidiaries is a defendant in approximately 140 related lawsuits filed in the Circuit Court of Boone County, West Virginia. In addition to our subsidiary, the lawsuits name Peabody and other coal companies as defendants. The plaintiffs in each case allege contamination of their drinking water wells over a period in excess of 30 years from coal mining activities in Boone County, including underground coal slurry injection and coal slurry impoundments. The lawsuits seek property damages, personal injury damages and medical monitoring costs. The Boone County Public Service Commission installed public water lines and most of the plaintiffs now have access to public water. Pursuant to the terms of the Separation Agreement, Plan of Reorganization and Distribution from our 2007 spin−off, Patriot is indemnifying and defending Peabody in this litigation. The lawsuits have been settled and all settlement fees were paid in full in 2011.

In late January 2010, the U.S. Attorney's office and the State of West Virginia began investigations relating to one or more of our employees making inaccurate entries in official mine records at our Federal No. 2 mine. We terminated one employee and two other employees resigned after being placed on administrative leave. The terminated employee subsequently admitted to falsifying inspection records and has been cooperating with the U.S. Attorney's office. In April 2010, we received a federal subpoena requesting methane detection systems equipment used at our Federal No. 2 mine since July 2008 and the results of tests performed on the equipment since that date. We have provided the equipment and information as required by the subpoena. We have not received any additional requests for information in 2011. In January 2012, the terminated employee filed a civil lawsuit against us alleging retaliatory discharge and intentional infliction of emotional distress. In addition, five employees filed a purported class action lawsuit against us and the terminated employee seeking compensation for lost wages, emotional distress, and punitive damages for the alleged intentional violation of employee safety at the mine. We deny the validity of the allegations and intend to vigorously defend both civil lawsuits.

The outcome of other litigation and the investigations is subject to numerous uncertainties. Based on our evaluation of the issues and their potential impact, the amount of any future loss cannot be reasonably estimated. However, based on current information, we believe these matters are likely to be resolved without a material adverse effect on our financial condition, results of operations and cash flows.

Item 4. (Removed and Reserved).

Item 4B. Mine Safety Disclosure.

The information concerning mine safety violations or other regulatory matters required by Section 1503 of the Dodd−Frank Wall Street Reform and Consumer Protection Act is included in Exhibit 95.1 of the Annual Report on Form 10−K, filed on February 23, 2012 and is incorporated herein by reference.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

On October 31, 2007, Peabody effected the spin−off of Patriot and its subsidiaries. The spin−off was accomplished through a dividend of all outstanding shares of Patriot Coal Corporation. Our common stock is listed on the New York Stock Exchange, under the symbol PCX. As of February 17, 2012, there were approximately 1,386 holders of record of our common stock.

Effective August 11, 2008, Patriot implemented a 2−for−1 stock split effected in the form of a 100% stock dividend. All share and per share amounts in this Form 10−K/A reflect this stock split.

The table below sets forth the range of quarterly high and low sales prices for our common stock on the New York Stock Exchange during the calendar quarters indicated.

| | High | Low |
|---|---|---|
| 2010 | | |
| First Quarter | $ 22.37 | $ 13.87 |
| Second Quarter | 24.25 | 11.68 |
| Third Quarter | 14.03 | 9.76 |
| Fourth Quarter | 19.94 | 11.52 |
| 2011 | | |
| First Quarter | $ 29.20 | $ 19.68 |
| Second Quarter | 27.56 | 18.61 |
| Third Quarter | 24.99 | 8.45 |
| Fourth Quarter | 13.43 | 6.92 |

Dividend Policy

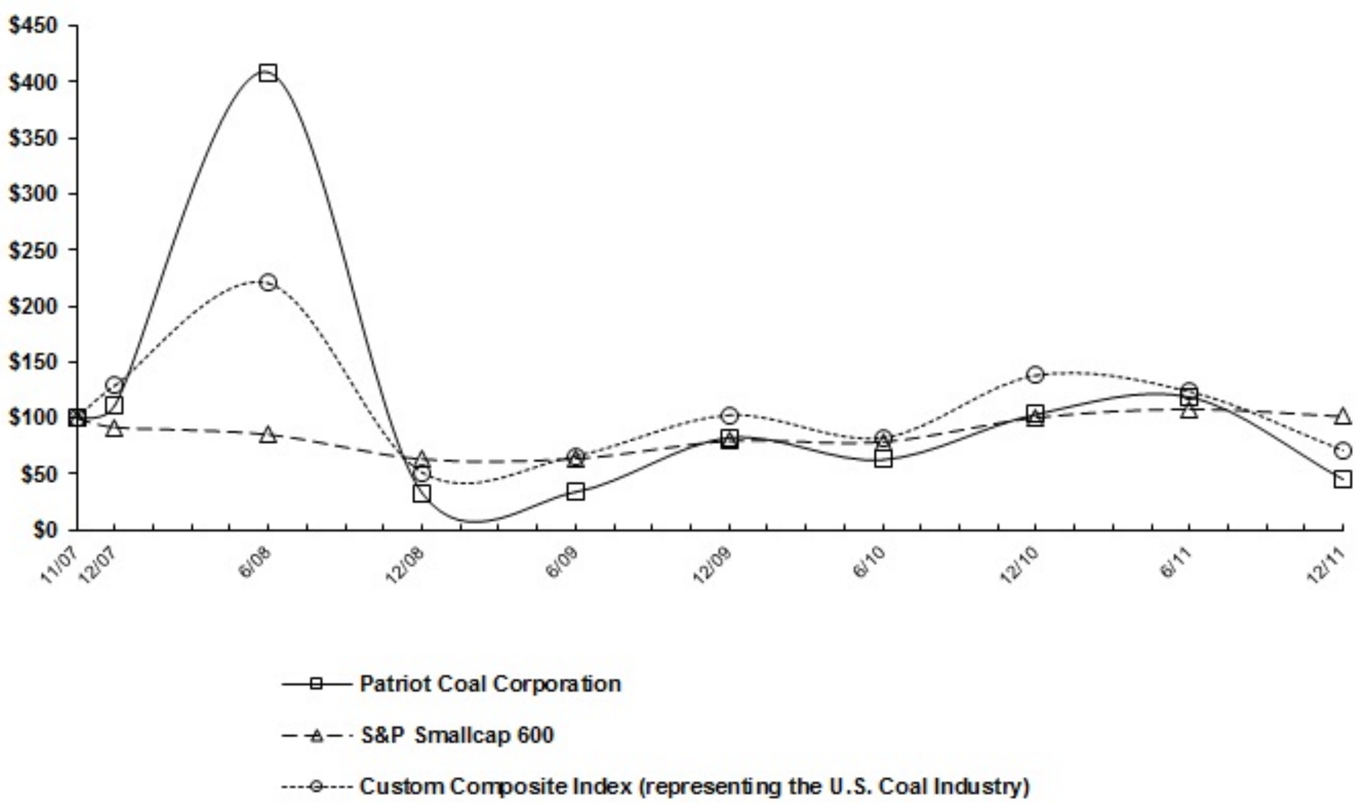
We have not paid and we do not anticipate that we will pay cash dividends on our common stock in the near term. The declaration and amount of future dividends, if any, will be determined by our Board of Directors and will depend on our financial condition, earnings, capital requirements, financial covenants, regulatory constraints, industry practice and other factors our Board deems relevant.

Stock Performance Graph

The following performance graph compares the cumulative total return on our common stock with the cumulative total return of the following indices: (i) the S&P Smallcap 600 Index and (ii) the Custom Composite Index (representing the U.S. Coal Industry) comprised of Alpha Natural Resources, Inc., Arch Coal, Inc., CONSOL Energy, Inc., James River Coal Co., Peabody Energy Corp., Walters Energy and Westmoreland Coal Company. These indices are included for comparative purposes only and do not necessarily reflect management's opinion that such indices are an appropriate measure of the relative performance of the stock involved, and are not intended to forecast or be indicative of possible future performance of our common stock.

**COMPARISON OF 50 MONTH CUMULATIVE TOTAL RETURN***

Among Patriot Coal Corporation, the S&P Smallcap 600 Index, and Custom Composite Index (representing the U.S. Coal Industry)




*$100 invested on 11/1/07 in stock or 10/31/07 in index, including reinvestment of dividends.
Fiscal year ending December 31.



| | 11/07 | 12/07 | 6/08 | 12/08 | 6/09 | 12/09 | 6/10 | 12/10 | 6/11 | 12/11 |
|---|---|---|---|---|---|---|---|---|---|---|
| Patriot Coal Corp | 100.00 | 111.31 | 408.77 | 33.33 | 34.03 | 82.45 | 62.67 | 103.31 | 118.72 | 82.45 |
| S&P Smallcap 600 | 100.00 | 91.84 | 85.33 | 63.30 | 63.73 | 79.49 | 78.79 | 100.4 | 107.97 | 79.49 |
| Custom Composite | 100.00 | 128.98 | 220.35 | 51.52 | 66.25 | 102.71 | 82.45 | 138.19 | 123.71 | 102.71 |

In accordance with SEC rules, the information contained in the Stock Performance Graph above shall not be deemed to be "soliciting material," or to be "filed" with the SEC or subject to the SEC's Regulation 14A or 14C, other than as provided under Item 201(e) of Regulation S−K, or to the liabilities of Section 18 of the Securities Exchange Act of 1934, as amended (the Exchange Act), except to the extent that we specifically request that the information be treated as soliciting material or specifically incorporate it by reference into a document filed under the Securities Act of 1933, as amended, or the Exchange Act.

Item 6. Selected Consolidated Financial Data.

As discussed in the Explanatory Note and Note 30, Restatement of Consolidated Financial Statements, in the Notes to the Consolidated Financial Statements, we have restated our previously issued audited consolidated financial statements for fiscal years 2011 and 2010; accordingly, all affected amounts included in the following tables have been adjusted.

The following table presents selected financial and other data for the most recent five fiscal years. The historical financial and other data have been prepared on a consolidated basis derived from Patriot's consolidated financial statements using the historical results of operations and bases of the assets and liabilities of Patriot's businesses and give effect to allocations of expenses from Peabody in 2007. For periods prior to the spin−off in October 2007, the historical consolidated statements of operations data set forth below do not reflect changes that occurred in the operations and funding of our Company as a result of our spin−off from Peabody. Magnum results are consolidated as of the date of the acquisition, July 23, 2008. The historical consolidated balance sheet data set forth below reflect the assets and liabilities that existed as of the dates and the periods presented.

The selected consolidated financial data should be read in conjunction with, and are qualified by reference to, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and the historical financial statements and the accompanying notes thereto of us and our consolidated subsidiaries included elsewhere in this report. The consolidated statements of operations and cash flow data for each of the three years in the period ended December 31, 2011 and the consolidated balance sheet data as of December 31, 2011 and 2010 are derived from our audited consolidated financial statements included elsewhere in this report, and should be read in conjunction with those consolidated financial statements and the accompanying notes. The consolidated balance sheet data as of December 31, 2009, 2008 and 2007 and the consolidated statements of operations for the years ended December 31, 2008 and 2007 were derived from audited consolidated financial statements that are not presented in this report.

The financial information presented below may not reflect what our results of operations, cash flows and financial position would have been had we operated as a separate, stand−alone entity for the year ended December 31, 2007 or what our results of operations, financial position and cash flows will be in the future. In addition, the Risk Factors section of Item 1A of this report includes a discussion of risk factors that could impact our future results of operations.

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2011 Restated(1) | 2010 Restated(1) | 2009 | 2008 | 2007 |
| | (In thousands, except for share and per share data) | | | | |
| Results of Operations Data: | | | | | |
| Revenues | | | | | |
| Sales | $ 2,378,260 | $ 2,017,464 | $ 1,995,667 | $ 1,630,873 | $ 1,069,316 |
| Other revenues | 24,246 | 17,647 | 49,616 | 23,749 | 4,046 |
| Total revenues | 2,402,506 | 2,035,111 | 2,045,283 | 1,654,622 | 1,073,362 |
| Costs and expenses | | | | | |
| Operating costs and expenses | 2,213,124 | 1,900,704 | 1,893,419 | 1,607,746 | 1,109,315 |
| Depreciation, depletion and amortization | 186,348 | 188,074 | 205,339 | 125,356 | 85,640 |
| Asset retirement obligation expense | 105,232 | 112,697 | 35,116 | 19,260 | 20,144 |
| Sales contract accretion | (55,020) | (121,475) | (298,572) | (279,402) | — |
| Restructuring and impairment charge | 13,657 | 15,174 | 20,157 | — | — |
| Selling and administrative expenses | 52,907 | 50,248 | 48,732 | 38,607 | 45,137 |
| Other operating (income) expense: | | | | | |
| Net gain on disposal or exchange of assets(2) | (35,557) | (48,226) | (7,215) | (7,004) | (81,458) |
| Loss (income) from equity affiliates(3) | (4,709) | (9,476) | (398) | 915 | (63) |
| Operating profit (loss) | (73,476) | (52,609) | 148,705 | 149,144 | (105,353) |
| Interest expense and other | 65,533 | 57,419 | 38,108 | 23,648 | 8,337 |
| Interest income | (246) | (12,831) | (16,646) | (17,232) | (11,543) |
| Income (loss) before income taxes | (138,763) | (97,197) | 127,243 | 142,728 | (102,147) |
| Income tax provision | 372 | 492 | — | — | — |
| Net income (loss) | (139,135) | (97,689) | 127,243 | 142,728 | (102,147) |
| Net income attributable to noncontrolling interest(3) | — | — | — | — | 4,721 |
| Net income (loss) attributable to Patriot | (139,135) | (97,689) | 127,243 | 142,728 | (106,868) |
| Effect of noncontrolling interest purchase arrangement | — | — | — | — | (15,667) |
| Net income (loss) attributable to common stockholders | $ (139,135) | $ (97,689) | $ 127,243 | $ 142,728 | $ (122,535) |
| Earnings (loss) per share, basic | $ (1.52) | $ (1.07) | $ 1.50 | $ 2.23 | $ (2.29) |
| Earnings (loss) per share, diluted | $ (1.52) | $ (1.07) | $ 1.49 | $ 2.21 | $ (2.29) |
| Weighted average shares outstanding − basic | 91,321,931 | 90,907,264 | 84,660,998 | 64,080,998 | 53,511,478 |
| Weighted average shares outstanding − diluted | 91,321,931 | 90,907,264 | 85,424,502 | 64,625,911 | 53,546,116 |
| Balance Sheet Data (at period end): | | | | | |
| Total assets | $ 3,763,738 | $ 3,808,978 | $ 3,618,163 | $ 3,622,320 | $ 1,199,837 |
| Total liabilities | 3,170,896 | 3,015,560 | 2,682,669 | 2,782,139 | 1,117,521 |
| Total long−term debt, less current maturities | 441,064 | 451,529 | 197,951 | 176,123 | 11,438 |
| Total stockholders' equity | 592,842 | 793,418 | 935,494 | 840,181 | 82,316 |

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2011 Restated(1) | 2010 Restated(1) | 2009 | 2008 | 2007 |
| | (In thousands, except for share and per share data) | | | | |
| Other Data: | | | | | |
| Tons sold (in millions and unaudited) | 31.1 | 30.9 | 32.8 | 28.5 | 22.1 |
| Net cash provided by (used in): | | | | | |
| Operating activities | $ 112,989 | $ 35,253 | $ 39,611 | $ 63,426 | $ (79,699) |
| Investing activities | (81,175) | (108,875) | (77,593) | (138,665) | 54,721 |
| Financing activities | (30,719) | 239,591 | 62,208 | 72,128 | 30,563 |
| Adjusted EBITDA(4)(unaudited) | 176,741 | 141,861 | 110,745 | 44,238 | 431 |
| Past mining obligation payments(5)(unaudited) | 126,614 | 128,712 | 129,060 | 101,746 | 144,811 |
| Additions to property, plant, equipment and mine development | 162,965 | 121,931 | 78,263 | 121,388 | 55,594 |
| Acquisitions, net | — | — | — | 9,566 | 47,733 |

(1) See the Explanatory Note and Note 30, Restatement of Consolidated Financial Statements, in the Notes to Consolidated Financial Statements for a description of the restatement of our consolidated financial statements.

(2) Net gain on disposal or exchange of assets included gains of $35.6 million from three coal reserve exchange transactions in 2011, $44.6 million in 2010 from five coal reserve exchange transactions and a $78.5 million gain in 2007 from the sales of coal reserves.

(3) In 2008, we acquired 49% interests in two joint ventures designed to produce high quality metallurgical coal. These investments began to generate significant income in 2010, as the related mining properties increased production. In March 2006, we increased our 49% interest in KE Ventures, LLC to an effective 73.9% interest and began combining KE Ventures, LLC's results with ours effective January 1, 2006. In 2007, we purchased the remaining interest.

(4) Adjusted EBITDA as calculated below is defined as net income (loss) before deducting interest income and expense; income taxes; asset retirement obligation expense; depreciation, depletion and amortization; restructuring and impairment charge; and net sales contract accretion. Net sales contract accretion represents contract accretion excluding back−to−back coal purchase and sales contracts. The contract accretion on the back−to−back coal purchase and sales contracts reflects the accretion related to certain coal purchase and sales contracts existing prior to July 23, 2008, whereby Magnum purchased coal from third parties to fulfill tonnage commitments on sales contracts. Adjusted EBITDA is used by management as a measure of our segments' operating performance. The term Adjusted EBITDA does not purport to be an alternative to operating income, net income or cash flows from operating activities as determined in accordance with generally accepted accounting principles as a measure of profitability or liquidity. We believe that in our industry such information is a relevant measurement of a company's operating financial performance. Because Adjusted EBITDA is not calculated identically by all companies, our calculation may not be comparable to similarly titled measures of other companies.

(5) Past mining obligation payments represents cash payments relating to our postretirement benefit obligations, workers' compensation obligations, and multi−employer retiree healthcare and pension plans.

Adjusted EBITDA is calculated as follows (unaudited):

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2011 Restated(1) | 2010 Restated(1) | 2009 | 2008 | 2007 |
| | | | (In thousands) | | |
| Net income (loss) | $ (139,135) | $ (97,689) | $ 127,243 | $ 142,728 | $ (102,147) |
| Depreciation, depletion and amortization | 186,348 | 188,074 | 205,339 | 125,356 | 85,640 |
| Sales contract accretion, net(2) | (55,020) | (121,475) | (298,572) | (249,522) | — |
| Asset retirement obligation expense | 105,232 | 112,697 | 35,116 | 19,260 | 20,144 |
| Restructuring and impairment charge | 13,657 | 15,174 | 20,157 | — | — |
| Interest expense and other | 65,533 | 57,419 | 38,108 | 23,648 | 8,337 |
| Interest income | (246) | (12,831) | (16,646) | (17,232) | (11,543) |
| Income tax provision | 372 | 492 | — | — | — |
| Adjusted EBITDA | $ 176,741 | $ 141,861 | $ 110,745 | $ 44,238 | $ 431 |

(1) See the Explanatory Note and Note 30, Restatement of Consolidated Financial Statements, in the Notes to Consolidated Financial Statements for a description of the restatement of our consolidated financial statements.

(2) Net sales contract accretion resulted from the below market coal sales and purchase contracts acquired in the Magnum acquisition that were recorded at fair value in purchase accounting. The net liability generated from applying fair value to these contracts is being accreted over the life of the contracts as the coal is shipped.

## Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

### Overview

As discussed in the Explanatory Note and Note 30, Restatement of Consolidated Financial Statements, in the Notes to Consolidated Financial Statements, we have restated our previously issued audited consolidated financial statements for the fiscal years 2011 and 2010; accordingly, Management's Discussion and Analysis of Financial Condition and Results of Operations has been revised for the effects of the restatement.

We are a leading producer of thermal coal in the eastern U.S., with operations and coal reserves in the Appalachia and the Illinois Basin coal regions. We are also a leading U.S. producer of metallurgical quality coal. Our principal business is the mining and preparation of thermal coal, for sale primarily to electricity generators, and metallurgical coal, for sale to steel mills and independent coke producers. As of December 31, 2011, our operations consisted of fourteen active mining complexes, which include company−operated mines, contractor−operated mines and coal preparation facilities. In January 2012, we announced the idling of and production curtailment at certain metallurgical coal mines in response to weaker demand. In February 2012, we announced the closure of the Big Mountain mining complex in response to weaker thermal coal demand. The Appalachia and Illinois Basin segments consist of our operations in West Virginia and Kentucky, respectively.

We ship coal to electricity generators, industrial users, steel mills and independent coke producers. In 2011, we sold 31.1 million tons of coal, of which 76% was sold to domestic and global electricity generators and 24% was sold to domestic and global steel and coke producers. In 2010, we sold 30.9 million tons of coal, of which 78% was sold to domestic electricity generators and 22% was sold to domestic and global steel producers. Export sales were 29% and 20% of our total volume in 2011 and 2010, respectively. Coal is shipped via various company−owned and third−party loading facilities, multiple rail and river transportation routes and ocean−going vessels.

We typically sell coal to utility and steel−making customers under contracts with terms of one year or more. Approximately 78% and 77% of our sales were under such contracts during 2011 and 2010, respectively.

Effective October 31, 2007, Patriot was spun off from Peabody. The spin−off was accomplished through a dividend of all outstanding shares of Patriot, resulting in Patriot becoming a separate, public company traded on the New York Stock Exchange (symbol PCX).

On July 23, 2008, Patriot completed the acquisition of Magnum. Magnum was one of the largest coal producers in Appalachia, operating eight mining complexes with production from surface and underground mines and controlling more than 600 million tons of proven and probable coal reserves. Magnum's results are included as of the date of the acquisition.

Results of Operations

Segment Adjusted EBITDA

The discussion of our results of operations below includes references to and analysis of our Appalachia and Illinois Basin Segments' Adjusted EBITDA results. Adjusted EBITDA is defined as net income (loss) before deducting interest income and expense; income taxes; asset retirement obligation expense; depreciation, depletion and amortization; restructuring and impairment charge; and sales contract accretion.

Adjusted EBITDA is used by management primarily as a measure of our segments' operating performance. We believe that in our industry such information is a relevant measurement of a company's operating financial performance. Because Adjusted EBITDA and Segment Adjusted EBITDA are not calculated identically by all companies, our calculation may not be comparable to similarly titled measures of other companies. Segment Adjusted EBITDA is calculated the same as Adjusted EBITDA but also excludes selling, general and administrative expenses, past mining obligation expense and net gain on disposal or exchange of assets and is reconciled to its most comparable measure below, under Net Loss. Adjusted EBITDA is reconciled to its most comparable measure under generally accepted accounting principles in Item 6. Selected Consolidated Financial Data.

Year ended December 31, 2011 compared to year ended December 31, 2010

Summary

Our Segment Adjusted EBITDA for the year ended December 31, 2011 increased compared to the prior year primarily due to higher average sales prices resulting from an increased mix of metallurgical coal and from improved market prices. This increase was partially offset by higher operating costs resulting from increased metallurgical coal production and sales, which generally have a higher average cost per ton. In addition, higher operating costs were impacted by geologic and equipment issues at certain mines, along with higher commodity prices.

In the third quarter of 2011, certain of our subsidiaries reached new agreements with the United Mine Workers of America (UMWA), which were effective July 1, 2011 and generally extend through December 2016. The new agreements are substantially the same as the National Bituminous Coal Wage Agreement negotiated earlier in 2011 between the Bituminous Coal Operators Association and the UMWA.

During the year ended December 31, 2011, asset retirement obligation expense included a $38.3 million charge due to changes in our selenium water treatment technology selection for one of our outfalls and $9.9 million in relation to a comprehensive consent decree.

Interest expense and other increased in 2011 compared to 2010 due to additional interest expense related to long−term debt issued in May 2010 and a loss related to the early repayment in full of outstanding notes receivable in February 2011, partially offset by the reimbursement of letter of credit fees in the fourth quarter of 2011.

Interest income decreased in 2011 compared to 2010 due to the full repayment of the outstanding notes receivable in February 2011. Additional fluctuations between the year ended December 31, 2011 and the year ended December 31, 2010 are discussed in Net Loss below.

Segment Results of Operations

| | Year Ended December 31, | | Increase (Decrease) | |
|---|---|---|---|---|
| | 2011 | 2010 | Tons/$ | % |
| | (Dollars and tons in thousands, except per ton amounts) | | | |
| Tons Sold | | | | |
| Appalachia Mining Operations | 23,861 | 24,276 | (415) | (1.7)% |
| Illinois Basin Mining Operations | 7,265 | 6,588 | 677 | 10.3 % |
| Total Tons Sold | 31,126 | 30,864 | 262 | 0.8 % |
| Average sales price per ton sold | | | | |
| Appalachia Mining Operations | $ 86.61 | $ 71.73 | $ 14.88 | 20.7 % |
| Illinois Basin Mining Operations | 42.89 | 41.90 | 0.99 | 2.4 % |
| Revenue | | | | |
| Appalachia Mining Operations | $ 2,066,639 | $ 1,741,430 | $ 325,209 | 18.7 % |
| Illinois Basin Mining Operations | 311,621 | 276,034 | 35,587 | 12.9 % |
| Appalachia Other | 24,246 | 17,647 | 6,599 | 37.4 % |
| Total Revenues | $ 2,402,506 | $ 2,035,111 | $ 367,395 | 18.1 % |
| Segment Operating Costs and Expenses(1) | | | | |
| Appalachia Mining Operations and Other | $ 1,704,545 | $ 1,442,753 | $ 261,792 | 18.1 % |
| Illinois Basin Mining Operations | 323,761 | 274,739 | 49,022 | 17.8 % |
| Total Segment Operating Costs and Expenses | $ 2,028,306 | $ 1,717,492 | $ 310,814 | 18.1 % |
| Segment Adjusted EBITDA | | | | |
| Appalachia Mining Operations and Other | $ 386,340 | $ 316,324 | $ 70,016 | 22.1 % |
| Illinois Basin Mining Operations | (12,140) | 1,295 | (13,435) | (1,037.5)% |
| Total Segment Adjusted EBITDA | $ 374,200 | $ 317,619 | $ 56,581 | 17.8 % |

(1)Segment Operating Costs and Expenses represent consolidated operating costs and expenses of $2,213.1 million and $1,900.7 million less income from equity affiliates of $4.7 million and $9.5 million and past mining obligation expense of $180.1 million and $173.7 million for the years ended December 31, 2011 and 2010, respectively, as described below.

Tons Sold and Revenues

Revenues in the Appalachia segment were higher for the year ended December 31, 2011 compared to the prior year primarily due to higher average sales prices. Average sales prices increased 21% due to the increased amount of metallurgical coal sold and increased sales prices compared to 2010.

Total sales volumes in Appalachia decreased for the year ended December 31, 2011 compared to 2010 primarily resulting from decreased dragline activity at our Corridor G (Hobet) mining complex due to development delays in 2011 stemming from the prolonged approval timeframe for the Hobet 45 permit, dating back to late 2008. In addition, we purchased and sold fewer tons of brokered coal in 2011 compared to the prior year purchases of thermal coal to cover certain sales commitments at our Panther mining complex. These decreases were partially offset by increase in metallurgical coal production due to opening new mines.

Revenues in the Illinois Basin segment were higher for the year ended December 31, 2011 as compared to 2010 primarily due to higher sales volumes, as well as slightly higher average sales prices. Total sales volumes for the year ended December 31, 2011 were higher compared to the prior year primarily due to roof falls at our Highland mine in the second and third quarters of 2010.

Appalachia Other Revenue was higher for the year ended December 31, 2011 primarily due to the recognition of income as underlying tons were shipped from a coal purchase option sold in a prior year. Additionally, we monetized future coal reserve royalty payments for $2.2 million in the second quarter of 2011.

Segment Operating Costs and Expenses

Segment operating costs and expenses for Appalachia for the year ended December 31, 2011 increased as compared to the prior year in large part due to higher costs related to expanded metallurgical coal production and sales with the addition of several new mines and additional sections at existing mines. The higher costs included increased sales−related costs driven by higher sales prices. Operating costs were also higher due to difficult geology and equipment issues at certain mines. During the year ended December 31, 2011, we incurred higher equipment and material costs, including rebuilds and general repairs and maintenance ($88.2 million); increased labor costs ($43.4 million); higher contract mining services ($21.3 million); and higher royalties, sales−related taxes and leases ($51.9 million). Additionally, the year ended December 31, 2011 also had higher fuel and explosives costs ($17.3 million) related to higher commodity prices.

Segment operating costs and expenses for the Illinois Basin increased for the year ended December 31, 2011 as compared to the prior year due to developing new areas and higher production, as well as increased labor costs and higher commodity prices. During the year ended December 31, 2011, we incurred higher equipment and material costs, including rebuilds and general repairs and maintenance ($22.2 million); increased labor costs ($8.3 million); and higher fuel and explosives costs ($4.0 million). Additionally, we also had higher royalties and sales−related taxes ($1.8 million) for the year ended December 31, 2011.

Segment Adjusted EBITDA

Our Segment Adjusted EBITDA for Appalachia was higher for the year ended December 31, 2011 compared to the prior year primarily due to higher average sales prices resulting from an increased mix and higher selling prices of metallurgical coal, which was partially offset by higher operating costs.

Segment Adjusted EBITDA for the Illinois Basin decreased for the year ended December 31, 2011 from the prior year primarily due to increased operating costs and expenses as discussed above, partially offset by higher revenues as a result of increased production and sales volumes.

Net Loss

| | Year Ended December 31, | | Favorable/ (Unfavorable) | |
|---|---|---|---|---|
| | 2011 Restated | 2010 Restated | $ | % |
| | (Dollars in thousands) | | | |
| Segment Adjusted EBITDA | $ 374,200 | $ 317,619 | $ 56,581 | 17.8 % |
| Corporate and Other: | | | | |
| Past mining obligation expense | (180,109) | (173,736) | (6,373) | (3.7)% |
| Net gain on disposal or exchange of assets | 35,557 | 48,226 | (12,669) | (26.3)% |
| Selling and administrative expenses | (52,907) | (50,248) | (2,659) | (5.3)% |
| Total Corporate and Other | (197,459) | (175,758) | (21,701) | (12.3)% |
| Depreciation, depletion and amortization | (186,348) | (188,074) | 1,726 | 0.9 % |
| Asset retirement obligation expense | (105,232) | (112,697) | 7,465 | 6.6 % |
| Sales contract accretion | 55,020 | 121,475 | (66,455) | (54.7)% |
| Restructuring and impairment charge | (13,657) | (15,174) | 1,517 | 10.0 % |
| Interest expense and other | (65,533) | (57,419) | (8,114) | (14.1)% |
| Interest income | 246 | 12,831 | (12,585) | (98.1)% |
| Income tax provision | (372) | (492) | 120 | 24.4 % |
| Net loss | $ (139,135) | $ (97,689) | $ (41,446) | (42.4)% |

Past Mining Obligation Expense

Past mining obligation expense was higher in 2011 compared to the prior year primarily due to the change in the discount rate assumption for our actuarially−determined liability for retiree healthcare, partially offset by lower funding rates for the UMWA healthcare benefit plans. In the third and fourth quarters of 2011, we also incurred costs related to the suspension of operations at a contractor−operated mine in the Big Mountain mining complex after we experienced a significant roof fall and other structural damages, believed to be the result of the earthquake centered near Washington D.C. in August 2011.

Net Gain on Disposal or Exchange of Assets

Net gain on disposal or exchange of assets was lower for the year ended December 31, 2011 compared to the prior year. In 2011, net gain on disposal or exchange of assets included gains of $18.7 million on a mineral rights exchange transaction in the fourth quarter, gains of $6.2 million on exchange and sale transactions for mineral interests in the third quarter, a gain of $7.3 million on a mineral rights exchange transaction and a gain of $2.1 million on a right of way purchase transaction in the second quarter. In 2010, net gain on disposal or exchange of assets included a gain of $2.9 million on an exchange transaction in the fourth quarter, a gain of $3.4 million on exchange transactions for mineral interests in the third quarter, gains of $14.3 million on two mineral rights exchange transactions in the second quarter and a gain of $24.0 million on an exchange transaction for mineral rights in the first quarter.

Selling and Administrative Expenses

Selling and administrative expenses increased for the year ended December 31, 2011 as compared to the prior year primarily due to a net increase in stock−based compensation expense resulting from a significant third quarter 2010 forfeiture.

Asset Retirement Obligation Expense

Asset retirement obligation expense decreased for the year ended December 31, 2011. During the year ended December 31, 2011, asset retirement obligation expense included a $38.3 million charge to adjust our liability due to changes in our selenium water treatment technology selection for one of our outfalls and $9.9 million in relation to a comprehensive consent decree. In the third quarter of 2010, additional asset retirement obligation expense of $69.5 million was recorded due to adjusting our estimated costs of water treatment at three outfalls resulting from the requirements of the September 1, 2010 court ruling. In addition, reclamation expense increased primarily in the first and fourth quarters of 2011, due to certain mines closing earlier than previously scheduled. See Liquidity and Capital Resources for a more detailed description of the adjustments made in relation to selenium water treatment.

Sales Contract Accretion

Sales contract accretion decreased for the year ended December 31, 2011 as compared to the prior year primarily due to the expiration of several contracts assumed in the Magnum acquisition in the second half of 2010. We expect sales contract accretion to continue to decrease as the acquired below market sales contracts reach the end of their contract lives.

Restructuring and Impairment Charge

Restructuring and impairment charge for the year ended December 31, 2011 was comparable to the corresponding charge in the prior year. In 2011, we recorded an impairment charge of $13.6 million primarily related to the infrastructure and coal reserves impacted by mine closure decisions made in the fourth quarter of 2011. As coal demand and sales prices weakened in late 2011, we made the strategic decision to close certain high cost mines. In 2010, the charge related to the early closure of the Harris No. 1 mine in June 2010, resulting from adverse geologic conditions. The 2010 charge included a $2.8 million impairment charge related to equipment and coal reserves that were abandoned due to the mine closure and a restructuring component of $12.0 million for payment of remaining operational contracts to be made with no future economic benefit.

Interest Expense and Other

Interest expense and other increased for the year ended December 31, 2011 primarily due to interest expense related to the $250 million of Senior Notes issued on May 5, 2010 as well as the increased amortization of deferred financing costs related to the new senior notes and the amended and restated credit agreement entered into in May 2010. In addition, in February 2011, outstanding notes receivable related to the 2006 and 2007 sales of coal reserves and surface land were repaid in full for $115.7 million prior to the scheduled maturity date. The early repayment resulted in a loss of $5.9 million. Offsetting this increase in expense was the collection of $5.5 million in letter of credit fee reimbursements related to the administration of healthcare claims for a third party covering the past four years in the fourth quarter of 2011.

Interest Income

Interest income decreased significantly for the year ended December 31, 2011 compared to the prior year primarily related to the early repayment of outstanding notes receivable in February 2011.

Income Tax Provision

For the years ended December 31, 2011 and 2010, we recorded an income tax provision of $0.4 million and $0.5 million, respectively, related to certain state taxes. In 2011 and 2010, we had federal tax net operating losses for each respective year and a full valuation allowance recorded against deferred tax assets. The primary difference between book and taxable income for 2011 and 2010 was the treatment of the net sales contract accretion on the below market purchase and sales contracts acquired in the July 2008 Magnum acquisition, with such amounts being included in the computation of book income but excluded from the computation of taxable income.

Year ended December 31, 2010 compared to year ended December 31, 2009

Summary

Our Segment Adjusted EBITDA for the year ended December 31, 2010 increased compared to the prior year primarily due to higher average sales prices and cost savings resulting from the suspension of certain higher cost mining operations in 2009. In 2009, we implemented a strategic response to the then weakened coal markets. As a result, we suspended certain mining operations, which in certain circumstances remained suspended throughout 2010. The increase in Segment Adjusted EBITDA was partially offset by decreased sales volumes during 2010. Sales volume decreases in 2010 resulted from the closure of the Harris No. 1 mine in June 2010, and certain 2009 mine suspensions, lower production due to more employee time spent with regulators related to inspections at certain of our mines, as well as roof falls at the Harris and Highland mines. While increased employee time spent on inspections resulted in lower production, these inspections did not result in increased citations. Due to the nature of our business, we incur a significant amount of fixed costs and, therefore, lower sales volumes contributed to a higher cost per ton.

In June 2010, we announced the closure of the Harris No. 1 mine due to the roof fall on the primary conveyor belt, adverse geologic conditions in the travel entries of the mine and employee safety concerns. The Harris No. 1 mine was nearing the end of its projected mining life and was scheduled for closure in 2011. We recorded a restructuring and impairment charge related to the closure of the Harris No. 1 mine and further rationalization of our operations at the Rocklick mining complex.

Our Panther and Federal mining complexes both had major longwall moves and related downtime in 2010. Our Federal longwall was idled for almost two weeks in September as a result of MSHA enforcement actions that were subsequently vacated. Previously, our Federal mine had temporarily suspended active mining operations in late February 2010, upon discovering potentially adverse atmospheric conditions in an abandoned area of the mine.

In September 2010, we recorded an adjustment of $69.5 million to asset retirement obligation expense as a result of adjusting our estimated selenium remediation costs of three Apogee outfalls based on the new technology required to be used for water treatment at certain locations due to the September 1, 2010 court ruling.

Segment Results of Operations

| | Year Ended December 31, | | Increase (Decrease) | |
|---|---|---|---|---|
| | 2010 | 2009 | Tons/$ | % |
| | (Dollars and tons in thousands, except per ton amounts) | | | |
| Tons Sold | | | | |
| Appalachia Mining Operations | 24,276 | 25,850 | (1,574) | (6.1)% |
| Illinois Basin Mining Operations | 6,588 | 6,986 | (398) | (5.7)% |
| Total Tons Sold | 30,864 | 32,836 | (1,972) | (6.0)% |
| Average sales price per ton sold | | | | |
| Appalachia Mining Operations | $ 71.73 | $ 66.79 | $ 4.94 | 7.4 % |
| Illinois Basin Mining Operations | 41.90 | 38.52 | 3.38 | 8.8 % |
| Revenue | | | | |
| Appalachia Mining Operations | $ 1,741,430 | $ 1,726,588 | $ 14,842 | 0.9 % |
| Illinois Basin Mining Operations | 276,034 | 269,079 | 6,955 | 2.6 % |
| Appalachia Other | 17,647 | 49,616 | (31,969) | (64.4)% |
| Total Revenues | $ 2,035,111 | $ 2,045,283 | $ (10,172) | (0.5)% |
| Segment Operating Costs and Expenses(1) | | | | |
| Appalachia Mining Operations and Other | $ 1,442,753 | $ 1,481,831 | $ (39,078) | (2.6)% |
| Illinois Basin Mining Operations | 274,739 | 260,529 | 14,210 | 5.5 % |
| Total Segment Operating Costs and Expenses | $ 1,717,492 | $ 1,742,360 | $ (24,868) | (1.4)% |
| Segment Adjusted EBITDA | | | | |
| Appalachia Mining Operations and Other | $ 316,324 | $ 294,373 | $ 21,951 | 7.5 % |
| Illinois Basin Mining Operations | 1,295 | 8,550 | (7,255) | (84.9)% |
| Total Segment Adjusted EBITDA | $ 317,619 | $ 302,923 | $ 14,696 | 4.9 % |

(1) Segment Operating Costs and Expenses represent consolidated operating costs and expenses of $1,900.7 million and $1,893.4 million less income from equity affiliates of $9.5 million and $0.4 million and past mining obligation expense of $173.7 million and $150.7 million for the years ended December 31, 2010 and 2009, respectively, as described below.

Tons Sold and Revenues

Revenues in the Appalachia segment were higher for the year ended December 31, 2010 compared to the prior year primarily due to higher average sales prices for both thermal and metallurgical coal during 2010. The higher average sales prices were driven largely by increased metallurgical coal sales volume as a result of our Panther and Winchester mines product being sold on the metallurgical market rather than the thermal market during 2010. These increases were partially offset by lower sales volumes related to the 2009 suspension of various mines, which in certain circumstances remained suspended throughout 2010, such as the Samples mine.

Revenues in the Illinois Basin segment were higher for the year ended December 31, 2010 as compared to the same period in 2009 primarily due to higher average sales prices, partially offset by decreased sales volumes. Decreased sales volumes resulted from lower production caused by difficult geologic conditions including roof falls at our Highland mine during 2010 and shifting to new mine sections at our Bluegrass mining complex. In addition, more employee time has been spent with regulators related to inspections throughout 2010, particularly at Highland, which impacted production volumes.

Appalachia Other revenue was lower for the year ended December 31, 2010 primarily due to cash settlements received for reduced shipments in 2009 as a result of renegotiated customer agreements.

Segment Operating Costs and Expenses

Segment operating costs and expenses for Appalachia for the year ended December 31, 2010 decreased as compared to the prior year. In relation to the closing or idling of certain mines and the reduction in utilization of one of our preparation plants in the second half of 2009, we had decreased contract mining costs ($21.1 million), labor costs ($19.0 million) and fuel and explosives, taxes, lease and royalty expenses ($23.0 million) during 2010. These decreases were partially offset by increased purchased coal ($33.8 million). The increased purchased coal costs included purchases of thermal coal to cover certain thermal sales commitments at our Panther and Winchester mines, where production is now being sold as a metallurgical product. Operating costs and expenses also benefited in 2010 from an increase in income from equity affiliates ($9.4 million) as compared to the prior year. Patriot established two separate joint ventures in 2008 designed to produce high quality metallurgical coal. These investments are beginning to generate more income, as the related mining properties continue to increase production.

Segment operating costs and expenses for the Illinois Basin increased for the year ended December 31, 2010 as compared to the prior year due to increased labor as a result of additional shifts and higher wages ($4.7 million), increased fuel and explosives expense primarily related to higher costs ($4.1 million) and additional repairs and maintenance activity ($3.5 million). Higher repair and maintenance costs related to additional belting repairs and roof bolting, as well as equipment maintenance. Costs were also negatively impacted by several roof falls at our Highland mine and heightened regulatory inspections throughout most of 2010.

Segment Adjusted EBITDA

Our Segment Adjusted EBITDA for Appalachia was higher for the year ended December 31, 2010 compared to the prior year primarily due to higher average sales prices and lower costs resulting from suspended or reduced production at certain mining operations, in particular some of our higher cost operations, in response to the economic recession experienced throughout 2009. These increases were partially offset by decreased sales volumes in 2010 and a decrease in non−recurring settlements from renegotiated customer agreements as compared to 2009.

Segment Adjusted EBITDA for the Illinois Basin decreased for the year ended December 31, 2010 from the prior year primarily due to higher operating costs.

Net Income (Loss)

| | Year Ended December 31, | | Favorable/(Unfavorable) | |
|---|---|---|---|---|
| | 2010 Restated | 2009 | $ | % |
| | (Dollars in thousands) | | | |
| Segment Adjusted EBITDA | $ 317,619 | $ 302,923 | $ 14,696 | 4.9 % |
| Corporate and Other: | | | | |
| Past mining obligation expense | (173,736) | (150,661) | (23,075) | (15.3)% |
| Net gain on disposal or exchange of assets | 48,226 | 7,215 | 41,011 | 568.4 % |
| Selling and administrative expenses | (50,248) | (48,732) | (1,516) | (3.1)% |
| Total Corporate and Other | (175,758) | (192,178) | 16,420 | 8.5 % |
| Depreciation, depletion and amortization | (188,074) | (205,339) | 17,265 | 8.4 % |
| Asset retirement obligation expense | (112,697) | (35,116) | (77,581) | (220.9)% |
| Sales contract accretion, net | 121,475 | 298,572 | (177,097) | (59.3)% |
| Restructuring and impairment charge | (15,174) | (20,157) | 4,983 | 24.7 % |
| Interest expense and other | (57,419) | (38,108) | (19,311) | (50.7)% |
| Interest income | 12,831 | 16,646 | (3,815) | (22.9)% |
| Income tax provision | (492) | — | (492) | N/A |
| Net income (loss) | $ (97,689) | $ 127,243 | $ (224,932) | (176.8)% |

Past Mining Obligation Expense

Past mining obligation expenses were higher in 2010 than the prior year primarily due to changes in assumptions related to our actuarially−determined liabilities for retiree healthcare and workers' compensation obligations ($28 million), with approximately one−half of the cost increase arising from the change to the discount rate. The increase was partially offset by lower costs related to suspended operations. The 2009 results included reduction−in−workforce costs related to suspended mines, primarily Samples.

Net Gain on Disposal or Exchange of Assets

Net gain on disposal or exchange of assets increased for the year ended December 31, 2010 as compared to the prior year. In 2010, net gain on disposal or exchange of assets included a gain of $2.9 million in the fourth quarter, a gain of $3.4 million in the third quarter, gains of $14.3 million on two transactions in the second quarter and a gain of $24.0 million in the first quarter. All of the gains were a result of exchange transactions for mineral interests. In 2009, net gain on disposal or exchange of assets included a $6.6 million gain on the exchange of surface land and coal mineral rights for certain mineral interests from two exchange transactions.

Selling and Administrative Expenses

Selling and administrative expenses increased for the year ended December 31, 2010 as compared to the prior year primarily due to higher incentive compensation expense partially offset by a net decrease in stock−based compensation expense due to a significant forfeiture in the third quarter.

Depreciation, Depletion and Amortization

Depreciation, depletion and amortization decreased for the year ended December 31, 2010 compared to the prior year, primarily due to lower volumes associated with certain mines being closed or suspended in the second half of 2009 and due to the full depreciation of a significant number of assets associated with our 2008 Magnum acquisition. These decreases were partially offset by increased depreciation at our Blue Creek complex, which began operations in December 2009.

Asset Retirement Obligation Expense

Asset retirement obligation expense increased for the year ended December 31, 2010 primarily due to the selenium water treatment obligations assumed in the July 2008 Magnum acquisition, which was recorded at fair value upon finalization of purchase accounting in June 2009. Additional selenium water treatment expense of $69.5 million was recorded in the third quarter of 2010 as a result of adjusting our estimated future costs of selenium remediation at certain outfalls resulting from requirements of the September 1, 2010 court ruling. See Liquidity and Capital Resources for further description of the ruling and the adjustments.

Sales Contract Accretion

Sales contract accretion decreased for the year ended December 31, 2010 as compared to the prior year due to certain contracts assumed in the Magnum acquisition expiring in 2009.

Restructuring and Impairment Charge

In the second quarter of 2010, we recorded a $14.8 million restructuring and impairment charge related to the June 2010 closure of the Harris No. 1 mine, resulting from adverse geologic conditions, and further rationalization of our operations at the Rocklick mining complex based on this early closure. The charge included a $2.8 million impairment charge related to equipment and coal reserves that were abandoned due to the mine closure and a restructuring component of $12.0 million for payment of obligations that will be made with no future economic benefit for remaining operational contracts. For the year ended December 31, 2009, we incurred a $12.9 million impairment charge related to certain infrastructure and thermal coal reserves near our Rocklick complex that were deemed uneconomical to mine, as well as a $7.3 million restructuring charge related to the discontinued use of a beltline into the Rocklick preparation plant during the fourth quarter of 2009.

Interest Expense and Other

Interest expense and other increased for the year ended December 31, 2010 primarily due to the $250 million of Senior Notes issued on May 5, 2010 as well as the increased amortization of deferred financing costs related to the new notes, accounts receivable securitization program entered into in March 2010, and the amended and restated credit agreement entered into in May 2010. In addition, we incurred additional interest expense in 2010 due to the Blue Creek preparation plant capital lease that began in May 2009.

Interest Income

Interest income decreased for the year ended December 31, 2010 compared to the prior year due to the collection of certain Black Lung excise tax refunds and related interest during 2009.

Income Tax Provision

For the year ended December 31, 2010, we recorded an income tax provision of $0.5 million related to certain state taxes. For the year ended December 31, 2009, no income tax provision was recorded. No federal income tax provision was recorded in 2010 or 2009 due to our tax net operating loss for each respective year and the full valuation allowance recorded against deferred tax assets. The primary difference between book and taxable income for 2010 and 2009 was the treatment of the net sales contract accretion on the below market purchase and sales contracts acquired in the July 2008 Magnum acquisition, with such amounts being included in the computation of book income but excluded from the computation of taxable income.

Outlook

Market

We believe long−term fundamentals in coal markets remain intact. Seaborne metallurgical coal demand is expected to grow more than 170 million metric tons to 428 million by 2020, which is nearly 70% higher than the 2011 level. At the same time, seaborne thermal coal demand is expected to grow by 200 million, or more than 25%, to over 950 million metric tons, by 2020.

In the near−term, uncertainty in the marketplace is impacting coal demand worldwide. The demand for metallurgical coal, in particular, is dependent on the strength of global economies. Concerns over the pace of growth in China, the European financial crisis, and the strength of the U.S. recovery have caused pressure on steel demand. Even with these short−term concerns, U.S. coke plants were running near capacity and global steel mill percentage utilization remained in the mid−70s in early 2012. Even with weakened global economies, current metallurgical coal pricing in early 2012 remains high by historical standards.

In the thermal market, uncertainty over the U.S. economy and environmental regulations, weak natural gas prices and mild weather have led to reduced coal−fueled electricity generation and coal pricing. While implementation of CSAPR has been delayed by the courts, the future outcome of this rule remains unknown, as does the time frame for compliance. We believe that the domestic thermal market is likely to remain depressed for an extended period.

We believe that the globalization of coal markets will create opportunities, with demand from developing countries continuing to grow for both thermal and metallurgical coal. We believe U.S. metallurgical and thermal coal could increasingly be shipped overseas to satisfy the growing global demand. We believe the U.S. metallurgical and eastern thermal coals are well−positioned to participate in these export opportunities.

Patriot Operations

We anticipate 2012 sales volume in the range of 27 to 29 million tons, including metallurgical coal sales of 7.0 to 7.8 million tons. Given short−term market softness, we plan to reduce our production to preserve our high−quality coal until markets improve. Due to the uncertainty in the coal markets, our volume estimates for 2012 continue to evolve.

Headwinds created by low natural gas prices, mild weather and weaker international and domestic economies impacted coal markets during the year, and market weakness continues as we enter 2012. In early 2012, metallurgical coal demand trended downward, especially in export markets. At a time of weakness in international steel markets, buyers are seeking lower raw material costs. With more emphasis on cost and less emphasis on maximum production volume, coke makers can employ longer coking times, which enables them to use less premium−quality coking coal in their blends. In this operating environment, our Panther−type coals are enjoying increased domestic and international acceptance, given their attractive combination of quality and pricing characteristics. We have sold our Panther−type coals as metallurgical product in major quantities for more than ten years, and we have been successful in ramping up these metallurgical coal sales substantially over the last three years.

We took actions in early 2012 to match our metallurgical production with expected sales volume. We reduced production of high−quality metallurgical coal capacity at both our Rocklick and Wells complexes, with particular emphasis on higher cost operations.

Our modular mine portfolio allows us the versatility to increase or decrease production in a timely manner in response to market conditions. We began our Met Build−Out program in 2011, with a goal of significantly higher metallurgical coal production to meet anticipated market demand. We have temporarily placed portions of our Met Build−Out program on hold. We intend to bring back on line much of the idled production, as well as resume our metallurgical coal expansion, when market conditions warrant.

In thermal coal markets, we anticipate that international markets will present profitable export opportunities in the future for Eastern U.S. coals. We aggressively sold thermal coal for 2012 delivery to European markets, and expect thermal exports in 2012 of approximately 6 to 7 million tons, or nearly twice our thermal exports in 2011.

Given the depressed domestic thermal coal market, we have conducted a rigorous review of our Central Appalachia thermal coal mine portfolio. As a result, we made the decision to close the Big Mountain mining complex effective February 2, 2012.

As of December 31, 2011, approximately 50% of our employees were represented by the UMWA. In late September 2011, certain of our subsidiaries signed new agreements with the UMWA, which generally extend through December 2016. The contracts are substantially the same as the NBCWA negotiated earlier in 2011 between the Bituminous Coal Operators Association and the UMWA.

As discussed more fully under Part 1, Item 1A. Risk Factors, our results of operations in the near−term could be negatively impacted by factors such as U.S. and international financial, economic and political conditions; coal price volatility and demand; unforeseen adverse geologic conditions or equipment problems at mining locations; reductions of purchases or deferral of deliveries by major customers; changes in general global economic conditions; availability and prices of competing energy resources for electricity generation; changes in the interpretation, enforcement or application of existing and potential laws and regulations affecting the production and use of our products; the availability and costs of credit, surety bonds and letters of credit; weather patterns and conditions affecting energy demand or disrupting supply; our ability to identify and implement cost effective solutions for selenium water treatment; the passage of new or expanded regulations that could limit our ability to mine, increase our mining costs, or limit our customers' ability to utilize coal as fuel for electricity generation; existing or new environmental laws and regulations, including those related to selenium, and changes in the interpretation, enforcement or application thereof; failure to comply with debt covenants; the outcome of pending or future litigation; changes in the costs to provide healthcare to eligible active employees and certain retirees under postretirement benefit obligations and contribution requirements to multi−employer retiree healthcare and pension plans; customer performance and credit risks; fluctuating prices of key supplies, mining equipment and commodities; supplier and contract miner performance and the unavailability of transportation for coal shipments.

On a long−term basis, our results of operations could also be impacted by our ability to secure or acquire high−quality coal reserves; our ability to attract and retain qualified personnel; negotiation of labor contracts, labor availability and relations;and our ability to find replacement buyers for coal under contracts with comparable or favorable terms to existing contracts.

Potential legislation, regulation, treaties and accords at the local, state, federal and international level, and changes in the interpretation, enforcement or application of existing laws and regulations, have created some uncertainty and could have a significant impact on demand for coal and our future operational and financial results. For example, increased scrutiny of mining could make it difficult to receive permits or could otherwise cause production delays in the future. The lack of proven technology to meet selenium discharge standards creates uncertainty as to the future costs of water treatment to comply with mining permits, which may be materially different from our current estimates. Additionally, current and future regulation of greenhouse gas and other air emissions and coal combustion by−products could have an adverse effect on the financial condition of our customers and significantly impact the demand for coal. See Item 1A. Risk Factors for expanded discussion of these factors.

If upward pressure on costs exceeds our ability to realize revenue increases, or if we experience unanticipated operating or transportation difficulties, our operating margins could be negatively impacted. Management continues to focus on controlling costs, optimizing performance and responding quickly to market changes. Increased scrutiny by regulators has resulted in more comprehensive inspections and has caused decreased production and increased costs. We expect this heightened regulatory oversight to continue.

The guidance provided under the caption Outlook should be read in conjunction with the section entitled Cautionary Notice Regarding Forward Looking Statements on page 2 and Item 1A. Risk Factors. Actual events and results may vary significantly from those included in, or contemplated, or implied by the forward−looking statements under Outlook. For additional information regarding the risks and uncertainties that affect our business, see Item 1A. Risk Factors.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition, results of operations, liquidity and capital resources is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. Generally accepted accounting principles require that we make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We evaluate our estimates on an on−going basis. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Employee−Related Liabilities

We have significant long−term liabilities for our employees' postretirement benefit costs and workers' compensation obligations. Detailed information related to these liabilities is included in Notes 18 and 19 to our consolidated financial statements. Expense for the year ended December 31, 2011 for these liabilities totaled $164.8 million, while payments were $94.4 million.

Postretirement benefits and certain components of our workers' compensation obligations are actuarially determined, and we use various actuarial assumptions, including the discount rate and future cost trends, to estimate the costs and obligations for these items. The discount rate is determined by utilizing a hypothetical bond portfolio model which approximates the future cash flows necessary to service our liabilities. We make assumptions related to future trends for medical care costs in the estimates of retiree healthcare and work−related injuries and illness obligations. Our medical trend assumption is developed by annually examining the historical trend of our cost per claim data.

If our assumptions do not materialize as expected, actual cash expenditures and costs that we incur could differ materially from our current estimates. Moreover, regulatory changes could increase our obligation to satisfy these or additional obligations. Our most significant employee liability is postretirement healthcare. Assumed discount rates and healthcare cost trend rates have a significant effect on the expense and liability amounts reported for postretirement healthcare plans. Below we have provided two separate sensitivity analyses to demonstrate the significance of these assumptions in relation to reported amounts.

Healthcare cost trend rate:

| | +1.0% | −1.0% |
|---|---|---|
| | (Dollars in thousands) | |
| Effect on total service and interest cost components | $ 11,315 | $ (9,363) |
| Effect on (gain)/loss amortization component | 34,804 | (28,925) |
| Effect on total postretirement benefit obligation | 189,683 | (158,180) |

Discount rate:

| | +0.5% | −0.5% |
|---|---|---|
| | (Dollars in thousands) | |
| Effect on total service and interest cost components | $ 894 | $ (1,371) |
| Effect on (gain)/loss amortization component | (9,816) | 10,021 |
| Effect on total postretirement benefit obligation | (86,685) | 92,122 |

Asset Retirement Obligations

Our reclamation obligations primarily consist of spending estimates for surface land reclamation and support facilities at both underground and surface mines in accordance with federal and state reclamation laws as defined by each mining permit. Reclamation obligations are determined for each mine using various estimates and assumptions including, among other items, estimates of disturbed acreage as determined from engineering data, estimates of future costs to reclaim the disturbed acreage, the timing of these cash flows, and a credit−adjusted, risk−free rate. As changes in estimates occur (such as mine plan revisions, changes in estimated costs, or changes in timing of the reclamation activities), the obligation and asset are revised to reflect the new estimate after applying the appropriate credit−adjusted, risk−free rate. If our assumptions do not materialize as expected, actual cash expenditures and costs that we incur could be materially different than currently estimated. Moreover, regulatory changes could increase our obligation to perform reclamation and mine closing activities.

Our selenium water treatment obligations primarily consist of the estimated liability for water treatment in order to comply with selenium effluent limits included in certain mining permits. The fair value of this liability as determined in purchase accounting reflects the discounted estimated costs of the treatment systems to be installed and maintained with the goal of meeting the requirements of current court orders, consent decrees and mining permits. This estimate was prepared considering the dynamics of current legislation, capabilities of currently available technology and our planned remediation strategy. The exact amount of our assumed liability is uncertain due to the fact there is no proven technology to decrease existing selenium discharges in excess of allowable limits to meet current permit standards. If technology becomes available that meets permit standards or if the standards change in the future, our actual cash expenditures and costs that we incur could be materially different than currently estimated.

Asset retirement obligation expense for the year ended December 31, 2011 was $105.2 million, and payments totaled $35.9 million. See detailed information regarding our asset retirement obligations in Notes 17 and 23 to our consolidated financial statements.

Income Taxes

Deferred tax assets and liabilities are recognized using enacted tax rates for the effect of temporary differences between the book and tax bases of recorded assets and liabilities. In addition, deferred tax assets are reduced by a valuation allowance if it is “more likely than not” that some portion or the entire deferred tax asset will not be realized. In our annual evaluation of the need for a valuation allowance, we take into account various factors, including the expected level of future taxable income and available tax planning strategies. If actual results differ from the assumptions made in our annual evaluation of our valuation allowance, we may record a change in valuation allowance through income tax expense in the period this determination is made. As of December 31, 2011 and 2010, we maintained a full valuation allowance against our net deferred tax assets.

Uncertain tax positions taken on previously filed tax returns or expected to be taken on future tax returns are reflected in the measurement of current and deferred taxes. The initial recognition process is a two−step process with a recognition threshold step and a step to measure the benefit. A tax benefit is recognized when it is “more likely than not” of being sustained upon audit based on the merits of the position. The second step is to measure the appropriate amount of the benefit to be recognized based on a best estimate measurement of the maximum amount which is more likely than not to be realized. As of December 31, 2011 and 2010, the unrecognized tax benefits, if recognized, would not currently affect our effective tax rate as any recognition would be offset with a valuation allowance. We do not expect any significant increases or decreases to unrecognized tax benefits within twelve months of this reporting date.

Additional detail regarding how we account for income taxes and the effect of income taxes on our consolidated financial statements is available in Note 14.

Revenue Recognition

In general, we recognize revenues when they are realizable and earned. We generated substantially all of our revenues in 2011 from the sale of coal to our customers. Revenues from coal sales are realized and earned when risk of loss passes to the customer. Coal sales are made to our customers under the terms of coal supply agreements, most of which have a term of one year or more. Under the typical terms of these coal supply agreements, risk of loss transfers to the customer at the mine or port, where coal is loaded to the rail, barge, ocean−going vessel, truck or other transportation source that delivers coal to its destination.

With respect to other revenues, other operating income, or gains on disposal or exchange of assets recognized in situations unrelated to the shipment of coal, we carefully review the facts and circumstances of each transaction and apply the relevant accounting literature as appropriate. We do not recognize revenue until the following criteria are met: persuasive evidence of an arrangement exists; delivery has occurred or services have been rendered; the seller's price to the buyer is fixed or determinable; and collectability is reasonably assured.

Derivatives

We utilize derivative financial instruments to manage exposure to certain commodity prices. We recognize derivative financial instruments at fair value in the consolidated balance sheets. For derivatives that are not designated as hedges, the periodic change in fair value is recorded directly to earnings. For derivative instruments that qualify and are designated by us as cash flow hedges, the periodic change in fair value is recorded to "Accumulated other comprehensive loss" until the contract settles or the relationship ceases to qualify for hedge accounting. In addition, if a portion of the change in fair value for a cash flow hedge is deemed ineffective during a reporting period, the ineffective portion of the change in fair value is recorded directly to earnings. We entered into heating oil swap and ultra low sulfur diesel fuel contracts to manage our exposure to diesel fuel prices. The changes in diesel fuel prices and the prices for these financial instruments are highly correlated, thus allowing the swap contracts to be designated as cash flow hedges.

Share−Based Compensation

We have an equity incentive plan for certain eligible employees and eligible non−employee directors that allows for the issuance of share−based compensation in the form of restricted stock, incentive stock options, nonqualified stock options, stock appreciation rights, performance awards, restricted stock units and deferred stock units. We utilize the Black−Scholes option pricing model to determine the fair value of stock options and an applicable lattice pricing model to determine the fair value of certain market−based performance awards. Determining the fair value of share−based awards requires judgment, including estimating the expected term that stock options will be outstanding prior to exercise, the associated volatility, and a risk−free interest rate. Judgment is also required in estimating the amount of share−based awards expected to be forfeited prior to vesting. If actual forfeitures differ significantly from these estimates, share−based compensation expense could be materially impacted.

Impairment of Long−Lived Assets

Impairment losses on long−lived assets used in operations are recorded when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets under various assumptions are less than the carrying amounts of those assets. Impairment losses are measured by comparing the estimated fair value of the impaired asset to its carrying amount.

Business Combinations

We account for business acquisitions using the purchase method of accounting. Under this method of accounting, the purchase price is allocated to the fair value of the net assets acquired. Determining the fair value of assets acquired and liabilities assumed requires management's judgment and the utilization of independent valuation experts, and often involves the use of significant estimates and assumptions, including, but not limited to, assumptions with respect to future cash flows, discount rates and asset lives.

Liquidity and Capital Resources

Our primary sources of cash include sales of our coal production to customers, sales of non−core assets and financing transactions. Our primary uses of cash include our cash costs of coal production, capital expenditures, interest costs and costs related to past mining obligations and reclamation as well as acquisitions. Our ability to service our debt (interest and principal) and acquire new productive assets or businesses is dependent upon our ability to continue to generate cash from the primary sources noted above in excess of the primary uses. We expect to fund our capital expenditure requirements with cash generated from operations or borrowed funds as necessary.

Net cash provided by operating activities was $113.0 million for the year ended December 31, 2011, an increase of $77.7 million compared to the prior year. The increase in cash provided by operating activities primarily related to higher cash flows from operations of $61.2 million, primarily driven by higher metallurgical coal sales prices and changes in working capital of $58.9 million. The increases in cash provided by operating activities were partially offset by a $24.7 million decrease in asset retirement obligations related to the Apogee FBR and Hobet ABMet water treatment facilities and a one−time surety deposit of $15.0 million. The $15.0 million surety deposit was posted with the U.S. Department of Labor (DOL) in 2011 in relation to certain of our occupational disease (Federal black lung) workers' compensation obligations. As part of our 2007 spin−off, Peabody had previously guaranteed with the DOL certain obligations related to our subsidiaries until they were fully transferred in 2011.

Net cash used in investing activities was $81.2 million for the year ended December 31, 2011, a decrease of $27.7 million compared to cash used in investing activities of $108.9 million in the prior year. The decrease in cash used in investing activities in 2011 reflected the early repayment of $115.7 million of our outstanding notes receivable in February 2011 as compared to the collection of $33.1 million in scheduled payments on the same notes receivable in 2010. The decrease in cash used was partially offset by cash paid in a litigation settlement of $14.8 million and an increase in capital expenditures of $41.0 million in 2011 primarily related to the build out of our metallurgical coal production. As part of a litigation settlement, we made a payment of $14.8 million, and ownership of the assets and liabilities from a 2005 sale reverted back to us. The assets include coal reserves in West Virginia and surface land in Illinois at closed mine sites. The liabilities include the reclamation obligations related to these assets.

Net cash used in financing activities was $30.7 million for the year ended December 31, 2011 compared to cash provided by financing activities of $239.6 million for the year ended December 31, 2010. In 2011, we made long−term debt payments of $31.0 million, primarily due to the purchase of the Blue Creek preparation plant which was formerly leased. In May 2010, we received proceeds of $248.2 million, net of discount, from our debt offering of 8.25% Senior Notes, as well as $17.7 million from a coal reserve financing transaction in June 2010. In 2010, the cash provided by financing activities was partially offset by deferred financing costs of $20.7 million related to the May 2010 debt offering, the May 2010 credit facility restatement and amendment and the accounts receivable securitization program.

Selenium Water Treatment Obligations

September 1, 2010 U.S. District Court Ruling

On September 1, 2010, the U.S. District Court found Apogee in contempt for failing to comply with the March 19, 2009 consent decree. Apogee was ordered to install a Fluidized Bed Reactor (FBR) water treatment facility for three outfalls and to come into compliance with applicable selenium discharge limits at these three outfalls by March 1, 2013. The estimated costs to meet our legal obligation resulting from the September 1, 2010 ruling for selenium water treatment at the three Apogee outfalls have changed from our original estimates. As such, we increased the portion of the liability related to Apogee by updating the fair value of the costs related to these three outfalls and recorded the $69.5 million difference between this updated value and our previously recorded liability directly to income, through asset retirement obligation expense in the third quarter of 2010. As of December 31, 2011, we have spent approximately $12.6 million on the Apogee FBR facility and the total expenditures are estimated to be approximately $55 million. We began construction on the Apogee FBR facility in the third quarter of 2011.

Additionally, the September 1, 2010 ruling required Hobet to submit a proposed schedule to develop a treatment plan for a Hobet Surface Mine No. 22 outfall by October 1, 2010 and to come into compliance with applicable discharge limits under the permit by May 1, 2013. We submitted the required schedule, which included conducting additional pilot projects related to certain technological alternatives. A treatment technology to be utilized at this Hobet Surface Mine No. 22 outfall was filed with the U.S. District Court in June 2011 in accordance with the submitted schedule. In June 2011, we selected FBR technology for this outfall because we could utilize the knowledge gained building the Apogee FBR facility and additional research was needed to resolve certain detailed design considerations for ZVI and Ion Exchange

(IX). In June 2011, we recorded an adjustment of $60.6 million to the selenium water treatment liability primarily related to the estimated installation and operating costs of an FBR water treatment facility at this outfall. In December 2011, the U.S. District Court agreed to a change to the selenium water treatment technology from FBR to ABMet technology at this outfall.

In December 2011, the Special Master appointed by the U.S. District Court to oversee the Hobet Surface Mine No. 22 project approved Hobet's request to substitute ABMet selenium treatment technology for the FBR technology at this outfall. The U.S. District Court subsequently confirmed this substitution. We continue to design and seek permits for the Hobet ABMet facility and anticipate beginning construction on the facility in the first half of 2012. The estimated total costs for installing the ABMet water treatment facility is approximately $25 million, which is significantly less than the estimated $40 million to build the Hobet FBR facility.

In December 2011, we adjusted the portion of the selenium water treatment liability related to Hobet Surface Mine No. 22 by $25.6 million for the decrease in the fair value of the estimated costs related to this outfall due to the change in the technology. Prior to the technology change, we spent $3.0 million related to the final engineering specifications for the Hobet FBR facility.

FBR technology had not been used to remove selenium or any other minerals discharged at coal mining operations prior to our pilot project performed in 2010. The FBR water treatment facility required by the September 1, 2010 ruling will be the first facility constructed for selenium removal on a commercial scale. Neither FBR nor ABMet technology has been proven effective on a full−scale commercial basis at coal mining operations and there can be no assurance that either of these technologies will be successful under all variable conditions experienced at our mining operations.

February 2011 Litigation

In February 2011, OVEC and two other environmental groups filed a lawsuit against us, Apogee, Catenary and Hobet, in the U.S. District Court alleging violations of ten NPDES permits and certain SMCRA permits. We refer to this case as the February 2011 Litigation. The February 2011 Litigation involves the same four NPDES permits that are the subject of the Catenary WVDEP Action, the same Apogee permit that is the subject of the Apogee WVDEP Action, the same four NPDES permits that are the subject of the Hobet WVDEP Action and one additional NPDES permit held by Hobet that is not the subject of any action by WVDEP. The plaintiffs were seeking fines, compliance with permit limits and other requirements, and injunctive relief.

In late 2011, we substantially agreed to the terms of a settlement agreement with OVEC and the other environmental groups. On January 18, 2012, we finalized a comprehensive consent decree that, when entered by the U.S. District Court, will resolve the February 2011 Litigation. The comprehensive consent decree also sets technology selection and compliance dates for the outfalls in the ten permits included in the February 2011 Litigation on a staggered basis, allowing us to continue testing certain technologies as well as to take advantage of technology that is still in the development stage. The comprehensive consent decree separates the outfalls included in these ten NPDES permits into categories based on the average gallons per minute water flow at each outfall. The comprehensive consent decree requires that we select water treatment technology alternatives by category beginning with the first category in September 2012 and ending with the last category in September 2014.

Additionally, we agreed to, among other things, come into compliance with applicable selenium discharge limits at each outfall in the category beginning with the first category within 24 months of the effective date of the agreement and ending with the last category within 60 months of the effective date of the agreement. We also agreed to, among other things, waive our rights to mine certain coal reserves and to pay $7.5 million in civil penalties. The plaintiffs agreed to, among other things, refrain from instituting new lawsuits with respect to the permits and outfalls identified in the comprehensive consent decree for certain periods, provided we meet the specified requirements. The comprehensive consent decree also established a framework under which we will interface with the plaintiffs with respect to the identified permits and outfalls. See the table below for additional details. The comprehensive consent decree will become effective upon entry by the U.S. District Court after the conclusion of a public comment period.

The amounts paid per the comprehensive consent decree of $7.5 million and the write−off of the forfeited coal reserves of approximately $2.3 million are reflected in “Asset retirement obligation expense” in our consolidated statement of operations.

| Category/Gallons Per Minute | Technology Selection Date | Projected Compliance Date |
|---|---|---|
| I / 0−200 | September 1, 2012 | 24 months from the effective date of the agreement |
| II / 201−400 | December 31, 2012 | 36 months from the effective date of the agreement |
| III / 401−600 | March 31, 2013 | 45 months from the effective date of the agreement |
| IV / 601−1000 | September 1, 2013 | 50 months from the effective date of the agreement |
| V / 1000 + | September 1, 2014 | 60 months from the effective date of the agreement |

While we are actively continuing to explore treatment options, there can be no assurance as to if or when a definitive solution will be identified and implemented. As a result, actual costs may differ from our current estimates. We will make additional adjustments to our liability when it becomes probable that we will utilize a different technology or modify the current technology, whether due to developments in our ongoing research, technology changes or modifications according to the comprehensive consent decree or other legal obligations to do so. Additionally, there are no assurances we will meet the timetable stipulated in the various court orders, consent decrees and permits.

Credit Facilities

Effective May 5, 2010, we entered into a $427.5 million amended and restated credit agreement with a maturity date of December 31, 2013. The credit facility provides for the issuance of letters of credit and direct borrowings. We incurred total fees of $10.9 million in relation to the amended and restated credit agreement. These fees as well as the fees related to the initial agreement are being amortized over the remaining term of the amended and restated agreement. We wrote−off $0.6 million of the fees from the initial agreement due to changes to the syndication group.

The obligations under our credit facility are secured by a first lien on substantially all of our assets, including but not limited to certain of our mines, coal reserves and related fixtures. The credit facility contains certain customary covenants, including financial covenants limiting our indebtedness related to net debt coverage and cash interest expense coverage, as well as certain limitations on, among other things, additional debt, liens, investments, acquisitions and capital expenditures, future dividends, and asset sales. In January 2011 and 2012, we entered into amendments to the credit agreement which, among other things, modified certain limits and minimum requirements of our financial covenants. At December 31, 2011, we were in compliance with the covenants of our amended credit facility.

The terms of the credit facility also contain certain customary events of default, which give the lenders the right to accelerate payments of outstanding debt in certain circumstances. Customary events of default include breach of covenants, failure to maintain required ratios, failure to make principal payments or to make interest or fee payments within a grace period, and default, beyond any applicable grace period, on any of our other indebtedness exceeding a certain amount.

Our credit facility contains financial covenants which require us to maintain specified ratios of Consolidated Interest Coverage and Consolidated Net Leverage (each as defined in the credit facility). Given the current state of global economic conditions, volatile financial markets, changing governmental regulation related to the production and use of our products, as well as competition from natural gas, there is a possibility that we may not be able to comply with our financial covenants. Failure to comply with our financial covenants would be an event of default under the terms of our credit facility and could result in the acceleration of the loans outstanding thereunder, and possibly all of our debt obligations.

If we are unable to comply with the financial covenants under our credit facility, we will be required to seek one or more amendments or waivers from our lenders. We believe that we would be able to obtain any required amendments or waivers, but can give no assurance that we would be able to do so on favorable terms, if at all. If we are unable to obtain any required amendments or waivers, our lenders would have the right to exercise the remedies specified in the credit facility documents, including accelerating the repayment of our debt and taking collection action against us, including proceeding against the collateral securing the credit facility.

In March 2010, we entered into a $125 million accounts receivable securitization program, which provides for the issuance of letters of credit and direct borrowings. Trade accounts receivable are sold, on a revolving basis, to a wholly−owned bankruptcy−remote entity (facilitating entity), which then sells an undivided interest in all of the trade accounts receivable to creditors as collateral for any borrowings. Available liquidity under the program fluctuates with the balance of our trade accounts receivable. The outstanding trade accounts receivable balance was $171.0 million and $146.6 million as of December 31, 2011 and 2010, respectively.

Based on our continuing involvement with the trade accounts receivable balances, including continued risk of loss, the sale of the trade accounts receivable to the creditors does not receive sale accounting treatment. As such, the trade accounts receivable balances remain on our financial statements until settled. Any direct borrowings under the program are recorded as secured debt.

Both the credit agreement and the accounts receivable securitization program (the facilities) are available for our working capital requirements, capital expenditures and other corporate purposes. As of December 31, 2011 and 2010, the balance of outstanding letters of credit issued against the credit facilities totaled $331.8 million and $355.3 million, respectively. There were no outstanding short−term borrowings against these facilities as of December 31, 2011 and 2010. Availability under these facilities was $220.7 million and $197.2 million as of December 31, 2011 and 2010, respectively.

Senior Notes Issuance

On May 5, 2010, we completed a public offering of $250 million in aggregate principal amount of 8.25% Senior Notes due 2018. The net proceeds of the offering were approximately $240 million after deducting the initial $1.8 million discount, purchasers' commissions and fees, and expenses of the offering. The net proceeds were being used for general corporate purposes, which may include capital expenditures for development of additional coal production capacity, working capital, acquisitions, refinancing of other debt or other capital transactions. The discount is being amortized over the term of the notes. For the years ended December 31, 2011 and 2010, interest expense for the senior notes was $20.9 million and $13.2 million, respectively.

Interest on the notes is payable semi−annually in arrears on April 30 and October 30 of each year. The notes mature on April 30, 2018, unless redeemed in accordance with their terms prior to such date. The notes are senior unsecured obligations, rank equally with all of our existing and future senior debt and are senior to any subordinated debt. The notes are guaranteed by the majority of our wholly−owned subsidiaries.

The notes may be redeemed at any time prior to April 30, 2014, in whole or in part, at a redemption price equal to 100% of the principal amount of the notes to be redeemed, plus accrued and unpaid interest and a "make−whole" premium as defined in the indentures. The notes may be redeemed on or after April 30, 2014 at certain redemption prices as defined in the indentures. In addition, up to 35% of the aggregate principal amount of the notes may be redeemed prior to April 30, 2013 at a redemption price equal to 108.25% of the principal amount thereof from the net proceeds of certain equity offerings.

The indenture governing the notes contains customary covenants that, among other things, limit our ability to incur additional indebtedness and issue preferred equity; pay dividends or distributions; repurchase equity or repay subordinated indebtedness; make investments or certain other restricted payments; create liens; sell assets; enter into agreements that restrict dividends, distributions or other payments from subsidiaries; enter into transactions with affiliates; and consolidate, merge or transfer all or substantially all of our assets. The indenture also contains certain customary events of default, which give the lenders the right to accelerate payments of outstanding debt in certain circumstances. Customary events of default include breach of covenants, failure to make principal payments or to make interest payments within a grace period, and default, beyond any applicable grace period, on any of our other indebtedness exceeding a certain amount.

Private Convertible Senior Notes Issuance

On May 28, 2008, we completed a private offering of $200 million in aggregate principal amount of 3.25% Convertible Senior Notes due 2013, including $25 million related to the underwriters' overallotment option. The net proceeds of the offering were $194 million after deducting the commissions and fees and expenses of the offering. We used the majority of the proceeds of the offering to repay Magnum's existing senior secured indebtedness and acquisition related fees and expenses. All remaining amounts were used for other general corporate purposes.

We utilized an interest rate of 8.85% to reflect the nonconvertible market rate of our offering upon issuance, which resulted in a $45 million discount to the convertible note balance and an increase to "Additional paid−in capital" to reflect the value of the conversion feature. The nonconvertible market interest rate was based on an analysis of similar securities trading in the market at the pricing date of the issuance, taking into account company specific data such as credit spreads and implied volatility. In addition, we allocated the financing costs related to the issuance of the convertible instruments between the debt and equity components. The debt discount is amortized over the contractual life of the convertible notes, resulting in additional interest expense above the contractual coupon amount. Interest expense for the convertible notes was $15.8 million, $15.1 million and $14.4 million for the years ended December 31, 2011, 2010 and 2009, respectively.

Interest on the notes is payable semi−annually in arrears on May 31 and November 30 of each year. The notes mature on May 31, 2013, unless converted, repurchased or redeemed in accordance with their terms prior to such date. The notes are senior unsecured obligations, rank equally with all of our existing and future senior debt and are senior to any subordinated debt.

The notes are convertible into cash and, if applicable, shares of Patriot's common stock during the period from issuance to February 15, 2013, subject to certain conditions of conversion as described below. The conversion rate for the notes is 14.7778 shares of Patriot's common stock per $1,000 principal amount of notes, which is equivalent to a conversion price of approximately $67.67 per share of common stock. The conversion rate and the conversion price are subject to adjustment for certain dilutive events, such as a future stock split or a distribution of a stock dividend.

The notes require us to settle all conversions by paying cash for the lesser of the principal amount or the conversion value of the notes, and by settling any excess of the conversion value over the principal amount in cash or shares, at our option.

Holders of the notes may convert their notes prior to the close of business on the business day immediately preceding February 15, 2013, only under the following circumstances: (1) during the five trading day period after any ten consecutive trading day period (the measurement period) in which the trading price per note for each trading day of that measurement period was less than 97% of the product of the last reported sale price of Patriot's common stock and the conversion rate on each such trading day; (2) during any calendar quarter and only during such calendar quarter, if the last reported sale price of Patriot's common stock for 20 or more trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter exceeds 130% of the conversion price in effect on each such trading day; (3) if such holder's notes have been called for redemption or (4) upon the occurrence of corporate events specified in the indenture. The notes will be convertible, regardless of the foregoing circumstances, at any time from, and including, February 15, 2013 until the close of business on the business day immediately preceding the maturity date.

The number of shares of Patriot's common stock that we may deliver upon conversion will depend on the price of our common stock during an observation period as described in the indenture. Specifically, the number of shares deliverable upon conversion will increase as the common stock price increases above the conversion price of $67.67 per share during the observation period. The maximum number of shares that we may deliver is 2,955,560. However, if certain fundamental changes occur in Patriot's business that are deemed “make−whole fundamental changes” in the indenture, the number of shares deliverable on conversion may increase, up to a maximum amount of 4,137,788 shares. These maximum amounts are subject to adjustment for certain dilutive events, such as a stock split or a distribution of a stock dividend.

Holders of the notes may require us to repurchase all or a portion of our notes upon a fundamental change in our business, as defined in the indenture. The holders would receive cash for 100% of the principal amount of the notes, plus any accrued and unpaid interest.

Patriot may redeem (i) some or all of the notes at any time on or after May 31, 2011, but only if the last reported sale price of our common stock for 20 or more trading days in a period of 30 consecutive trading days ending on the trading day prior to the date we provide the relevant notice of redemption exceeds 130% of the conversion price in effect on each such trading day, or (ii) all of the notes if at any time less than $20 million in aggregate principal amount of notes remain outstanding. In both cases, notes will be redeemed for cash at a redemption price equal to 100% of the principal amount of the notes to be redeemed, plus any accrued and unpaid interest up to, but excluding, the relevant redemption date.

The notes and any shares of common stock issuable upon conversion have not been registered under the Securities Act of 1933, as amended (the Securities Act), or any state securities laws. The notes were only offered to qualified institutional buyers pursuant to Rule 144A promulgated under the Securities Act.

Promissory Notes

In conjunction with an exchange transaction involving the acquisition of Illinois Basin coal reserves in 2005, we entered into promissory notes. The promissory notes and related interest are payable in annual installments of $1.7 million beginning January 2008. The promissory notes mature in January 2017. At December 31, 2011, the short−term portion of the promissory notes was $1.2 million.

Other

We do not anticipate that we will pay cash dividends on our common stock in the near term. The declaration and amount of future dividends, if any, will be determined by our Board of Directors and will be dependent upon covenant limitations in our credit facility and other debt agreements, our financial condition and future earnings, our capital, legal and regulatory requirements, and other factors our Board deems relevant.

Contractual Obligations

| | Payments Due by Year as of December 31, 2011 | | | |
|---|---|---|---|---|
| | Within 1 Year | 2−3 Years | 4−5 Years | After 5 Years |
| | (Dollars in thousands) | | | |
| Long−term debt obligations (principal and cash interest) | $ 28,825 | $ 247,900 | $ 44,650 | $ 282,638 |
| Operating lease obligations | 57,213 | 85,194 | 24,175 | 763 |
| Coal reserve lease and royalty obligations | 34,547 | 73,217 | 44,916 | 94,073 |
| Other long−term liabilities(1) | 223,945 | 366,289 | 361,848 | 1,304,791 |
| Total contractual cash obligations | $ 344,530 | $ 772,600 | $ 475,589 | $ 1,682,265 |

(1) Represents long−term liabilities relating to our postretirement benefit plans, work−related injuries and illnesses and mine reclamation, selenium water treatment and end−of−mine closure costs.

As of December 31, 2011, we had $163.3 million of purchase obligations for capital expenditures and $9.5 million related to our Apogee FBR and Hobet ABMet water treatment facilities. Of these amounts, we have equipment totaling $115.2 million scheduled for delivery in 2012, with the remainder in subsequent years. We typically finance a significant portion of equipment through leasing arrangements. Total capital expenditures for 2012 are expected to range from $110 million to $130 million.

Off−Balance Sheet Arrangements and Guarantees

In the normal course of business, we are a party to certain off−balance sheet arrangements. These arrangements include guarantees, indemnifications, and financial instruments with off−balance sheet risk, such as bank letters of credit and performance or surety bonds. Liabilities related to these arrangements are not reflected in our consolidated balance sheets, and we do not expect any material adverse effect on our financial condition, results of operations or cash flows to result from these off−balance sheet arrangements.

We have used a combination of surety bonds and letters of credit to secure our financial obligations for reclamation, workers' compensation, postretirement benefits and lease obligations as follows as of December 31, 2011:

| | Asset Retirement Obligations | Workers' Compensation Obligations | Retiree Health Obligations | Other(1) | Total |
|---|---|---|---|---|---|
| | (Dollars in thousands) | | | | |
| Surety bonds | $ 185,649 | $ 44 | $ — | $ 9,408 | $ 195,101 |
| Letters of credit | 139,392 | 132,181 | 56,730 | 3,498 | 331,801 |
| Third−party guarantees | — | — | — | 7,536 | 7,536 |
| | $ 325,041 | $ 132,225 | $ 56,730 | $ 20,442 | $ 534,438 |

(1) Includes collateral for surety companies and bank guarantees, road maintenance, lease obligations and performance guarantees.

As of December 31, 2011, Arch held surety bonds of $39.4 million related to properties acquired by Patriot in the Magnum acquisition, of which $38.5 million related to reclamation. As a result of the acquisition, Patriot has posted letters of credit in Arch's favor, as required.

As part of the spin−off, Peabody had guaranteed certain of our workers' compensation obligations with the U.S. Department of Labor (DOL). We posted our own surety directly with the DOL in early 2011.

In relation to an exchange transaction involving the acquisition of Illinois Basin coal reserves in 2005, we guaranteed bonding for a partnership in which we formerly held an interest. The aggregate amount that we guaranteed was $2.8 million and the fair value of the guarantee recognized as a liability was $0.2 million as of December 31, 2011. Our obligation under the guarantee extends to September 2015.

In connection with the spin−off, Peabody assumed certain of Patriot's retiree healthcare liabilities. The present value of these liabilities totaled $696.8 million as of December 31, 2011. These liabilities included certain obligations under the Coal Act for which Peabody and Patriot are jointly and severally liable, obligations under the 2007 NBCWA for which we are secondarily liable, and obligations for certain active, vested employees of Patriot.

Newly Adopted Accounting Pronouncements

Multiemployer Benefit Plans

In September 2011, the Financial Accounting Standards Board (FASB) issued authoritative guidance which increases the quantitative and qualitative disclosures an employer is required to provide about its participation in multiemployer benefit plans. We adopted this guidance effective December 31, 2011, with no effect on our results of operations or financial condition.

Comprehensive Income

In June 2011, the FASB issued authoritative guidance which requires entities to report components of comprehensive income in either a continuous statement of comprehensive income or two separate but consecutive statements. This guidance is effective for fiscal years beginning after December 15, 2011, and we will adopt it on January 1, 2012. While we are currently evaluating the impact on our disclosures and presentation of our financial statements, we do not believe this guidance will affect our results of operations or financial condition.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Commodity Price Risk

The potential for changes in the market value of our coal portfolio is referred to as "market risk." Due to lack of quoted market prices and the long term, illiquid nature of the positions, we have not quantified market risk related to our portfolio of coal supply agreements. We manage our commodity price risk for our coal contracts through the use of long−term coal supply agreements, rather than through the use of derivative instruments. We sold 78% of our sales volume under coal supply agreements with terms of one year or more during 2011. As of December 31, 2011 our total unpriced planned production for 2012 was approximately 2 to 4 million tons.

In connection with the spin−off, we entered into long−term coal contracts with marketing affiliates of Peabody. The arrangements, except as described below under Credit Risk, have substantially similar terms and conditions as the pre−existing contractual obligations of Peabody's marketing affiliate. These arrangements may be amended or terminated only with the mutual agreement of Peabody and Patriot.

We have commodity risk related to our diesel fuel purchases. To manage this risk, we have entered into swap contracts with financial institutions. These derivative contracts have been designated as cash flow hedges of anticipated diesel fuel purchases. As of December 31, 2011, the notional amounts outstanding for these swaps included 13.1 million gallons of heating oil expiring throughout 2012, as well as 4.0 million gallons of ultra low sulfur diesel expiring in 2013. We expect to purchase approximately 24 million gallons of diesel fuel annually. Excluding the impact of our hedging activities, a $0.10 per gallon change in the price of diesel fuel would impact our annual operating costs by approximately $2.4 million.

Credit Risk

Approximately 10% of our accounts receivable balance at December 31, 2011 was with a marketing affiliate of Peabody, and we will continue to supply coal to Peabody on a contract basis as described above, so Peabody can meet its commitments under pre−existing customer agreements sourced from our operations. The pre−existing customer arrangement between Patriot and Peabody with the longest term will expire on December 31, 2012. Our remaining sales are made directly to electricity generators, industrial companies and steelmakers. Therefore, our concentration of credit risk is with electricity generators and steelmakers, as well as Peabody.

Our policy is to independently evaluate each customer's creditworthiness prior to entering into transactions and to constantly monitor the credit extended. In the event that we engage in a transaction with a counterparty that does not meet our credit standards, we will protect our position by requiring the counterparty to provide appropriate credit enhancement. When appropriate (as determined by our credit management function), we have taken steps to mitigate our credit exposure to customers or counterparties whose credit has deteriorated and who may pose a higher risk of failure to perform under their contractual obligations. These steps may include obtaining letters of credit or cash collateral, requiring prepayments for shipments or the creation of customer trust accounts held for our benefit to serve as collateral in the event of a failure to pay. While the economic recession may affect our customers, we do not anticipate that it will significantly affect our overall credit risk profile due to our credit policies.

Item 8. Financial Statements and Supplementary Data.

See Part IV, Item 15 of this report for information required by this Item.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined under Rules 13a−15(e) and 15d−15(e) promulgated under the Securities Exchange Act of 1934, as amended) as of December 31, 2011, in connection with our Original Filing. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective to ensure that the information required to be disclosed in the reports filed or submitted by us under the Securities Exchange Act of 1934, as amended (the Exchange Act) was recorded, processed, summarized and reported within the requisite time periods.

Subsequent to the evaluation made in connection with the Original Filing and in connection with the restatement and the filing of this Amendment, our management, including our Chief Executive Officer and Chief Financial Officer, re−evaluated the effectiveness of the design and operation of our disclosure controls and procedures and concluded that there was a material weakness in the internal control over financial reporting related to the accounting treatment for our Apogee FBR and Hobet ABMet water treatment facilities, and our Chief Executive Officer and Chief Financial Officer have subsequently concluded that our internal control over financial reporting was not effective as of December 31, 2011 with respect to the accounting treatment for the Apogee FBR and Hobet ABMet water treatment facilities. Notwithstanding the material weakness, our management, including our Chief Executive Officer and Chief Financial Officer, has concluded that the consolidated financial statements included in this Form 10−K/A present fairly, in all material respects, our financial position, results of operations and cash flows for the periods presented in conformity with accounting principles generally accepted in the United States.

Changes in Internal Control over Financial Reporting

There have not been any significant changes in our internal control over financial reporting during the fiscal quarter ended December 31, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. The material weakness associated with the accounting treatment for the Apogee FBR and Hobet ABMet water treatment facilities discussed above was subsequently identified and resulted in remediation activities subsequent to December 31, 2011.

Remediation of A Material Weakness in Internal Control Over Financial Reporting

The accounting treatment for the costs of installing the Apogee FBR and Hobet ABMet water treatment facilities involves significant operational and accounting complexities. The Apogee FBR and Hobet ABMet water treatment facilities have an anticipated 30 year useful life and their primary use will be for treatment of selenium exceedances in water discharges resulting from past mining under legacy permit standards. FBR technology had not been used to remove selenium or any other minerals discharged at coal mining operations prior to our pilot project performed in 2010. The FBR water treatment facility required by the September 1, 2010 ruling will be the first facility constructed for selenium removal on a commercial scale and neither FBR nor ABMet technology has been proven effective on a full−scale commercial basis at coal mining operations.

In remediating the material weakness that resulted in this restatement, we have added additional review procedures with the intent of widening the internal and external consultations with engineering and accounting experts in the areas that involve this breadth of complexity. In the future, such review procedures will include these increased consultations. As of the date hereof, management believes that as a result of implementation of these additional review procedures over the accounting treatment for these two water treatment facilities and the related environmental obligations, the material weakness in internal control over financial reporting has been remediated and that as May 8, 2012, our internal controls over financial reporting are effective.

We are committed to a strong internal control environment and will continue to review the effectiveness of Patriot's internal controls over financial reporting and other disclosure controls and procedures. As we continue to evaluate and work to improve our internal control over financial reporting, management may determine to take additional measures.

Management's Report on Internal Control Over Financial Reporting

Management is responsible for maintaining and establishing adequate internal control over financial reporting. Our internal control framework and processes were designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our consolidated financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Because of inherent limitations, any system of internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management conducted an assessment of the effectiveness of our internal control over financial reporting using the criteria set by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control — Integrated Framework. Based on this assessment, our management initially concluded that, as of December 31, 2011, our internal control over financial reporting was effective. However, as a result of the identification of the specific issue that caused the restatements described in the Explanatory Note and Note 30 in the Notes to the Consolidated Financial Statements, management subsequently determined that there was a material weakness in the internal control over financial reporting related to the accounting treatment for our Apogee FBR and Hobet ABMet water treatment facilities, and our Management has subsequently concluded that our internal control over financial reporting was not effective as of December 31, 2011.

A material weakness in internal control over financial reporting is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis by our internal controls. As a result of the identification of an error related to the accounting treatment for our Apogee FBR and Hobet ABMet water treatment facilities, we restated our financial statements for the years ended December 31, 2011 and 2010. The resulting restatements are more fully described in Note 30 in the Notes to the Consolidated Financial Statements included in this Form 10−K/A.

As a result of this amended report of Management on Internal Control over Financial Reporting, Ernst & Young LLP, our independent registered public accounting firm, which also audited our Consolidated Financial Statements included in this Form 10−K/A, has issued an updated attestation report on our internal control over financial reporting, which is provided below.

/s/ RICHARD M. WHITING

Richard M. Whiting
Chief Executive Officer

May 8, 2012

Management's Report on Internal Control Over Financial Reporting

Management is responsible for maintaining and establishing adequate internal control over financial reporting. Our internal control framework and processes were designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our consolidated financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Because of inherent limitations, any system of internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management conducted an assessment of the effectiveness of our internal control over financial reporting using the criteria set by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control — Integrated Framework. Based on this assessment, our management initially concluded that, as of December 31, 2011, our internal control over financial reporting was effective. However, as a result of the identification of the specific issue that caused the restatements described in the Explanatory Note and Note 30 in the Notes to the Consolidated Financial Statements, management subsequently determined that there was a material weakness in the internal control over financial reporting related to the accounting treatment for our Apogee FBR and Hobet ABMet water treatment facilities, and our Management has subsequently concluded that our internal control over financial reporting was not effective as of December 31, 2011.

A material weakness in internal control over financial reporting is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis by our internal controls. As a result of the identification of an error related to the accounting treatment for our Apogee FBR and Hobet ABMet water treatment facilities, we restated our financial statements for the years ended December 31, 2011 and 2010. The resulting restatements are more fully described in Note 30 in the Notes to the Consolidated Financial Statements included in this Form 10−K/A.

As a result of this amended report of Management on Internal Control over Financial Reporting, Ernst & Young LLP, our independent registered public accounting firm, which also audited our Consolidated Financial Statements included in this Form 10−K/A, has issued an updated attestation report on our internal control over financial reporting, which is provided below.

/s/ MARK N. SCHROEDER

Mark N. Schroeder
Chief Financial Officer

May 8, 2012

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Patriot Coal Corporation

We have audited Patriot Coal Corporation's internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control−Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Patriot Coal Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our report dated February 22, 2012, we express an unqualified opinion that Patriot Coal Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the COSO criteria. Management has subsequently determined that a deficiency in controls relating to the accounting for the costs to install the Apogee fluidized bed reactor (FBR) and Hobet ABMet water treatment facilities existed as of the previous assessment date, and has further concluded that such deficiency represented a material weakness as of December 31, 2011. As a result, management revised its assessment, as presented in Item 9A “Management's Report on Internal Control over Financial Reporting”, to conclude that Patriot Coal Corporation's internal control over financial reporting was not effective as of December 31, 2011. Accordingly, our opinion on the effectiveness of Patriot Coal Corporation's internal control over financial reporting as of December 31, 2011, as expressed herein, is different from that expressed in our previous report.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management's assessment. Management has identified a material weakness in controls related to the accounting for the costs to install the Apogee FBR and Hobet ABMet water treatment facilities. We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Patriot Coal Corporation as of December 31, 2011 and 2010, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2011. This material weakness was considered in determining the nature, timing and extent of audit tests applied in our audit of the consolidated financial statements as of and for the year ended December 31, 2011, and this report does not affect our report dated February 22, 2012, except for Note 30, as to which the date is May 8, 2012, which expressed an unqualified opinion on those financial statements (as restated).

In our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, Patriot Coal Corporation has not maintained effective internal control over financial reporting as of December 31, 2011, based on the COSO criteria.

/s/ Ernst & Young LLP

St. Louis, Missouri
February 22, 2012, except for the effects of the material weakness described in the fifth and sixth paragraphs, as to which the date is May 8, 2012

Item 9B. Other Information.

Effective February 22, 2012, the Company and Bennett K. Hatfield entered into an agreement to amend the non−competition provision of Mr. Hatfield's employment agreement. Under the amended agreement, Mr. Hatfield has agreed that he will not directly or indirectly engage in competition with the business of the Company or its subsidiaries during the period ending on the later of December 31, 2012 or the termination of his employment with the Company. Previously, Mr. Hatfield had been subject to a non−competition period of one year following the termination of his employment provided that he received from the Company, in addition to his regular severance, a payment equal to one year of base salary.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information required by Item 401 of Regulation S−K is included under the caption Election of Directors in our 2011 Proxy Statement and in Part I of this report under the caption Executive Officers of the Company. Such information is incorporated herein by reference. The information required by Items 405, 406 and 407(c)(3), (d)(4) and (d)(5) of Regulation S−K is included under the captions Section 16(a) Beneficial Ownership Reporting Compliance, Corporate Governance Matters, Board Oversight of Risk and Committees of the Board, respectively, in our 2011 Proxy Statement and is incorporated herein by reference.

Item 11. Executive Compensation.

The information required by Items 402 and 407 (e)(4) and (e)(5) of Regulation S−K is included in our 2011 Proxy Statement under the caption Executive Compensation and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by Item 403 of Regulation S−K is included under the caption Ownership of Company Securities in our 2011 Proxy Statement and is incorporated herein by reference.

As required by Item 201(d) of Regulation S−K, the following table provides information regarding our equity compensation plans as of December 31, 2011:

Equity Compensation Plan Information

| Plan Category | (a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights | Weighted−Average Exercise Price of Outstanding Options, Warrants and Rights | Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) |
|---|---|---|---|
| Equity compensation plans approved by security holders | 1,666,254 | $ 15.35 | 6,723,367 |
| Equity compensation plans not approved by security holders | N/A | N/A | N/A |
| Total | 1,666,254 | $ 15.35 | 6,723,367 |

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by Items 404 and 407(a) of Regulation S−K is included under the captions Certain Relationships and Related Party Transactions, Director Independence and Policy for Approval of Related Party Transactions in our 2011 Proxy Statement and is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services.

The information required by Item 9(e) of Schedule 14A is included under the caption Fees Paid to Independent Registered Public Accounting Firm in our 2011 Proxy Statement and is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a) Documents Filed as Part of the Report

(1) Financial Statements.

The following consolidated financial statements of Patriot Coal Corporation are included herein on the pages indicated:



(2) Financial Statement Schedule.

The following financial statement schedule of Patriot Coal Corporation is at the page indicated:



All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and, therefore, have been omitted.

(3) Exhibits.

See Exhibit Index hereto.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PATRIOT COAL CORPORATION

/s/ RICHARD M. WHITING

Richard M. Whiting
President, Chief Executive Officer and Director

Date: May 8, 2012

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons, on behalf of the registrant and in the capacities and on the dates indicated.

| Signature | Title | Date |
|---|---|---|
| /s/ RICHARD M. WHITING<br>Richard M. Whiting | President, Chief Executive Officer and Director (principal executive officer) | May 8, 2012 |
| /s/ MARK N. SCHROEDER<br>Mark N. Schroeder | Senior Vice President and Chief Financial Officer (principal financial officer) | May 8, 2012 |
| /s/ CHRISTOPHER K. KNIBB<br>Christopher K. Knibb | Vice President − Controller and Chief Accounting Officer (principal accounting officer) | May 8, 2012 |
| /s/ IRL F. ENGELHARDT<br>Irl F. Engelhardt | Chairman of the Board and Director | May 8, 2012 |
| /s/ J. JOE ADORJAN<br>J. Joe Adorjan | Director | May 8, 2012 |
| /s/ B. R. BROWN<br>B. R. Brown | Director | May 8, 2012 |
| /s/ MICHAEL P. JOHNSON<br>Michael P. Johnson | Director | May 8, 2012 |
| /s/ JANIECE M. LONGORIA<br>Janiece M. Longoria | Director | May 8, 2012 |
| /s/ JOHN E. LUSHEFSKI<br>John E. Lushefski | Director | May 8, 2012 |
| /s/ MICHAEL M. SCHARF<br>Michael M. Scharf | Director | May 8, 2012 |
| /s/ ROBERT O. VIETS<br>Robert O. Viets | Director | May 8, 2012 |

| Exhibit No. | Description of Exhibit |
|---|---|
| 2.1 | Separation Agreement, Plan of Reorganization and Distribution, dated October 22, 2007, between Peabody Energy Corporation and Patriot Coal Corporation. (Incorporated by reference to Exhibit 2.1 of the Registrant's Current Report on Form 8−K, filed on October 25, 2007.) |
| 2.2 | Amendment No. 1 to the Separation Agreement, Plan of Reorganization and Distribution, dated November 1, 2007, between Peabody Energy Corporation and Patriot Coal Corporation. (Incorporated by reference to Exhibit 10.42 of the Registrant's Annual Report on Form 10−K, filed on March 14, 2008.) |
| 2.3 | Agreement and Plan of Merger, dated as of April 2, 2008, by and among Magnum Coal Company, Patriot Coal Corporation, Colt Merger Corporation, and ArcLight Energy Partners Fund I, L.P. and ArcLight Energy Partners Fund II, L.P., acting jointly, as Stockholder Representative. (Incorporated by reference to Exhibit 2.1 of the Registrant's Current Report on Form 8−K, filed on April 8, 2008.) |
| 3.1 | Amended and Restated Certificate of Incorporation. (Incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8−K, filed on October 25, 2007.) |
| 3.2 | Certificate of Amendment of the Amended and Restated Certificate of Incorporation. (Incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8−K, filed on May 17, 2010.) |
| 3.3 | Amended and Restated By−Laws. (Incorporated by reference to Exhibit 3.2 of the Registrant's Current Report on Form 8−K, filed on October 25, 2007.) |
| 4.1 | Rights Agreement, dated October 22, 2007, between Patriot Coal Corporation and American Stock Transfer & Trust Company. (Incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8−K, filed on October 25, 2007.) |
| 4.2 | Certificate of Designations of Series A Junior Participating Preferred Stock. (Incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8−K, filed on November 6, 2007.) |
| 4.3 | First Amendment to Rights Agreement, dated as of April 2, 2008, to the Rights Agreement, dated as of October 22, 2007 between Patriot Coal Corporation and American Stock Transfer & Trust Company, as Rights Agent. (Incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8−K, filed on April 8, 2008.) |
| 4.4 | Indenture dated as of May 28, 2008, by and between Patriot Coal Corporation, as Issuer, and U.S. Bank National Association, as trustee (including form of 3.25% Convertible Senior Notes due 2013). (Incorporated by reference to the Registrant's Current Report on Form 8−K, dated May 29, 2008.) |
| 4.5 | Indenture dated as of May 5, 2010 between Patriot Coal Corporation and Wilmington Trust Company, as trustee. (Incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8−K, filed on May 5, 2010.) |
| 4.6 | First Supplemental Indenture dated May 5, 2010 among Patriot Coal Corporation, the guarantors party thereto and Wilmington Trust Company, trustee. (Incorporated by reference to Exhibit 4.2 of the Registrant's Current Report on Form 8−K, filed on May 5, 2010.) |
| 4.7 | Second Supplemental Indenture dated May 5, 2010 among Patriot Coal Corporation, the guarantors party thereto and Wilmington Trust Company, trustee. (Incorporated by reference to Exhibit 4.3 of the Registrant's Current Report on Form 8−K, filed on May 5, 2010.) |

| Exhibit No. | Description of Exhibit |
|---|---|
| 10.1 | Tax Separation Agreement, dated October 22, 2007, between Peabody Energy Corporation and Patriot Coal Corporation. (Incorporated by reference to Exhibit 10.2 of the Registrant's Current Report on Form 8−K, filed on October 25, 2007.) |
| 10.2 | Employee Matters Agreement, dated October 22, 2007, between Peabody Energy Corporation and Patriot Coal Corporation. (Incorporated by reference to Exhibit 10.3 of the Registrant's Current Report on Form 8−K, filed on October 25, 2007.) |
| 10.3 | Coal Act Liabilities Assumption Agreement, dated October 22, 2007, among Patriot Coal Corporation, Peabody Holding Company, LLC and Peabody Energy Corporation. (Incorporated by reference to Exhibit 10.9 of the Registrant's Current Report on Form 8−K, filed on October 25, 2007.) |
| 10.4 | Salaried Employee Liabilities Assumption Agreement, dated October 22, 2007, among Patriot Coal Corporation, Peabody Holding Company, LLC, Peabody Coal Company, LLC and Peabody Energy Corporation. (Incorporated by reference to Exhibit 10.11 of the Registrant's Current Report on Form 8−K, filed on October 25, 2007.) |
| 10.5 | Administrative Services Agreement, dated October 22, 2007, between Patriot Coal Corporation, Peabody Holding Company, LLC and Peabody Energy Corporation. (Incorporated by reference to Exhibit 10.12 of the Registrant's Current Report on Form 8−K, filed on October 25, 2007.) |
| 10.6 | Master Equipment Sublease Agreement, dated October 22, 2007, between Patriot Leasing Company LLC and PEC Equipment Company, LLC. (Incorporated by reference to Exhibit 10.13 of the Registrant's Current Report on Form 8−K, filed on October 25, 2007.) |
| 10.7 | Software License Agreement, dated October 22, 2007, between Patriot Coal Corporation and Peabody Energy Corporation. (Incorporated by reference to Exhibit 10.14 of the Registrant's Current Report on Form 8−K, filed on October 25, 2007.) |
| 10.8 | Throughput and Storage Agreement, dated October 22, 2007, among Peabody Terminals, LLC, James River Coal Terminal, LLC and Patriot Coal Sales LLC. (Incorporated by reference to Exhibit 10.15 of the Registrant's Current Report on Form 8−K, filed on October 25, 2007.) |
| 10.9 | Conveyance and Assumption Agreement, dated October 22, 2007, among PEC Equipment Company, LLC, Central States Coal Reserves of Indiana, LLC, Central States Coal Reserves of Illinois, LLC, Cyprus Creek Land Company and Peabody Coal Company, LLC. (Incorporated by reference to Exhibit 10.16 of the Registrant's Current Report on Form 8−K, filed on October 25, 2007.) |
| 10.10 | Indemnification Agreement, dated November 1, 2007, between Patriot Coal Corporation and J. Joe Adorjan. (Incorporated by reference to Exhibit 10.3 of the Registrant's Current Report on Form 8−K, filed on November 6, 2007.) |
| 10.11 | Indemnification Agreement, dated November 1, 2007, between Patriot Coal Corporation and B. R. Brown. (Incorporated by reference to Exhibit 10.4 of the Registrant's Current Report on Form 8−K, filed on November 6, 2007.) |
| 10.12 | Indemnification Agreement, dated November 1, 2007, between Patriot Coal Corporation and John E. Lushefski. (Incorporated by reference to Exhibit 10.5 of the Registrant's Current Report on Form 8−K, filed on November 6, 2007.) |
| 10.13 | Indemnification Agreement, dated November 1, 2007, between Patriot Coal Corporation and Michael M. Scharf. (Incorporated by reference to Exhibit 10.6 of the Registrant's Current Report on Form 8−K, filed on November 6, 2007.) |

| Exhibit No. | Description of Exhibit |
|---|---|
| 10.14 | Indemnification Agreement, dated November 1, 2007, between Patriot Coal Corporation and Robert O. Viets. (Incorporated by reference to Exhibit 10.7 of the Registrant's Current Report on Form 8−K, filed on November 6, 2007.) |
| 10.15 | Indemnification Agreement, dated July 24, 2008, between Patriot Coal Corporation and Robb E. Turner. (Incorporated by reference to the Registrant's Current Report on Form 8−K, filed on July 28, 2008.) |
| 10.16 | Indemnification Agreement, dated July 24, 2008, between Patriot Coal Corporation and John E. Erhard. (Incorporated by reference to the Registrant's Current Report on Form 8−K, filed on July 28, 2008.) |
| 10.17 | Indemnification Agreement, dated July 24, 2008, between Patriot Coal Corporation and Michael P. Johnson. (Incorporated by reference to the Registrant's Current Report on Form 8−K, filed on July 28, 2008.) |
| 10.18 | Indemnification Agreement, dated January 27, 2011, between Patriot Coal Corporation and Janiece M. Longoria. (Incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8−K, filed on January 28, 2011.) |
| 10.19 | Indemnification Agreement, dated November 1, 2007, between Patriot Coal Corporation and Irl F. Engelhardt. (Incorporated by reference to Exhibit 10.2 of the Registrant's Current Report on Form 8−K, filed on November 6, 2007.) |
| 10.20 | Indemnification Agreement, dated November 1, 2007, between Patriot Coal Corporation and Richard M. Whiting. (Incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8−K, filed on November 6, 2007.) |
| 10.21 | Employment Agreement, dated October 31, 2007, between Patriot Coal Corporation and Richard M. Whiting. (Incorporated by reference to Exhibit 10.9 of the Registrant's Current Report on Form 8−K, filed on November 6, 2007.) |
| 10.22 | Indemnification Agreement, dated November 1, 2007, between Patriot Coal Corporation and Mark N. Schroeder. (Incorporated by reference to Exhibit 10.8 of the Registrant's Current Report on Form 8−K, filed on November 6, 2007.) |
| 10.23 | Employment Agreement, dated October 31, 2007, between Patriot Coal Corporation and Mark N. Schroeder. (Incorporated by reference to Exhibit 10.10 of the Registrant's Current Report on Form 8−K, filed on November 6, 2007.) |
| 10.24 | Employment Agreement, dated October 31, 2007, between Patriot Coal Corporation and Charles A. Ebetino, Jr. (Incorporated by reference to Exhibit 10.12 of the Registrant's Current Report on Form 8−K, filed on November 6, 2007.) |
| 10.25 | Amendment to Employment Agreement between Patriot Coal Corporation and Charles A. Ebetino, Jr. (Incorporated by reference to the Registrant's Current Report on Form 8−K, filed on February 6, 2009.) |
| 10.26 | Employment Agreement, dated October 31, 2007, between Patriot Coal Corporation and Joseph W. Bean. (Incorporated by reference to Exhibit 10.13 of the Registrant's Current Report on Form 8−K, filed on November 6, 2007.) |
| 10.27 | Amendment to Employment Agreement between Patriot Coal Corporation and Joseph W. Bean. (Incorporated by reference to the Registrant's Current Report on Form 8−K, filed on February 6, 2009.) |
| 10.28 | Employment Agreement, dated September 19, 2011, between Patriot Coal Corporation and Bennett K. Hatfield. (Incorporated by reference to the Registrant's Quarterly Report on Form 10−Q, filed on November 2, 2011.) |

| Exhibit No. | Description of Exhibit |
|---|---|
| 10.29 | Patriot Coal Corporation Pledge and Security Agreement, dated October 31, 2007, among Patriot Coal Corporation, certain subsidiaries of Patriot Coal Corporation and Bank of America, N.A. (Incorporated by reference to Exhibit 10.2 of the Registrant's Current Report on Form 8−K, filed on October 31, 2007.) |
| 10.30 | Amended and Restated Credit Agreement dated as of May 5, 2010 among Patriot Coal Corporation, Bank of America, N.A., as Administrative Agent, L/C Issuer and Swing Line Lender, and the lenders party thereto. (Incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8−K, filed on May 5, 2010.) |
| 10.31 | Amendment No. 1, dated as of January 6, 2011, to the Amended and Restated Credit Agreement dated as of May 5, 2010, among Patriot Coal Corporation, Bank of America, N.A., as administrative agent, L/C Issuer and Swing Line Lender, and the lenders party thereto. (Incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8−K, filed on January 6, 2011.) |
| 10.32 | Amendment No. 2, dated as of January 31, 2012, to the Amended and Restated Credit Agreement dated as of May 5, 2010, among Patriot Coal Corporation, Bank of America, N.A., as administrative agent, L/C Issuer and Swing Line Lender, and the lenders party thereto. (Incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8−K, filed on February 2, 2012.) |
| 10.33 | Purchase and Sale Agreement, dated as of March 2, 2010, among the Originators referred to therein, as sellers, Patriot Coal Corporation and Patriot Coal Receivables (SPV) Ltd. (Incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8−K, filed on March 4, 2010.) |
| 10.34 | Receivables Purchase Agreement, dated as of March 2, 2010, among Patriot Coal Receivables (SPV) Ltd., Patriot Coal Corporation, as Servicer, the LC Participants, Related Committed Purchasers, Uncommitted Purchasers and Purchaser Agents parties thereto from time to time and Fifth Third Bank, as Administrator and as issuer of letters of credit. (Incorporated by reference to Exhibit 10.2 of the Registrant's Current Report on Form 8−K, filed on March 4, 2010.) |
| 10.35 | Purchase Agreement, dated May 21, 2008 by and among Patriot Coal Corporation and Citigroup Global Markets Inc. and Lehman Brothers Inc. (Incorporated by reference to the Registrant's Current Report on Form 8−K, filed on May 23, 2008.) |
| 10.36 | Patriot Coal Corporation 2007 Long−Term Equity Incentive Plan. (Incorporated by reference to Exhibit 10.17 of the Registrant's Current Report on Form 8−K, filed on October 25, 2007.) |
| 10.37 | First Amendment to the Patriot Coal Corporation 2007 Long−Term Equity Incentive Plan. (Incorporated by reference to Exhibit 10.46 of the Registrant's Annual Report on Form 10−K, filed on February 25, 2011.) |
| 10.38 | Patriot Coal Corporation Management Annual Incentive Compensation Plan. (Incorporated by reference to Exhibit 10.19 of the Registrant's Current Report on Form 8−K, filed on October 25, 2007.) |
| 10.39 | Form of Non−Qualified Stock Option Agreement under the Patriot Coal Corporation 2007 Long−Term Equity Incentive Plan. (Incorporated by reference to Exhibit 10.2 of the Registrant's Current Report on Form 8−K, filed on October 29, 2007.) |
| 10.40 | Form of Restricted Stock Unit Agreement under the Patriot Coal Corporation 2007 Long−Term Equity Incentive Plan. (Incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8−K, filed on October 29, 2007.) |

| Exhibit No. | Description of Exhibit |
|---|---|
| 10.41 | Form of Restricted Stock Award Agreement under the Patriot Coal Corporation 2007 Long−Term Equity Incentive Plan. (Incorporated by reference to Exhibit 10.3 of the Registrant's Current Report on Form 8−K, filed on October 29, 2007.) |
| 10.42 | Form of Restricted Stock Award Agreement for use in connection with awards under the Patriot Coal Corporation 2007 Long−Term Equity Incentive Plan. (Incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8−K, filed on January 4, 2010.) |
| 10.43 | Form of Restricted Stock Award Agreement for use in connection with awards under the Patriot Coal Corporation 2007 Long−Term Equity Incentive Plan. (Incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8−K, filed on January 9, 2012.) |
| 10.44 | Form of Deferred Stock Unit Award Agreement under the Patriot Coal Corporation 2007 Long−Term Equity Incentive Plan. (Incorporated by reference to Exhibit 10.4 of the Registrant's Current Report on Form 8−K, filed on October 29, 2007.) |
| 10.45 | Form of Performance−Based Restricted Stock Units Award Agreement for use in connection with awards under the Patriot Coal Corporation 2007 Long−Term Equity Incentive Plan. (Incorporated by reference to the Registrant's Current Report on Form 8−K, filed on January 30, 2009.) |
| 10.46 | Form of Non−Qualified Stock Option Agreement for use in connection with awards under the Patriot Coal Corporation 2007 Long−Term Equity Incentive Plan. (Incorporated by reference to the Registrant's Current Report on Form 8−K, filed on January 30, 2009.) |
| 10.47 | Patriot Coal Corporation Employee Stock Purchase Plan. (Incorporated by reference to Exhibit 10.18 of the Registrant's Current Report on Form 8−K, filed on October 25, 2007.) |
| 10.48 | First Amendment to the Patriot Coal Corporation Employee Stock Purchase Plan. (Incorporated by reference to Exhibit 10.63 of the Registrant's Annual Report on Form 10−K, filed on February 24, 2010.) |
| 10.49 | Second Amendment to the Patriot Coal Corporation Employee Stock Purchase Plan. (Incorporated by reference to Exhibit 10.64 of the Registrant's Annual Report on Form 10−K, filed on February 24, 2010.) |
| 10.50 | Third Amendment to the Patriot Coal Corporation Employee Stock Purchase Plan. (Incorporated by reference to Exhibit 10.65 of the Registrant's Annual Report on Form 10−K, filed on February 24, 2010.) |
| 10.51 | Fourth Amendment to the Patriot Coal Corporation Employee Stock Purchase Plan. (Incorporated by reference to Exhibit 10.59 of the Registrant's Annual Report on Form 10−K, filed on February 25, 2011.) |
| 10.52 | Fifth Amendment to the Patriot Coal Corporation Employee Stock Purchase Plan. (Incorporated by reference to Exhibit 10.60 of the Registrant's Annual Report on Form 10−K, filed on February 25, 2011.) |
| 10.53 | Patriot Coal Corporation 401(k) Retirement Plan, as Amended and Restated. (Incorporated by reference to Exhibit 10.61 of the Registrant's Annual Report on Form 10−K, filed on February 25, 2011.) |
| 10.54 | Patriot Coal Corporation Supplemental 401(k) Retirement Plan. (Incorporated by reference to Exhibit 10.16 of the Registrant's Current Report on Form 8−K, filed on November 6, 2007.) |

| Exhibit No. | Description of Exhibit |
|---|---|
| 10.55 | First Amendment to the Patriot Coal Corporation Supplemental 401(k) Retirement Plan. (Incorporated by reference to Exhibit 10.63 of the Registrant's Annual Report on Form 10−K, filed on February 25, 2011.) |
| 10.56 | Second Amendment to the Patriot Coal Corporation Supplemental 401(k) Retirement Plan. (Incorporated by reference to Exhibit 10.64 of the Registrant's Annual Report on Form 10−K, filed on February 25, 2011.) |
| 10.57 | Third Amendment to the Patriot Coal Corporation Supplemental 401(k) Retirement Plan. (Incorporated by reference to Exhibit 10.65 of the Registrant's Annual Report on Form 10−K, filed on February 25, 2011.) |
| 10.58 | Fourth Amendment to the Patriot Coal Corporation Supplemental 401(k) Retirement Plan. (Incorporated by reference to Exhibit 10.66 of the Registrant's Annual Report on Form 10−K, filed on February 25, 2011.) |
| 10.59 | Consent Decree between Ohio Valley Environmental Coalition, Inc., West Virginia Highlands Conservancy, Inc. and Sierra Club and Patriot Coal Corporation, Apogee Coal Company, LLC, Catenary Coal Company, LLC and Hobet Mining, LLC. (Incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8−K, filed on January 23, 2012.) |
| 10.60 | Amendment to Employment Agreement between Patriot Coal Corporation and Bennett K. Hatfield. (Incorporated by reference to Exhibit 10.60 of the Registrant's Annual Report on Form 10−K, filed on February 23, 2012.) |
| 21.1 | List of Subsidiaries (Incorporated by reference to Exhibit 21.1 of the Registrant's Annual Report on Form 10−K, filed on February 23, 2012.) |
| 23.1* | Consent of Independent Registered Accounting Firm |
| 31.1* | Certification of periodic financial report by Patriot Coal Corporation's Chief Executive Officer pursuant to Rule 13a−14(a) under the Securities Exchange Act of 1934, as amended pursuant to Section 302 of the Sarbanes−Oxley Act of 2002. |
| 31.2* | Certification of periodic financial report by Patriot Coal Corporation's Chief Financial Officer pursuant to Rule 13a−14(a) under the Securities Exchange Act of 1934, as amended pursuant to Section 302 of the Sarbanes−Oxley Act of 2002. |
| 32.1* | Certification of periodic financial report pursuant to 18 U.S.C. Section 1350, adopted pursuant to Section 906 of the Sarbanes−Oxley Act of 2002, by Patriot Coal Corporation's Chief Executive Officer. |
| 32.2* | Certification of periodic financial report pursuant to 18 U.S.C. Section 1350, adopted pursuant to Section 906 of the Sarbanes−Oxley Act of 2002, by Patriot Coal Corporation's Chief Financial Officer. |
| 95.1 | Mine Safety Disclosure Exhibit (Incorporated by reference to Exhibit 95.1 of the Registrant's Annual Report on Form 10−K, filed on February 23, 2012.) |
| 99.1 | Patriot Coal Corporation Rights Adjustment Certificate dated July 28, 2008. (Incorporated by reference to Exhibit 99.4 of the Registrant's Current Report on Form 8−K, filed on July 28, 2008). |

| | |
|---|---|
| 101** | Interactive Data Files pursuant to Rule 405 of Regulation S−T: (i) the Consolidated Statements of Operations for the Years Ended December 31, 2011, 2010 and 2009, (ii) the Consolidated Balance Sheets as of December 31, 2011 and 2010, (iii) the Consolidated Statements of Cash Flows for the Years Ended December 31, 2011, 2010 and 2009, (iv) the Consolidated Statements of Changes in Stockholders' Equity for the Years Ended December 31, 2011, 2010 and 2009 and (v) the Notes to the Consolidated Financial Statements. |

* Filed herewith.

** Pursuant to Rule 406T of Regulation S−T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

## Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Patriot Coal Corporation

We have audited the accompanying consolidated balance sheets of Patriot Coal Corporation as of December 31, 2011 and 2010, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2011. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Patriot Coal Corporation at December 31, 2011 and 2010, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 30 to the consolidated financial statements, the accompanying financial statements have been restated for the correction of an error in the accounting for the costs to install the Apogee fluidized bed reactor and Hobet ABMet water treatment facilities.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Patriot Coal Corporation's internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control − Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 22, 2012, except for the effects of the material weakness described in the fifth and sixth paragraphs of that report, as to which the date is May 8, 2012, expressed an adverse opinion thereon.

/s/ Ernst & Young LLP

St. Louis, Missouri
February 22, 2012, except for Note 30, as to which the date is May 8, 2012

## PATRIOT COAL CORPORATION
## CONSOLIDATED STATEMENTS OF OPERATIONS

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2011 Restated (1) | 2010 Restated (1) | 2009 |
| | (Dollars in thousands, except share and per share data) | | |
| Revenues | | | |
| Sales | $ 2,378,260 | $ 2,017,464 | $ 1,995,667 |
| Other revenues | 24,246 | 17,647 | 49,616 |
| Total revenues | 2,402,506 | 2,035,111 | 2,045,283 |
| Costs and expenses | | | |
| Operating costs and expenses | 2,213,124 | 1,900,704 | 1,893,419 |
| Depreciation, depletion and amortization | 186,348 | 188,074 | 205,339 |
| Asset retirement obligation expense | 105,232 | 112,697 | 35,116 |
| Sales contract accretion | (55,020) | (121,475) | (298,572) |
| Restructuring and impairment charge | 13,657 | 15,174 | 20,157 |
| Selling and administrative expenses | 52,907 | 50,248 | 48,732 |
| Net gain on disposal or exchange of assets | (35,557) | (48,226) | (7,215) |
| Income from equity affiliates | (4,709) | (9,476) | (398) |
| Operating profit (loss) | (73,476) | (52,609) | 148,705 |
| Interest expense and other | 65,533 | 57,419 | 38,108 |
| Interest income | (246) | (12,831) | (16,646) |
| Income (loss) before income taxes | (138,763) | (97,197) | 127,243 |
| Income tax provision | 372 | 492 | — |
| Net income (loss) | $ (139,135) | $ (97,689) | $ 127,243 |
| | | | |
| Weighted average shares outstanding: | | | |
| Basic | 91,321,931 | 90,907,264 | 84,660,998 |
| Effect of dilutive securities | — | — | 763,504 |
| Diluted | 91,321,931 | 90,907,264 | 85,424,502 |
| | | | |
| Earnings (loss) per share: | | | |
| Basic | $ (1.52) | $ (1.07) | $ 1.50 |
| Diluted | $ (1.52) | $ (1.07) | $ 1.49 |

(1) See Note 30, Restatement of Consolidated Financial Statements, in the Notes to Consolidated Financial Statements.

See accompanying notes to the consolidated financial statements.

PATRIOT COAL CORPORATION

CONSOLIDATED BALANCE SHEETS

| | December 31, 2011 Restated[1] | | December 31, 2010 Restated[1] | |
|---|---|---|---|---|
| | (Dollars in thousands, except share data) | | | |
| **ASSETS** | | | | |
| Current assets | | | | |
| Cash and cash equivalents | $ | 194,162 | $ | 193,067 |
| Accounts receivable and other, net of allowance for doubtful accounts of $138 and $141 as of December 31, 2011 and 2010, respectively | | 177,695 | | 207,365 |
| Inventories | | 98,366 | | 97,973 |
| Prepaid expenses and other current assets | | 28,191 | | 28,648 |
| Total current assets | | 498,414 | | 527,053 |
| Property, plant, equipment and mine development | | | | |
| Land and coal interests | | 2,935,796 | | 2,870,182 |
| Buildings and improvements | | 504,275 | | 439,326 |
| Machinery and equipment | | 735,207 | | 678,371 |
| Less accumulated depreciation, depletion and amortization | | (973,157) | | (828,402) |
| Property, plant, equipment and mine development, net | | 3,202,121 | | 3,159,477 |
| Notes receivable | | — | | 69,540 |
| Investments and other assets | | 63,203 | | 52,908 |
| Total assets | $ | 3,763,738 | $ | 3,808,978 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | | | |
| Current liabilities | | | | |
| Accounts payable and accrued expenses | $ | 513,123 | $ | 419,606 |
| Below market sales contracts acquired | | 44,787 | | 70,917 |
| Current portion of debt | | 1,182 | | 3,329 |
| Total current liabilities | | 559,092 | | 493,852 |
| Long−term debt, less current maturities | | 441,064 | | 451,529 |
| Asset retirement obligations | | 424,974 | | 388,074 |
| Workers' compensation obligations | | 231,585 | | 220,757 |
| Postretirement benefit obligations | | 1,387,317 | | 1,269,168 |
| Obligation to industry fund | | 35,429 | | 38,978 |
| Below market sales contracts acquired, noncurrent | | 46,217 | | 92,253 |
| Other noncurrent liabilities | | 45,218 | | 60,949 |
| Total liabilities | | 3,170,896 | | 3,015,560 |
| Stockholders' equity | | | | |
| Common stock ($0.01 par value; 300,000,000 shares authorized; 91,885,338 and 90,944,595 shares issued and outstanding at December 31, 2011 and 2010, respectively) | | 919 | | 909 |
| Preferred stock ($0.01 par value; 10,000,000 shares authorized; no shares issued and outstanding at December 31, 2011 and 2010) | | — | | — |
| Series A Junior Participating Preferred Stock ($0.01 par value; 1,000,000 shares authorized; no shares issued and outstanding at December 31, 2011 and 2010) | | — | | — |
| Additional paid−in capital | | 977,169 | | 961,285 |
| Retained earnings (deficit) | | (216) | | 138,919 |
| Accumulated other comprehensive loss | | (385,030) | | (307,695) |
| Total stockholders' equity | | 592,842 | | 793,418 |
| Total liabilities and stockholders' equity | $ | 3,763,738 | $ | 3,808,978 |

(1) See Note 30, Restatement of Consolidated Financial Statements, in the Notes to Consolidated Financial Statements.

See accompanying notes to the consolidated financial statements.

PATRIOT COAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Year Ended December 31, 2011 Restated[(1)] | 2010 Restated[(1)] | 2009 |
|---|---|---|---|
| | (Dollars in thousands) | | |
| Cash Flows From Operating Activities | | | |
| Net income (loss) | $ (139,135) | $ (97,689) | $ 127,243 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | | |
| Depreciation, depletion and amortization | 186,348 | 188,074 | 205,339 |
| Amortization of deferred financing costs | 7,356 | 6,412 | 3,700 |
| Amortization of debt discount | 9,543 | 8,710 | 7,864 |
| Sales contract accretion | (55,020) | (121,475) | (298,572) |
| Impairment charge | 13,093 | 2,823 | 12,949 |
| Loss on early repayment of note receivable | 5,868 | — | — |
| Net gain on disposal or exchange of assets | (35,557) | (48,226) | (7,215) |
| Income from equity affiliates | (4,709) | (9,476) | (398) |
| Distributions from equity affiliates | 3,219 | 5,095 | 1,000 |
| Stock−based compensation expense | 13,779 | 11,657 | 13,852 |
| Changes in current assets and liabilities: | | | |
| Accounts receivable | (22,336) | (59) | (3,565) |
| Inventories | (393) | (16,785) | (6,530) |
| Other current assets | (1,161) | (15,172) | 903 |
| Accounts payable and accrued expenses | 36,804 | (13,936) | (38,867) |
| Interest on notes receivable | — | (12,652) | (14,030) |
| Asset retirement obligations | 52,293 | 77,002 | 14,988 |
| Workers' compensation obligations | 8,580 | 12,343 | 4,470 |
| Accrued postretirement benefit costs | 58,871 | 50,944 | 26,248 |
| Obligation to industry fund | (3,278) | (2,769) | (3,019) |
| Federal black lung collateralization | (14,990) | — | — |
| Other, net | (6,186) | 10,432 | (6,749) |
| Net cash provided by operating activities | 112,989 | 35,253 | 39,611 |
| Cash Flows From Investing Activities | | | |
| Additions to property, plant, equipment and mine development | (162,965) | (121,931) | (78,263) |
| Proceeds from notes receivable | 115,679 | 33,100 | 11,000 |
| Additions to advance mining royalties | (26,030) | (21,510) | (16,997) |
| Net cash paid in litigation settlement and asset acquisition | (14,787) | — | — |
| Proceeds from disposal or exchange of assets | 6,928 | 1,766 | 5,513 |
| Other | — | (300) | 1,154 |
| Net cash used in investing activities | (81,175) | (108,875) | (77,593) |
| Cash Flows From Financing Activities | | | |
| Proceeds from debt offering, net of discount | — | 248,198 | — |
| Proceeds from coal reserve financing transaction | — | 17,700 | — |
| Deferred financing costs | (1,832) | (20,740) | — |
| Long−term debt payments | (31,002) | (8,042) | (5,905) |
| Proceeds from equity offering, net of costs | — | — | 89,077 |
| Short−term debt payments | — | — | (23,000) |
| Proceeds from employee stock programs | 2,115 | 2,475 | 2,036 |
| Net cash provided by (used in) financing activities | (30,719) | 239,591 | 62,208 |
| Net increase in cash and cash equivalents | 1,095 | 165,969 | 24,226 |
| Cash and cash equivalents at beginning of period | 193,067 | 27,098 | 2,872 |
| Cash and cash equivalents at end of period | $ 194,162 | $ 193,067 | $ 27,098 |

(1) See Note 30, Restatement of Consolidated Financial Statements, in the Notes to Consolidated Financial Statements.

See accompanying notes to the consolidated financial statements.

PATRIOT COAL CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

| | Common Stock | Additional Paid−in Capital | Retained Earnings (Deficit) | Accumulated Other Comprehensive Loss | Total |
|---|---|---|---|---|---|
| | | | (Dollars in thousands) | | |
| December 31, 2008 | $ 774 | $ 842,323 | $ 109,365 | $ (112,281) | $ 840,181 |
| Net income | — | — | 127,243 | — | 127,243 |
| Postretirement plans and workers' compensation obligations (net of taxes of $0) | — | — | — | (147,625) | (147,625) |
| Changes in diesel fuel hedge | — | — | — | 10,730 | 10,730 |
| Total comprehensive loss | | | | | (9,652) |
| Issuance of 12,000,000 shares of common stock from equity offering | 120 | 88,957 | — | — | 89,077 |
| Stock−based compensation | — | 13,852 | — | — | 13,852 |
| Employee stock purchases | 3 | 2,033 | — | — | 2,036 |
| Stock grants to employees | 6 | (6) | — | — | — |
| December 31, 2009 | 903 | 947,159 | 236,608 | (249,176) | 935,494 |

| | | | | | |
|---|---|---|---|---|---|
| Net loss (restated) (1) | — | — | (97,689) | — | (97,689) |
| Postretirement plans and workers' compensation obligations (net of taxes of $0) | — | — | — | (59,352) | (59,352) |
| Changes in diesel fuel hedge | — | — | — | 833 | 833 |
| Total comprehensive loss (restated) (1) | | | | | (156,208) |
| Stock−based compensation | — | 11,657 | — | — | 11,657 |
| Employee stock purchases | 3 | 2,472 | — | — | 2,475 |
| Stock grants to employees | 3 | (3) | — | — | — |
| December 31, 2010 (restated) (1) | 909 | 961,285 | 138,919 | (307,695) | 793,418 |
| Net loss (restated)(1) | — | — | (139,135) | — | (139,135) |
| Postretirement plans and workers' compensation obligations (net of taxes of $0) | — | — | — | (75,651) | (75,651) |
| Changes in diesel fuel hedge | — | — | — | (1,684) | (1,684) |
| Total comprehensive loss (restated)(1) | | | | | (216,470) |
| Stock−based compensation | — | 13,779 | — | — | 13,779 |
| Employee stock purchases | 2 | 2,113 | — | — | 2,115 |
| Stock grants to employees | 8 | (8) | — | — | — |
| December 31, 2011 (restated)(1) | $ 919 | $ 977,169 | $ (216) | $ (385,030) | $ 592,842 |

(1) See Note 30, Restatement of Consolidated Financial Statements, in the Notes to Consolidated Financial Statements.

See accompanying notes to the consolidated financial statements.

(1)Basis of Presentation

Description of Business

Effective October 31, 2007, Patriot Coal Corporation (we, our, Patriot or the Company) was spun−off from Peabody Energy Corporation (Peabody) and became a separate, public company traded on the New York Stock Exchange (symbol PCX). The spin−off from Peabody was accomplished through a dividend of all outstanding shares of Patriot.

Patriot is engaged in the mining and preparation of thermal coal, also known as steam coal, for sale primarily to electricity generators and metallurgical coal, for sale to steel mills and coke producers. Our mining complexes and coal reserves are located in the eastern and midwestern United States (U.S.), primarily in West Virginia and Kentucky.

We acquired Magnum Coal Company (Magnum) effective July 23, 2008. Magnum was one of the largest coal producers in Appalachia, operating eight mining complexes with production from surface and underground mines and controlling more than 600 million tons of proven and probable coal reserves.

Basis of Presentation

The consolidated financial statements include the accounts of Patriot and its majority−owned subsidiaries. All significant transactions, profits and balances have been eliminated between Patriot and its subsidiaries. Patriot operates in two domestic coal segments; Appalachia and the Illinois Basin. See Note 24 for additional information.

(2)Summary of Significant Accounting Policies

Sales

Revenues from coal sales are realized and earned when risk of loss passes to the customer. Coal sales are made to customers under the terms of supply agreements. The majority of our coal sales are made pursuant to long−term agreements (one year or more). Under the typical terms of these coal supply agreements, title and risk of loss transfer to the customer at the mine, preparation plant or river terminal or port, where coal is loaded onto the rail, barge, truck, ocean−going vessel or other transportation source that delivers coal to its destination. Shipping and transportation costs are generally borne by the customer. In relation to export sales, we hold inventories at port facilities where title and risk of loss do not transfer until the coal is loaded into an ocean−going vessel. We incur certain “add−on” taxes and fees on coal sales. Coal sales are reported including taxes and fees charged by various federal and state governmental bodies.

Other Revenues

Other revenues include payments from customer settlements, royalties related to coal lease agreements and farm income. During 2009, certain metallurgical and thermal customers requested shipment deferrals on committed tons. In certain situations, we agreed to release the customers from receipt of the tons in exchange for a cash settlement. During 2009, these cash settlements represented a significant portion of other revenues. Royalty income generally results from the lease or sublease of mineral rights to third parties, with payments based upon a percentage of the selling price or an amount per ton of coal produced. Certain agreements require minimum annual lease payments regardless of the extent to which minerals are produced from the leasehold, although revenue is only recognized on these payments as the mineral is mined. The terms of these agreements generally range from specified periods of 5 to 15 years, or can be for an unspecified period until all reserves are depleted.

Cash and Cash Equivalents

Cash and cash equivalents are stated at cost, which approximates fair value. Cash equivalents consist of highly liquid investments with original maturities of three months or less.

Accounts Receivable

Accounts receivable are recorded at the invoiced amount and do not bear interest. Allowance for doubtful accounts was approximately $138,000 and $141,000 at December 31, 2011 and 2010, respectively, and reflects specific amounts for which the risk of collection has been identified based on the current economic environment and circumstances of which we are aware. Account balances are written−off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

Inventories

Materials and supplies and coal inventory are valued at the lower of average cost or market. Saleable coal represents coal stockpiles that will be sold in current condition. Raw coal represents coal stockpiles that may be sold in current condition or may be further processed prior to shipment to a customer. Coal inventory costs include labor, supplies, equipment, operating overhead and other related costs.

Property, Plant, Equipment and Mine Development

Property, plant, equipment and mine development are recorded at cost, or at fair value at the date of acquisition in the case of acquired businesses. Interest costs applicable to major asset additions are capitalized during the construction period. Capitalized interest in 2011, 2010 and 2009 was immaterial.

Expenditures which extend the useful lives of existing plant and equipment assets are capitalized. Maintenance and repairs are charged to operating costs as incurred. Costs incurred to develop coal mines or to expand the capacity of operating mines are capitalized. Costs incurred to maintain current production capacity at a mine and exploration expenditures are charged to operating costs as incurred, including costs related to drilling and study costs incurred to convert or upgrade mineral resources to reserves. Costs to acquire computer hardware and the development and/or purchase of software for internal use are capitalized and depreciated over the estimated useful lives.

Coal reserves are recorded at cost or at fair value at the date of acquisition in the case of acquired businesses. Coal reserves are included in “Land and coal interests” on the consolidated balance sheets. As of December 31, 2011 and 2010, the book value of coal reserves totaled $2.6 billion and $2.6 billion, including $1.8 billion and $1.6 billion, respectively, attributable to properties where we were not currently engaged in mining operations or leasing to third parties and, therefore, not currently depleting the related coal reserves. Included in the book value of coal reserves are mineral rights for leased coal interests, including advance royalties. The book value of these mineral rights was $2.3 billion and $2.3 billion at December 31, 2011 and 2010, respectively, with the remaining $0.3 billion of book value related to coal reserves held by fee ownership.

Depletion of coal reserves and amortization of advance royalties are computed using the units−of−production method utilizing only proven and probable reserves (as adjusted for recoverability factors) in the depletion base. Mine development costs are principally amortized ratably over the estimated lives of the mines.

Depreciation of plant and equipment (excluding life of mine assets) is computed ratably over the estimated useful lives as follows:

| | Years |
|---|---|
| Buildings and improvements | 10 to 20 |
| Machinery and equipment | 3 to 30 |
| Leasehold improvements | Shorter of life of asset, mine or lease |

In addition, certain plant and equipment assets associated with mining are depreciated ratably over the estimated life of the mine. Remaining lives vary from less than one year up to 26 years. The charge against earnings for depreciation of property, plant, equipment and mine development was $96.6

million, $100.8 million and $113.4 million for the years ended December 31, 2011, 2010 and 2009, respectively.

Joint Ventures

We apply the equity method to investments in joint ventures when we have the ability to exercise significant influence over the operating and financial policies of the joint venture. We review the documents governing each joint venture to assess if we have a controlling financial interest in the joint venture to determine if the equity method is appropriate or if the joint venture should be consolidated. We performed a qualitative assessment of our existing interests and determined that we held no interest in variable interest entities. Investments accounted for under the equity method are initially recorded at cost.

Sales Contract Liability

In connection with the Magnum acquisition, we recorded liabilities related to below market sales contracts. The below market supply contracts were recorded at their fair values when allocating the purchase price, resulting in a liability of $945.7 million, which is being accreted into earnings as the coal is shipped over a weighted average period of approximately three years. The net liability at December 31, 2011 and 2010, relating to these below market sales contracts was $91.0 million and $163.2 million, respectively. The current portion of the liability is recorded in “Below market sales contracts acquired” and the long−term portion of the liability is recorded in “Below market sales contracts acquired, noncurrent” in the consolidated balance sheets.

Asset Retirement Obligations

Obligations associated with the retirement of tangible long−lived assets and the associated reclamation costs are recognized at fair value at the time the obligations are incurred. Our reclamation obligations primarily consist of spending estimates related to reclaiming surface land and support facilities at both surface and underground mines in accordance with federal and state reclamation laws as defined by each mining permit. Our liabilities for final reclamation and mine closure are estimated based upon detailed engineering calculations of the amount and timing of the future cash spending for a third−party to perform the required work. Spending estimates are escalated for inflation and then discounted at the credit−adjusted, risk−free interest rate.

We record an asset associated with the discounted liability for final reclamation and mine closure. The obligation and corresponding asset are recognized in the period in which the liability is incurred. The asset is amortized on the units−of−production method over its expected life and the liability is accreted to the projected spending date. The asset amortization and liability accretion are included in “Asset retirement obligation expense” in the consolidated statements of operations. As changes in estimates occur (such as mine plan revisions, changes in estimated costs or changes in timing of the performance of reclamation activities), the revisions to the obligation and asset are recognized at the appropriate credit−adjusted, risk−free interest rate. We also recognize obligations for contemporaneous reclamation liabilities incurred as a result of surface mining. Contemporaneous reclamation consists primarily of grading, topsoil replacement and revegetation of backfilled pit areas.

In connection with the Magnum acquisition, we assumed liabilities related to water treatment in order to comply with selenium effluent limits included in certain mining permits. The cost to treat the selenium discharges in excess of allowable limits was recorded at its fair value, which is accreted into earnings to the projected spending date. Accretion of the estimated selenium liability is included in “Asset retirement obligation expense” in the consolidated statements of operations. The net liability related to water treatment at December 31, 2011 reflected the estimated future costs of the treatment systems to be installed and maintained with the goal of meeting the requirements of current court orders, consent decrees and mining permits.

Income Taxes

Income taxes are accounted for using a balance sheet approach. Deferred income taxes are accounted for by applying statutory tax rates in effect at the date of the balance sheet to differences between the book and tax basis of assets and liabilities. A valuation allowance is established if it is “more likely than not” that the related tax benefits will not be realized. In determining the appropriate valuation allowance, projected realization of tax benefits is considered based on expected levels of future taxable income, available tax planning strategies and the overall deferred tax position.

Postretirement Healthcare Benefits

Postretirement benefits other than pensions represent the accrual of the costs of benefits to be provided over the employees' period of active service. These costs are determined on an actuarial basis. Our consolidated balance sheets as of December 31, 2011 and 2010 fully reflect the funded status of postretirement benefits.

Multi−Employer Benefit Plans

We have an obligation to contribute to two plans established by the Coal Industry Retiree Health Benefits Act of 1992 (the Coal Act) − the Combined Fund and the 1992 Benefit Plan. A third fund, the 1993 Benefit Fund (the 1993 Benefit Plan), was established through collective bargaining, but is now a statutory plan under federal legislation passed in 2006. A portion of these obligations is determined on an actuarial basis. The remainder of these obligations qualify as multi−employer plans and expense is recognized as contributions are made.

We also participate in two multi−employer pension plans, the United Mine Workers of America (UMWA) 1950 Pension Plan (the 1950 Plan) and the UMWA 1974 Pension Plan (the 1974 Plan). These plans qualify as multi−employer plans and expense is recognized as contributions are made. The plan assets of the 1950 Plan and the 1974 Plan were combined and are managed by the UMWA. See Note 20 for additional information.

Postemployment Benefits

Postemployment benefits are provided to qualifying employees, former employees and dependents, and we account for these items on the accrual basis. Postemployment benefits include workers' compensation occupational disease, which is accounted for on the actuarial basis over the employees' periods of active service; workers' compensation traumatic injury claims, which are accounted for based on estimated loss rates applied to payroll; and claim reserves determined by independent actuaries and claims administrators; disability income benefits, which are accrued when a claim occurs; and continuation of medical benefits, which is recognized when the obligation occurs. Our consolidated balance sheets as of December 31, 2011 and 2010 fully reflect the funded status of postemployment benefits.

Use of Estimates in the Preparation of the Consolidated Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

In particular, we have significant long−term liabilities relating to retiree healthcare and work−related injuries and illnesses. Each of these liabilities is actuarially determined and use various actuarial assumptions, including the discount rate and future cost trends, to estimate the costs and obligations for these items. In addition, we have significant asset retirement and selenium water treatment obligations that involve estimations of costs to reclaim mining land, costs of water treatment and the timing of cash outlays for such costs. If these assumptions do not materialize as expected, actual cash expenditures and costs incurred could differ materially from current estimates. Moreover, regulatory changes could increase our liability to satisfy these or additional obligations.

Finally, in evaluating the valuation allowance related to deferred tax assets, various factors are taken into account, including the expected level of future taxable income and available tax planning strategies. If actual results differ from the assumptions made in the evaluation of the valuation allowance, a change in valuation allowance may be recorded through income tax expense in the period the determination is made.

Share−Based Compensation

We have an equity incentive plan for employees and eligible non−employee directors that allows for the issuance of share−based compensation in the form of restricted stock, incentive stock options, non−qualified stock options, stock appreciation rights, performance awards, restricted stock units and deferred stock units. We recognize compensation expense for awards with only service conditions that have a graded vesting schedule on a straight line basis over the requisite service period for each separately vesting portion of the award.

Derivatives

We have utilized derivative financial instruments to manage exposure to certain commodity prices. We recognize derivative financial instruments at fair value on our consolidated balance sheets. For derivatives that are not designated as hedges, the periodic change in fair value is recorded directly to earnings. As of December 31, 2011 and 2010, we had no such derivative instruments. For derivative instruments that are eligible and qualify as cash flow hedges, the periodic change in fair value is recorded to "Accumulated other comprehensive loss" until the hedged transaction occurs or the relationship ceases to qualify for hedge accounting. In addition, if a portion of the change in fair value for a cash flow hedge is deemed ineffective during a reporting period, the ineffective portion of the change in fair value is recorded directly to earnings. The activity recorded to earnings is included in "Operating costs and expenses" in the consolidated statements of operations. We utilize heating oil and ultra low sulfur diesel fuel swap contracts to manage our exposure to diesel fuel prices. The changes in diesel fuel prices and the prices for these financial instruments are highly correlated thus allowing the swap contracts to be designated as cash flow hedges.

Impairment of Long−Lived Assets

Long−lived assets used in operations are evaluated for impairment when events and changes in circumstances indicate that the carrying value of the long−lived asset group might not be recoverable. Recoverability is measured based on the estimated undiscounted future cash flows attributable to the applicable asset group. If the undiscounted cash flows are less than the asset group's carrying value, we would record an impairment loss based on the amount that the carrying value of the long−lived asset group exceeds its fair value.

Business Combinations

We accounted for the Magnum acquisition using the purchase method of accounting for business combinations in effect prior to January 1, 2009. Under this method of accounting, the purchase price was allocated to the fair value of the net assets acquired. Determining the fair value of assets acquired and liabilities assumed required management's judgment and involved the use of significant estimates and assumptions, including, but not limited to, assumptions with respect to future cash flows, discount rates and asset lives.

Deferred Financing Costs

We capitalize costs incurred in connection with borrowings or establishment of credit facilities and issuance of debt securities. These costs are amortized and included in interest expense over the life of the borrowing or term of the credit facility using the interest method.

(3)New Accounting Pronouncements

Multiemployer Benefit Plans

In September 2011, the Financial Accounting Standards Board (FASB) issued authoritative guidance which increases the quantitative and qualitative disclosures an employer is required to provide about its participation in multiemployer benefit plans. We adopted this guidance effective December 31, 2011, with no effect on our results of operations or financial condition.

Comprehensive Income

In June 2011, the FASB issued authoritative guidance which requires entities to report components of comprehensive income in either a continuous statement of comprehensive income or two separate but consecutive statements. This guidance is effective for fiscal years beginning after December 15, 2011, and we will adopt it on January 1, 2012. While we are currently evaluating the impact on our disclosures and presentation of our financial statements, we do not believe this guidance will affect our results of operations or financial condition.

(4)Selenium Water Treatment Obligation Adjustment (Restated)

During the year ended December 31, 2011, asset retirement obligation expense included a $38.3 million charge due to changes in our selenium water treatment technology selection for one of our outfalls and $9.9 million in relation to a comprehensive consent decree. The terms of the comprehensive consent decree were substantially agreed to in December 2011 and finalized in January 2012. In the third quarter of 2010, additional asset retirement obligation expense of $69.5 million was recorded due to adjusting our estimated costs of water treatment at three outfalls resulting from the requirements of the September 1, 2010 court ruling. See Note 23 for the background on these proceedings and the additional impact of these orders on two of our subsidiaries.

(5)Restructuring and Impairment Charge

In the fourth quarter of 2011, we recorded an impairment charge of $13.1 million related to the infrastructure and coal reserves impacted by mine closure decisions in our Appalachia segment made in the fourth quarter of 2011. As coal sales prices weakened in late 2011, we made the strategic decision to close certain high cost mines in Appalachia.

In the second quarter of 2010, we recorded a $14.8 million restructuring and impairment charge related to the June 2010 closure of the Harris No. 1 mine, resulting from adverse geologic conditions, and further rationalization of our operations at the Rocklick mining complex based on this early closure. The Harris No. 1 mine was nearing the end of its projected mining life and was scheduled for closure in 2011. The charge included a $2.8 million non−cash, impairment component related to equipment and coal reserves that were abandoned due to the mine closure. Additionally, the charge included a restructuring component totaling $12.0 million for contractual obligation payments that are being made with no future economic benefit over the remaining term. These payments were for the use of a beltline and rights to coal reserves. Payments of these obligations will occur through the end of 2013. For the year ended December 31, 2011, the expense represents accretion related to the discounted future payment obligation. During the years ended December 31, 2011 and 2010, $0.6 million and $0.4 million, respectively, of accretion was charged against the restructuring liability related to the discounted future payment obligations. At December 31, 2011, the current portion of the restructuring liability of $4.5 million was included in "Accounts payable and accrued expenses" and the long−term portion of $5.7 million was included in "Other noncurrent liabilities."

In the fourth quarter of 2009, we recorded a $20.2 million restructuring and impairment charge. The charge included a $12.9 million impairment charge related to certain infrastructure and thermal coal reserves near our Rocklick complex that were deemed uneconomical to mine. Additionally, we recorded $7.3 million related to a restructuring charge for the discontinued use of a beltline into the Rocklick preparation plant. This restructuring charge represented the future lease payments and contract termination costs for the beltline that were made with no future economic benefit. The lease payments and contract termination fee were paid in early 2010.

(6)Risk Management and Financial Instruments

We are exposed to various types of risk in the normal course of business, including fluctuations in commodity prices and interest rates. These risks are actively monitored to ensure compliance with our risk management policies. We manage our commodity price risk related to the sale of coal through the use of long−term, fixed−price contracts, rather than financial instruments.

Credit Risk

Our concentration of credit risk substantially resides with large electricity generating customers, metallurgical customers and Peabody. In 2011, approximately 10% of our revenues were from a marketing affiliate of Peabody. Allowance for doubtful accounts was approximately $138,000 and $141,000 at December 31, 2011 and 2010, respectively, and reflects specific amounts for which risk of collection has been identified based on the current economic environment and circumstances of which we are aware.

As a result of the spin−off, we have sales agreements with a marketing affiliate of Peabody. Under these agreements, we sold 5.6 million tons of coal resulting in revenues of $247.6 million for the year ended December 31, 2011; 7.3 million tons of coal resulting in revenues of $356.6 million for the year ended December 31, 2010; and 8.8 million tons of coal resulting in revenues of $456.1 million for the year ended December 31, 2009. These revenues were recorded in both the Appalachia and Illinois Basin segments. As of December 31, 2011 and 2010, "Accounts receivable and other" on our consolidated balance sheets included outstanding trade receivables from Peabody related to coal sales of $22.5 million and $23.6 million, respectively.

Our policy is to independently evaluate each customer's creditworthiness prior to entering into transactions and to constantly monitor the credit extended. In the event that a transaction occurs with a counterparty that does not meet our credit standards, we may protect our position by requiring the counterparty to provide appropriate credit enhancement. When appropriate, steps have been taken to reduce credit exposure to customers or counterparties whose credit has deteriorated and who may pose a higher risk, as determined by the credit management function, of failure to perform under their contractual obligations. These steps might include obtaining letters of credit or cash collateral, requiring prepayments for shipments or the creation of customer trust accounts held for our benefit to serve as collateral in the event of failure to pay.

Commodity Price Risk

We have commodity risk related to our diesel fuel purchases. To manage this risk, we have entered into heating oil and low sulfur diesel fuel swap contracts with financial institutions. These derivative contracts have been designated as cash flow hedges of anticipated diesel fuel purchases. The changes in fair value of these derivatives are recorded through accumulated other comprehensive loss until such time that the hedged transaction occurs.

Employees

As of December 31, 2011, we had approximately 4,300 employees. Approximately 50% of our employees were represented by an organized labor union. Union labor is represented by the UMWA under labor agreements which generally extend through December 31, 2016.

Fair Value of Financial Instruments

Cash and cash equivalents, accounts receivable, accounts payable and accrued expenses have carrying values which approximate fair value due to the short maturity or the financial nature of these instruments.

The following table summarizes the fair value of our financial instruments at December 31, 2011 and 2010.

| | December 31, | |
|---|---|---|
| | 2011 | 2010 |
| | (Dollars in thousands) | |
| Assets: | | |
| Fuel contracts, cash flow hedges | 363 | 1,868 |
| Liabilities: | | |
| Fuel contracts, cash flow hedges | 179 | — |
| $200 million of 3.25% Convertible Senior notes due 2013 | 183,000 | 190,211 |
| $250 million of 8.25% Senior notes due 2018 | 239,468 | 253,750 |

All of the instruments above were valued using Level 2 inputs. For additional disclosures regarding our fuel contracts, see Note 16. We utilized New York Mercantile Exchange (NYMEX) quoted market prices for the fair value measurement of these contracts, which reflects a Level 2 input. The fair value of the Convertible Senior Notes and the 8.25% Senior Notes was estimated using the last traded value on the last day of each period, as provided by a third party.

(7)Net Gain on Disposal or Exchange of Assets and Other Transactions

In the normal course of business, we enter into certain asset sales and exchange agreements, which involve swapping non−strategic coal mineral rights or other assets for cash, other assets or coal mineral rights, that are strategic to our operations.

In December 2011, we entered into an agreement to exchange certain non−strategic Appalachia coal mineral rights for coal mineral rights located near our Highland and Dodge Hill mining complexes in the Illinois Basin. We recognized a gain of approximately $18.7 million on this transaction.

In September 2011, we entered into an agreement to exchange certain non−strategic Appalachia property for cash and coal mineral rights near our Big Mountain mining complex. We recognized a gain of $4.9 million on this transaction.

Also in September 2011, we sold certain non−strategic Appalachia coal mineral rights to another coal producer for $1.3 million.

In June 2011, we entered into an agreement to exchange certain non−strategic Appalachia coal mineral rights for coal mineral rights contiguous to our Highland mining complex in the Illinois Basin. We recognized a gain of $7.3 million on this transaction.

Also in June 2011, we entered into an agreement allowing a right of way at our Kanawha Eagle mining complex to a third party for compensation of $2.1 million. We have no future obligation related to this agreement.

In December 2010, we entered into an agreement with another coal producer to exchange certain of our non−strategic coal mineral rights for certain coal mineral rights located near our Highland mining complex. We recognized a gain of $2.9 million on this transaction.

In the third quarter of 2010, we entered into agreements with two other coal producers to exchange certain of our non−strategic coal mineral rights for certain coal mineral rights located near our Highland mining complex. We recognized a gain of $3.4 million on these transactions.

In the second quarter of 2010, we entered into two separate agreements with other coal producers to exchange certain of our non−strategic coal mineral rights for certain coal mineral rights located near our Wells and Corridor G mining complexes. We recognized gains totaling $14.3 million on these transactions.

Effective April 2010, we entered into an agreement to surrender our rights to certain non−strategic leased coal reserves and the associated mining permits at our Rocklick mining complex in exchange for the release of the related reclamation obligations. We recognized a gain of $2.8 million on the April 2010 transaction as a result of transferring the reclamation liability.

In March 2010, we received approximately 13 million tons of coal mineral rights contiguous to our Highland mining complex in the Illinois Basin in exchange for non−strategic Illinois Basin coal reserves. We recognized a gain of $24.0 million on this transaction.

In December 2009, we entered into an agreement to swap certain coal mineral rights with another coal producer. We recognized a gain totaling $2.4 million on this transaction. In June 2009, we entered into an agreement with another coal producer to swap certain surface land for certain coal mineral rights and cash. We recognized a gain totaling $4.2 million on this transaction.

The exchange transactions above were recorded at fair value. The valuations primarily utilized Level 3 inputs, as defined by authoritative guidance, in a discounted cash flows model including assumptions for future coal sales prices and operating costs. Level 3 inputs were utilized due to the lack of an active, quoted market for coal reserves and due to the inability to use other transaction comparisons because of the unique nature and location of each coal seam.

Other Transactions

We were a defendant in litigation involving Peabody, in relation to their negotiation and June 2005 sale of two properties previously owned by two of our subsidiaries, which was filed prior to our 2007 spin−off from Peabody. In May 2011, this litigation was settled. As part of the settlement, we made a payment of $14.8 million and ownership of the related assets and liabilities reverted back to us. The assets included coal reserves in West Virginia and surface land in Illinois at closed mine sites. The liabilities included the reclamation obligations related to these assets. The assets were recorded at the value of the settlement consideration, which included $17.6 million of estimated reclamation liabilities assumed, resulting in no significant impact to our results of operations in the second quarter of 2011.

In February 2011, outstanding notes receivable related to the 2006 and 2007 sales of coal reserves and surface land were repaid for $115.7 million prior to the scheduled maturity date. The early repayment resulted in a loss of $5.9 million, which is reflected in "Interest expense and other" on the consolidated statement of operations. Prior to February 2011, the outstanding notes receivable were included in "Accounts receivable and other" and "Notes receivable" on the consolidated balance sheet.

In February 2010, we entered into an agreement to purchase certain coal mineral rights from another coal producer. The purchase price of $10.0 million is included in "Property, plant, equipment and mine development" on the consolidated balance sheet.

Effective April 2010, we entered into an agreement to sell coal mineral rights at our Federal mining complex to a third party lessor and added them to an existing lease. We recorded this transaction as a financing arrangement. Therefore, we recorded the $17.7 million cash consideration as a liability. The liability is being accreted through interest expense over an expected lease term of approximately five years and is being relieved as we make future royalty payments. For the years ended December 31, 2011 and 2010, $1.2 million and $1.0 million, respectively, was reflected in "Interest expense and other" on the consolidated statement of operations.

In 2011, "Other revenues" includes the recognition of income as underlying tons were shipped from a coal purchase option sold in a prior year. Additionally, we monetized future coal reserve royalty payments for $2.2 million in the year ended December 31, 2011, with no associated future obligations. Other revenues also include payments from customer settlements, royalties related to coal lease agreements and farm income. During 2009, certain metallurgical and thermal customers requested shipment deferrals on committed tons. In certain situations, we agreed to release the customers from receipt of the tons in exchange for a cash settlement. For the year ended December 31, 2009, these cash settlements represented a significant portion of other revenues.

(8)Joint Ventures

We have interests in joint ventures that are accounted for under the equity method. In 2008, we acquired 49% interests in two joint ventures, both of which have coal mining operations in Appalachia. We also hold interests in two other joint ventures, both of which previously had coal mining operations. One has only closed operations remaining and the other primarily leases coal and oil reserves to third parties.

The book value of our equity method investments was $27.1 million and $25.6 million as of December 31, 2011 and 2010, respectively. Our maximum exposure to loss is our book value plus additional future capital contributions, which in total for all of our joint ventures is capped at $8.8 million. The investments in these joint ventures are recorded in "Investments and other assets" in the consolidated balance sheets.

In 2010, we agreed to provide a limited guarantee of the payment and performance under three loans entered into by one of our joint ventures. The loans were obtained to purchase equipment, which is pledged as collateral for the loans. In the event of default on all three loans, we would be required to pay a maximum of $9.1 million. The maximum term of the three loans is through January 2016 and the loan balances at December 31, 2011 totaled $7.1 million. At December 31, 2011 and 2010, there was no carrying amount of the liability related to these guarantees on our consolidated balance sheets based on the amount of exposure and the likelihood of required performance.

We purchased metallurgical coal from one of our joint ventures which we account for under the equity method of accounting. The cost of this coal, $50.0 million in 2011 and $40.0 million in 2010, is included in operating costs. The coal is then sold to third−party customers. As of December 31, 2011 and 2010, "Accounts payable and accrued expenses" on our consolidated balance sheets included the outstanding payable to this joint venture for coal purchases of $4.1 million for both years.

(9)Earnings per Share

Basic earnings per share is computed by dividing net income by the number of weighted average common shares outstanding during the reporting period. Diluted earnings per share is calculated to give effect to all potentially dilutive common shares that were outstanding during the reporting period.

The effect of dilutive securities excludes certain stock options, restricted stock units and convertible debt−related shares because the inclusion of these securities was antidilutive to earnings per share. For the years ended December 31, 2011 and 2010, no common stock equivalents were included in the computation of the diluted loss per share because we reported a net loss.

Accordingly, 3.3 million shares, 2.6 million shares, and 1.3 million shares related to stock−based compensation awards for the years ended December 31, 2011, 2010 and 2009, respectively, as described in Note 26, and 3.0 million common shares for all three years related to the convertible notes described in Note 15, were excluded from the diluted earnings (loss) per share calculation.

(10)Inventories

Inventories consisted of the following:

| | December 31, 2011 | December 31, 2010 |
|---|---|---|
| | (Dollars in thousands) | |
| Materials and supplies | $ 62,474 | $ 42,056 |
| Saleable coal | 23,806 | 40,478 |
| Raw coal | 12,086 | 15,439 |
| Total | $ 98,366 | $ 97,973 |

Materials, supplies and coal inventory are valued at the lower of average cost or market. Saleable coal represents coal stockpiles that will be sold in current condition. Raw coal represents coal stockpiles that may be sold in current condition or may be further processed prior to shipment to a customer. Coal inventory costs include labor, supplies, equipment, operating overhead and other related costs. The decrease in saleable coal inventory from December 31, 2010 to December 31, 2011 primarily resulted from transportation delays due to poor weather conditions in the fourth quarter of 2010. The increase in materials and supplies from December 31, 2010 to December 31, 2011 was due to increased supply purchases at the end of 2011 in anticipation of price increases in 2012.

(11)Accumulated Other Comprehensive Loss

The following table sets forth the components of accumulated other comprehensive loss:

| | Net Actuarial Loss Associated with Postretirement Plans and Workers' Compensation Obligations | Prior Service Credit Associated with Postretirement Plans | Diesel Fuel Hedge | Total Accumulated Other Comprehensive Loss |
|---|---|---|---|---|
| | (Dollars in thousands) | | | |

| | | | | |
|---|---|---|---|---|
| December 31, 2008 | $ (89,437) | $ (13,149) | $ (9,695) | $ (112,281) |
| Unrealized gains (losses) | (182,730) | 19,391 | 5,450 | (157,889) |
| Reclassification from other comprehensive income to earnings | 16,265 | (551) | 5,280 | 20,994 |
| December 31, 2009 | (255,902) | 5,691 | 1,035 | (249,176) |
| Unrealized gains (losses) | (95,801) | — | 1,855 | (93,946) |
| Reclassification from other comprehensive income to earnings | 37,258 | (809) | (1,022) | 35,427 |
| December 31, 2010 | (314,445) | 4,882 | 1,868 | (307,695) |
| Unrealized gains (losses) | (118,210) | — | 3,060 | (115,150) |
| Reclassification from other comprehensive income to earnings | 43,368 | (809) | (4,744) | 37,815 |
| December 31, 2011 | $ (389,287) | $ 4,073 | $ 184 | $ (385,030) |

Comprehensive loss differs from net income (loss) by the amount of unrealized gain or loss resulting from valuation changes of our diesel fuel hedges and adjustments related to the change in funded status of various benefit plans during the periods.

(12)Leases

We lease equipment and facilities under various non−cancelable operating lease agreements. Certain lease agreements require the maintenance of specified ratios and contain restrictive covenants that limit indebtedness, subsidiary dividends, investments, asset sales and other actions. Rental expense under operating leases was $55.4 million, $43.0 million and $47.4 million for the years ended December 31, 2011, 2010 and 2009, respectively.

A substantial amount of the coal we mine is produced from mineral reserves leased from third−party land owners. We lease these coal reserves under agreements that require royalties to be paid as the coal is mined. Certain of these lease agreements also require minimum annual royalties to be paid regardless of the amount of coal mined during the year. Total royalty expense was $88.5 million, $73.9 million and $72.2 million for the years ended December 31, 2011, 2010 and 2009, respectively.

Future minimum lease and royalty payments as of December 31, 2011, are as follows:

| | Operating Leases | Coal Reserves |
|---|---|---|
| | (Dollars in thousands) | |
| 2012 | $ 57,213 | $ 34,547 |
| 2013 | 50,508 | 39,390 |
| 2014 | 34,686 | 33,827 |
| 2015 | 17,277 | 28,987 |
| 2016 | 6,898 | 15,929 |
| 2017 and thereafter | 763 | 94,073 |
| Total minimum lease and royalty payments | $ 167,345 | $ 246,753 |

During 2002, Peabody entered into a transaction with Penn Virginia Resource Partners, L.P. (PVR) whereby two Peabody subsidiaries sold 120 million tons of coal reserves in exchange for $72.5 million in cash and 2.76 million units, or 15%, of the PVR master limited partnership. We participated in the transaction, selling approximately 40 million tons of coal reserves with a net book value of $14.3 million in exchange for $40.0 million. We leased back the coal from PVR and pay royalties as the coal is mined. A $25.7 million gain was deferred at the inception of this transaction, and $3.2 million of the gain was recognized in each of the years 2010 and 2009. The deferred gain was intended to offset potential exposure to loss resulting from continuing involvement in the properties and was amortized to "Operating costs and expenses" in the consolidated statements of operations over the minimum remaining term of the lease, which ended December 31, 2010.

(13)Accounts Payable and Accrued Expenses (Restated)

Accounts payable and accrued expenses consisted of the following:

| | December 31, 2011 | December 31, 2010 |
|---|---|---|
| | (Dollars in thousands) | |
| Accounts payable | $ 206,873 | $ 159,860 |
| Accrued healthcare, including postretirement | 85,506 | 67,867 |
| Accrued taxes other than income | 27,000 | 32,805 |
| Accrued payroll and related benefits | 43,097 | 46,854 |
| Workers' compensation obligations | 26,707 | 25,529 |
| Asset retirement obligations | 63,067 | 30,008 |
| Accrued interest payable | 7,401 | 10,157 |
| Other accrued benefits | 8,936 | 9,813 |
| Accrued royalties | 9,394 | 8,201 |
| Accrued lease payments | 11,398 | 5,434 |
| Other accrued expenses | 23,744 | 23,078 |
| Total accounts payable and accrued expenses | $ 513,123 | $ 419,606 |

(14) Income Taxes (Restated)

Net income (loss) before income taxes was a loss of $138.8 million, a loss of $97.2 million and income of $127.2 million for the years ended December 31, 2011, 2010 and 2009, respectively, and consisted entirely of domestic results.

For the years ended December 31, 2011 and 2010, we had an income tax provision for state and local income taxes of $0.4 million and $0.5 million, respectively, and no provision for federal income taxes. For the year ended December 31, 2009, there were no income tax provisions for federal, state or local income taxes.

The income tax rate differed from the U.S. federal statutory rate as follows:

| | Year Ended December 31, 2011 | 2010 | 2009 |
|---|---|---|---|
| | | (Dollars in thousands) | |
| Federal statutory rate | $ (48,567) | $ (34,019) | $ 44,535 |
| Depletion | (25,825) | (23,893) | (22,588) |
| State income taxes, net of U.S. federal tax benefit | (9,936) | (8,374) | 3,520 |
| Changes in valuation allowance | 79,967 | 62,640 | (27,225) |
| Changes in tax reserves | 1,476 | 1,382 | 1,307 |
| Other, net | 3,257 | 2,756 | 451 |
| Total | $ 372 | $ 492 | $ — |

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities consisted of the following:

| | December 31, 2011 | December 31, 2010 |
|---|---|---|
| | (Dollars in thousands) | |
| Deferred tax assets: | | |
| Postretirement benefit obligations | $ 427,781 | $ 393,197 |
| Tax credits and loss carryforwards | 304,178 | 297,354 |
| Workers' compensation obligations | 106,819 | 103,180 |
| Asset retirement obligations | 186,994 | 155,294 |
| Obligation to industry fund | 15,891 | 15,235 |
| Sales contract liabilities | 36,400 | 66,084 |
| Other | 49,414 | 52,717 |
| Total gross deferred tax assets | 1,127,477 | 1,083,061 |
| Deferred tax liabilities: | | |
| Property, plant, equipment and mine development, leased coal interests and advance royalties, principally due to differences in depreciation, depletion and asset writedowns | 865,264 | 901,828 |
| Long−term debt | 5,710 | 9,409 |
| Other | 774 | — |
| Total gross deferred tax liabilities | 871,748 | 911,237 |
| Valuation allowance | 255,729 | 171,824 |
| Net deferred tax liability | $ — | $ — |
| Deferred taxes consisted of the following: | | |
| Current deferred income taxes | $ — | $ — |
| Noncurrent deferred income taxes | — | — |
| Net deferred tax liability | $ — | $ — |

Our deferred tax assets include net operating loss (NOL) carryforwards, alternative minimum tax (AMT) credits, and general business credits of $304.2 million and $297.4 million as of December 31, 2011 and 2010, respectively. The NOL carryforwards and AMT credits include amounts apportioned to us in accordance with the Internal Revenue Code and Treasury Regulations at the time of our spin−off from Peabody on October 31, 2007, Magnum NOL carryforwards from periods prior to the acquisition on July 23, 2008, and taxable losses from our operations since the spin−off from Peabody. The NOL carryforwards begin to expire in 2019, the general business credits begin to expire in 2027 and the AMT credits have no expiration date.

Overall, our net deferred tax assets are offset by a valuation allowance of $255.7 million and $171.8 million as of December 31, 2011 and 2010, respectively. The valuation allowance increased by $83.9 million for the year ended December 31, 2011, primarily as a result of net future deductible temporary differences increasing by $77.1 million and an increase in NOL carryforwards of $6.8 million. We evaluated and assessed the expected near−term utilization of net operating loss carryforwards, book and taxable income trends, available tax strategies and the overall deferred tax position to determine the valuation allowance required as of December 31, 2011 and 2010.

The federal and state income tax returns for the Magnum companies for the tax year 2008 remain subject to examination by the relevant taxing authorities. Patriot and the remainder of its subsidiaries have examination exposure related to the federal and state income tax returns for the years ended December 31, 2008, 2009 and 2010.

During the years ended December 31, 2011, 2010 and 2009, we paid federal, state and local income taxes of $0.7 million, $0.5 million, and $0.1 million, respectively. The portion paid for state income tax payments each year are for tax liabilities that are calculated based on gross receipts, such as the State of Michigan.

At December 31, 2011, the unrecognized tax benefits in our consolidated financial statements, if recognized, would not currently affect our effective tax rate as any recognition would be offset by the associated change in the valuation allowance. We do not expect any significant increases or decreases to our unrecognized tax benefits within 12 months of this reporting date.

A reconciliation of the beginning and ending amounts of gross unrecognized tax benefits is as follows:

| | Year Ended December 31, 2011 | 2010 | 2009 |
|---|---|---|---|
| | | (Dollars in thousands) | |
| Balance at beginning of year | $ 9,279 | $ 5,866 | $ 2,639 |
| Additions for current year tax positions | 3,696 | 3,366 | 3,527 |
| Additions (reductions) for prior year positions | (6) | 47 | (300) |
| Balance at end of year | $ 12,969 | $ 9,279 | $ 5,866 |

Due to the existence of NOL carryforwards, we have not currently accrued interest on any of our unrecognized tax benefits. We have considered the application of penalties on our unrecognized tax benefits and have determined, based on several factors, including the existence of NOL carryforwards, that no accrual of penalties related to our unrecognized tax benefits is required. If the accrual of interest or penalties becomes appropriate, we will record an accrual as part of our income tax provision.

## (15) Long−Term Debt and Credit Facilities

Our total indebtedness consisted of the following:

| | December 31, 2011 | December 31, 2010 |
|---|---|---|
| | (Dollars in thousands) | |
| 8.25% Senior Notes due 2018 | $ 248,573 | $ 248,348 |
| 3.25% Convertible Senior Notes due 2013 | 185,379 | 176,060 |
| Capital leases | — | 21,044 |
| Promissory notes | 8,294 | 9,406 |
| Total long−term debt | 442,246 | 454,858 |
| Less current portion of debt | (1,182) | (3,329) |
| Long−term debt, less current maturities | $ 441,064 | $ 451,529 |

### Credit Facilities

Effective May 5, 2010, we entered into a $427.5 million amended and restated credit agreement with a maturity date of December 31, 2013. The credit facility provides for the issuance of letters of credit and direct borrowings. We incurred total fees of $10.9 million in relation to the amended and restated agreement. These fees as well as the fees related to the initial agreement are being amortized over the remaining term of the amended and restated agreement. We wrote−off $0.6 million of the fees from the initial agreement due to changes to the syndication group.

The obligations under our credit facility are secured by a first lien on substantially all of our assets, including but not limited to certain of our mines, coal reserves and related fixtures. The credit facility contains certain customary covenants, including financial covenants limiting our indebtedness related to net debt coverage and cash interest expense coverage, as well as certain limitations on, among other things, additional debt, liens, investments, acquisitions and capital expenditures, future dividends, and asset sales. In January 2011 and 2012, we entered into amendments to the credit agreement which, among other things, modified certain limits and minimum requirements of our financial covenants. At December 31, 2011, we were in compliance with the covenants of our amended credit facility.

The terms of the credit facility also contain certain customary events of default, which give the lenders the right to accelerate payments of outstanding debt in certain circumstances. Customary events of default include breach of covenants, failure to maintain required ratios, failure to make principal payments or to make interest or fee payments within a grace period, and default, beyond any applicable grace period, on any of our other indebtedness exceeding a certain amount.

In March 2010, we entered into a $125 million accounts receivable securitization program, which provides for the issuance of letters of credit and direct borrowings. Trade accounts receivable are sold, on a revolving basis, to a wholly−owned bankruptcy−remote entity (facilitating entity), which then sells an undivided interest in all of the trade accounts receivable to creditors as collateral for any borrowings. Available liquidity under the program fluctuates with the balance of our trade accounts receivable. The outstanding trade accounts receivable balance was $171.0 million and $146.6 million as of December 31, 2011 and 2010, respectively.

Based on our continuing involvement with the trade accounts receivable balances, including continued risk of loss, the sale of the trade accounts receivable to the creditors does not receive sale accounting treatment. As such, the trade accounts receivable balances remain on our financial statements until settled. Any direct borrowings under the program are recorded as secured debt.

Both the credit agreement and the accounts receivable securitization program (the facilities) are available for our working capital requirements, capital expenditures and other corporate purposes. As of December 31, 2011 and 2010, the balance of outstanding letters of credit issued against the credit facilities totaled $331.8 million and $355.3 million, respectively. There were no outstanding short−term borrowings against these facilities as of December 31, 2011 and 2010. Availability under these facilities was $220.7 million and $197.2 million as of December 31, 2011 and 2010, respectively.

Senior Notes Issuance

On May 5, 2010, we completed a public offering of $250 million in aggregate principal amount of 8.25% Senior Notes due 2018. The net proceeds of the offering were approximately $240 million after deducting the initial $1.8 million discount, purchasers' commissions and fees, and expenses of the offering. The net proceeds were used for general corporate purposes, which included capital expenditures for development of additional coal production capacity and working capital. The discount is being amortized over the term of the notes. For the years ended December 31, 2011 and 2010, interest expense for the senior notes was $20.9 million and $13.2 million, respectively.

Interest on the notes is payable semi−annually in arrears on April 30 and October 30 of each year. The notes mature on April 30, 2018, unless redeemed in accordance with their terms prior to such date. The notes are senior unsecured obligations, rank equally with all of our existing and future senior debt and are senior to any subordinated debt. The notes are guaranteed by the majority of our wholly−owned subsidiaries.

The notes may be redeemed at any time prior to April 30, 2014, in whole or in part, at a redemption price equal to 100% of the principal amount of the notes to be redeemed, plus accrued and unpaid interest and a “make−whole” premium as defined in the indentures. The notes may be redeemed on or after April 30, 2014 at certain redemption prices as defined in the indentures. In addition, up to 35% of the aggregate principal amount of the notes may be redeemed prior to April 30, 2013 at a redemption price equal to 108.25% of the principal amount thereof from the net proceeds of certain equity offerings.

The indenture governing the notes contains customary covenants that, among other things, limit our ability to incur additional indebtedness and issue preferred equity; pay dividends or distributions; repurchase equity or repay subordinated indebtedness; make investments or certain other restricted payments; create liens; sell assets; enter into agreements that restrict dividends, distributions or other payments from subsidiaries; enter into transactions with affiliates; and consolidate, merge or transfer all or substantially all of our assets. The indenture also contains certain customary events of default, which give the lenders the right to accelerate payments of outstanding debt in certain circumstances. Customary events of default include breach of covenants, failure to make principal payments or to make interest payments within a grace period, and default, beyond any applicable grace period, on any of our other indebtedness exceeding a certain amount.

Private Convertible Senior Notes Issuance

On May 28, 2008, we completed a private offering of $200 million in aggregate principal amount of 3.25% Convertible Senior Notes due 2013, including $25 million related to the underwriters' overallotment option. The net proceeds of the offering were $194 million after deducting the commissions and fees and expenses of the offering. We used the proceeds of the offering to repay Magnum's existing senior secured indebtedness and acquisition related fees and expenses. All remaining amounts were used for other general corporate purposes.

We utilized an interest rate of 8.85% to reflect the nonconvertible market rate of our offering upon issuance, which resulted in a $45 million discount to the convertible note balance and an increase to “Additional paid−in capital” to reflect the value of the conversion feature. The nonconvertible market interest rate was based on an analysis of similar securities trading in the market at the pricing date of the issuance, taking into account company specific data such as credit spreads and implied volatility. In addition, we allocated the financing costs related to the issuance of the convertible instruments between the debt and equity components. The debt discount is amortized over the contractual life of the convertible notes, resulting in additional interest expense above the contractual coupon amount. Interest expense for the convertible notes was $15.8 million, $15.1 million and $14.4 million for the years ended December 31, 2011, 2010 and 2009, respectively.

Interest on the notes is payable semi−annually in arrears on May 31 and November 30 of each year. The notes mature on May 31, 2013, unless converted, repurchased or redeemed in accordance with their terms prior to such date. The notes are senior unsecured obligations, rank equally with all of our existing and future senior debt and are senior to any subordinated debt.

The notes are convertible into cash and, if applicable, shares of Patriot's common stock during the period from issuance to February 15, 2013, subject to certain conditions of conversion as described below. The conversion rate for the notes is 14.7778 shares of Patriot's common stock per $1,000 principal amount of notes, which is equivalent to a conversion price of approximately $67.67 per share of common stock. The conversion rate and the conversion price are subject to adjustment for certain dilutive events, such as a future stock split or a distribution of a stock dividend.

The notes require us to settle all conversions by paying cash for the lesser of the principal amount or the conversion value of the notes, and by settling any excess of the conversion value over the principal amount in cash or shares, at our option.

Holders of the notes may convert their notes prior to the close of business on the business day immediately preceding February 15, 2013, only under the following circumstances: (1) during the five trading day period after any ten consecutive trading day period (the measurement period) in which the trading price per note for each trading day of that measurement period was less than 97% of the product of the last reported sale price of Patriot's common stock and the conversion rate on each such trading day; (2) during any calendar quarter and only during such calendar quarter, if the last reported sale price of Patriot's common stock for 20 or more trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter exceeds 130% of the conversion price in effect on each such trading day; (3) if such holder's notes have been called for redemption or (4) upon the occurrence of corporate events specified in the indenture. The notes will be convertible, regardless of the foregoing circumstances, at any time from, and including, February 15, 2013 until the close of business on the business day immediately preceding the maturity date.

The number of shares of Patriot's common stock that we may deliver upon conversion will depend on the price of our common stock during an observation period as described in the indenture. Specifically, the number of shares deliverable upon conversion will increase as the common stock price increases above the conversion price of $67.67 per share during the observation period. The maximum number of shares that we may deliver is 2,955,560.

However, if certain fundamental changes occur in Patriot's business that are deemed “make−whole fundamental changes” in the indenture, the number of shares deliverable on conversion may increase, up to a maximum amount of 4,137,788 shares. These maximum amounts are subject to adjustment for certain dilutive events, such as a stock split or a distribution of a stock dividend.

Holders of the notes may require us to repurchase all or a portion of our notes upon a fundamental change in our business, as defined in the indenture. The holders would receive cash for 100% of the principal amount of the notes, plus any accrued and unpaid interest.

Patriot may redeem (i) some or all of the notes at any time on or after May 31, 2011, but only if the last reported sale price of our common stock for 20 or more trading days in a period of 30 consecutive trading days ending on the trading day prior to the date we provide the relevant notice of redemption exceeds 130% of the conversion price in effect on each such trading day, or (ii) all of the notes if at any time less than $20 million in aggregate principal amount of notes remain outstanding. In both cases, notes will be redeemed for cash at a redemption price equal to 100% of the principal amount of the notes to be redeemed, plus any accrued and unpaid interest up to, but excluding, the relevant redemption date.

The notes and any shares of common stock issuable upon conversion have not been registered under the Securities Act of 1933, as amended (the Securities Act), or any state securities laws. The notes were only offered to qualified institutional buyers pursuant to Rule 144A promulgated under the Securities Act.

The aggregate amounts of long−term debt maturities subsequent to December 31, 2011 were as follows:

| | Debt Maturities |
|---|---|
| | (Dollars in thousands) |
| 2012 | $ 1,182 |
| 2013 | 201,255 |
| 2014 | 1,334 |
| 2015 | 1,417 |
| 2016 | 1,506 |
| 2017 and thereafter | 251,600 |
| Total cash payments on debt | 458,294 |
| Debt discount on convertible notes | (16,048) |
| Total long−term debt | $ 442,246 |

Cash interest paid on long−term debt was $29.3 million, $17.7 million and $8.9 million for the years ended December 31, 2011, 2010 and 2009, respectively.

Promissory Notes and Other

In conjunction with an exchange transaction involving the acquisition of Illinois Basin coal reserves in 2005, we entered into promissory notes. The promissory notes and related interest are payable in annual installments of $1.7 million beginning January 2008. The promissory notes mature in January 2017. At December 31, 2011, the short−term portion of the promissory notes was $1.2 million.

On October 3, 2011, we purchased the preparation plant and the associated infrastructure at our Blue Creek mining complex for $28.1 million, which previously had been leased.

(16)Derivatives

We have commodity risk related to our diesel fuel purchases. To manage a portion of this risk, we entered into heating oil and ultra low sulfur diesel swap contracts with financial institutions. The changes in diesel fuel prices and the prices of these financial instruments are highly correlated, thus allowing the swap contracts to be designated as cash flow hedges of anticipated diesel fuel purchases. As of December 31, 2011, the notional amounts outstanding for these swaps included 13.1 million gallons of heating oil expiring throughout 2012, as well as 4.0 million gallons of ultra low sulfur diesel expiring in 2013. In 2012, we expect to purchase approximately 24 million gallons of diesel fuel across all operations. Excluding the impact of our hedging activities, a $0.10 per gallon change in the price of diesel fuel would impact our annual operating costs by approximately $2.4 million. Based on our analysis, the portion of the fair value for the cash flow hedges deemed ineffective for the years ended December 31, 2011, 2010 and 2009, was immaterial.

The following table presents the fair values of our derivatives and the amounts of unrealized gains and losses, net of tax, included in “Accumulated other comprehensive loss” related to fuel hedges in the consolidated balance sheets. See Note 11 for a rollforward of “Accumulated other comprehensive loss” for our fuel hedges.

| | December 31, 2011 | December 31, 2010 |
|---|---|---|
| | (Dollars in thousands) | |
| Fair value of current fuel contracts (Prepaid expenses and other current assets) | $ 251 | $ 1,868 |
| Fair value of noncurrent fuel contracts (Investments and other assets) | 112 | — |
| Fair value of current fuel contracts (Accounts payable and accrued expenses) | 168 | — |
| Fair value of noncurrent fuel contracts (Other noncurrent liabilities) | 11 | — |

(17)Asset Retirement Obligations (Restated)

Reconciliations of our liability for asset retirement obligations were as follows:

| | December 31, 2011 | | |
|---|---|---|---|
| | Reclamation Obligations | Selenium Water Treatment Obligations | Total |
| | (Dollars in thousands) | | |
| Balance at beginning of year | $ 254,140 | $ 163,942 | $ 418,082 |
| Liabilities incurred | 23,817 | — | 23,817 |
| Liabilities settled or disposed | (13,786) | (22,138) | (35,924) |
| Accretion expense | 25,006 | 18,126 | 43,132 |
| Revisions to estimate | 2,873 | 36,061 | 38,934 |
| Balance at end of year | 292,050 | 195,991 | 488,041 |
| Less current portion (included in Accrued expenses) | — | (63,067) | (63,067) |
| Asset retirement obligations | $ 292,050 | $ 132,924 | $ 424,974 |

| | December 31, 2010 | | |
|---|---|---|---|
| | Reclamation Obligations | Selenium Water Treatment Obligations | Total |

| | | | |
|---|---|---|---|
| | (Dollars in thousands) | | |
| Balance at beginning of year | $ 244,518 | $ 88,602 | $ 333,120 |
| Liabilities incurred | 3,624 | — | 3,624 |
| Liabilities settled or disposed | (18,309) | (7,055) | (25,364) |
| Accretion expense | 24,522 | 12,868 | 37,390 |
| Revisions to estimate | (215) | 69,527 | 69,312 |
| Balance at end of year | 254,140 | 163,942 | 418,082 |
| Less current portion (included in Accrued expenses) | — | (30,008) | (30,008) |
| Asset retirement obligations | $ 254,140 | $ 133,934 | $ 388,074 |

As of December 31, 2011, reclamation obligations of $292.1 million included $99.4 million related to locations that are closed or inactive. As of December 31, 2010, reclamation obligations of $254.1 million included $63.5 million related to locations that are closed or inactive. The credit−adjusted, risk−free interest rates used to calculate our reclamation obligation were 8.37% and 8.02% at January 1, 2011 and 2010, respectively. See Note 23 for further discussion regarding our selenium water treatment obligation.

As of December 31, 2011, we had $325.0 million in surety bonds and letters of credit outstanding to secure our asset retirement obligations.

(18)Workers' Compensation Obligations

Certain of our operations are subject to the Federal Coal Mine Health and Safety Act of 1969, and the related workers' compensation laws in the states in which we operate. These laws require our operations to pay benefits for occupational disease resulting from coal workers' pneumoconiosis (occupational disease or black lung).

We provide income replacement and medical treatment for work related traumatic injury claims as required by applicable state laws. Provisions for estimated claims incurred are recorded based on estimated loss rates applied to payroll and claim reserves. Certain of our operations are required to contribute to state workers' compensation funds for costs incurred by the state using a payroll−based assessment by the applicable state. Provisions are recorded using the payroll−based assessment criteria.

The workers' compensation provision consists of the following components:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| | | (Dollars in thousands) | |
| Service cost | $ 7,496 | $ 9,258 | $ 5,462 |
| Interest cost | 9,492 | 8,963 | 9,042 |
| Net amortization of actuarial gains | (2,070) | (3,003) | (4,504) |
| Total occupational disease | 14,918 | 15,218 | 10,000 |
| Traumatic injury claims | 22,959 | 20,944 | 18,798 |
| State assessment taxes | 1,893 | 2,029 | 2,503 |
| Total provision | $ 39,770 | $ 38,191 | $ 31,301 |

The increase in occupational disease costs from 2009 to 2010 reflected additional employees as new mines began operations as well as changes to actuarial assumptions such as a lower discount rate and the impact from the 2010 healthcare legislation as discussed below. The traumatic injury claims provision has increased consistently from 2009 through 2011 primarily due to a lower discount rate.

The weighted−average assumptions used to determine the workers' compensation expense were as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| Discount rate: | | | |
| Occupational disease | 5.46% | 5.90% | 6.00% |
| Traumatic injury | 4.54% | 4.80% | 6.06% |
| Inflation rate | 3.00% | 3.00% | 3.50% |

Workers' compensation obligations consist of amounts accrued for loss sensitive insurance premiums, uninsured claims, and related taxes and assessments under black lung and traumatic injury workers' compensation programs.

The workers' compensation obligations consisted of the following:

| | December 31, | |
|---|---|---|
| | 2011 | 2010 |
| | (Dollars in thousands) | |
| Occupational disease costs | $ 185,639 | $ 174,014 |
| Traumatic injury claims | 72,653 | 72,272 |
| Total obligations | 258,292 | 246,286 |
| Less current portion (included in Accrued expenses) | (26,707) | (25,529) |
| Noncurrent obligations (included in Workers' compensation obligations) | $ 231,585 | $ 220,757 |

The accrued workers' compensation liability recorded on the consolidated balance sheets at December 31, 2011 and 2010 reflects the accumulated benefit obligation less any portion that is currently funded. The accumulated actuarial gain of $8.0 million that has not yet been reflected in the worker's compensation provision is included in "Accumulated other comprehensive loss."

As of December 31, 2011, we had $132.2 million in surety bonds and letters of credit outstanding to secure workers' compensation obligations.

The reconciliation of changes in the occupational disease obligation is as follows:

| | December 31, | |
|---|---|---|
| | 2011 | 2010 |
| | (Dollars in thousands) | |
| Change in benefit obligation: | | |
| Beginning of year obligation | $ 174,014 | $ 152,079 |
| Service cost | 7,496 | 9,258 |
| Interest cost | 9,492 | 8,963 |
| Net change in actuarial gain | 3,536 | 12,668 |
| Benefit and administrative payments | (8,899) | (8,954) |
| Net obligation at end of year | 185,639 | 174,014 |
| Change in plan assets: | | |
| Fair value of plan assets at beginning of period | — | — |
| Employer contributions | 8,899 | 8,954 |
| Benefits paid | (8,899) | (8,954) |
| Fair value of plan assets at end of period | — | — |
| Obligation at end of period | $ 185,639 | $ 174,014 |

The liability for occupational disease claims represents the actuarially−determined present value of known claims and an estimate of future claims that will be awarded to current and former employees. The liability for occupational disease claims was based on a discount rate of 5.1% and 5.5% at December 31, 2011 and 2010, respectively. Traumatic injury workers’ compensation obligations are estimated from both case reserves and actuarial determinations of historical trends, discounted at 4.5% as of December 31, 2011 and 2010.

2010 Healthcare Legislation

In March 2010, the Patient Protection and Affordable Care Act, and a companion bill, the Health Care and Education Reconciliation Act of 2010, (collectively, the 2010 healthcare legislation) were enacted, potentially impacting our costs to provide healthcare benefits to our eligible active and certain retired employees and workers’ compensation benefits related to occupational disease.

The 2010 healthcare legislation amended previous legislation related to black lung disease, providing automatic extension of awarded lifetime benefits to surviving spouses and providing changes to the legal criteria used to assess and award claims. In March 2010, we increased our liability by $11.5 million based on an estimate of the impact of these changes to our current population of beneficiaries and claimants. At that time, we were not able to estimate the full impact of the legislation on our obligation related to future black lung claims due to uncertainty around the number of claims that will be filed and how impactful the new award criteria will be to these populations. We continue to evaluate the impact of this legislation on both our current and future population of claimants and to adjust our liability based on actual claim and award information.

Federal Black Lung Excise Taxes

In addition to the obligations discussed above, certain subsidiaries of Patriot are required to pay black lung excise taxes to the Federal Black Lung Trust Fund (the Trust Fund). The Trust Fund pays occupational disease benefits to entitled former miners who worked prior to July 1, 1973. Excise taxes are based on the selling price of coal, up to a maximum of $1.10 per ton for underground mines and $0.55 per ton for surface mines.

(19) Postretirement Healthcare Benefits

We currently provide healthcare and life insurance benefits to qualifying salaried and hourly retirees and their dependents from defined benefit plans. Plan coverage for health and life insurance benefits is provided to certain hourly retirees in accordance with the applicable labor agreement.

Enacted in March 2010, the 2010 healthcare legislation has both short−term and long−term implications on healthcare benefit plan standards. Implementation of the 2010 healthcare legislation will occur in phases, with plan standard changes that took effect beginning in 2010, but to a greater extent with the 2011 benefit plan year and extending through 2018. Plan standard changes currently applicable to us include raising the maximum age for covered dependents to continue to receive benefits, the elimination of lifetime dollar limits per covered individual and restrictions on annual dollar limits per covered individual, among other standard requirements. Plan standard changes that could affect us in the long term include a tax on “high cost” plans (excise tax) and the elimination of annual dollar limits per covered individual, among other standard requirements.

Beginning in 2018, the 2010 healthcare legislation will impose a 40% excise tax on employers to the extent that the value of their healthcare plan coverage exceeds certain dollar thresholds. We anticipate that certain government agencies will provide additional regulations or interpretations concerning the application of this excise tax. Until these regulations or interpretations are published, it is impractical to reasonably estimate the ultimate impact of the excise tax on our future healthcare costs or postretirement benefit obligation. However, we have incorporated changes to our actuarial assumptions to determine our postretirement benefit obligations utilizing basic assumptions related to pending interpretations. Based on preliminary estimates and these basic assumptions around the pending interpretations of these regulations, the present value of the estimated excise tax does not have a material impact on our postretirement benefit obligation. With the exception of the excise tax, we do not believe any other plan standard changes will be significant to our future healthcare costs for eligible active employees and our postretirement benefit obligation for certain retired employees. However, we will need to continue to evaluate the impact of the 2010 healthcare legislation in future periods as additional information and guidance becomes available.

Net periodic postretirement benefit costs included the following components:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| | | (Dollars in thousands) | |
| Service cost for benefits earned | $ 5,609 | $ 5,695 | $ 3,715 |
| Interest cost on accumulated postretirement benefit obligation | 77,076 | 75,821 | 70,509 |
| Amortization of actuarial losses | 43,134 | 36,533 | 18,813 |
| Amortization of prior service credit | (809) | (809) | (551) |
| Net periodic postretirement benefit costs | $ 125,010 | $ 117,240 | $ 92,486 |

The following table sets forth the plan’s funded status reconciled with the amounts shown in the consolidated balance sheets:

| | December 31, | |
|---|---|---|
| | 2011 | 2010 |
| | (Dollars in thousands) | |
| Change in benefit obligation: | | |
| Accumulated postretirement benefit obligation at beginning of period | $ 1,334,759 | $ 1,237,050 |
| Service cost | 5,609 | 5,695 |
| Interest cost | 77,076 | 75,821 |
| Participant contributions | 1,218 | 1,077 |
| Benefits paid | (67,356) | (67,374) |
| Change in actuarial loss | 117,457 | 82,490 |
| Accumulated postretirement benefit obligation at end of period | 1,468,763 | 1,334,759 |
| Change in plan assets: | | |
| Fair value of plan assets at beginning of period | — | — |
| Employer contributions | 66,138 | 66,297 |
| Participant contributions | 1,218 | 1,077 |
| Benefits paid and administrative fees (net of Medicare Part D reimbursements) | (67,356) | (67,374) |
| Fair value of plan assets at end of period | — | — |
| Postretirement benefit obligation | 1,468,763 | 1,334,759 |
| Less current portion (included in Accrued expenses) | (81,446) | (65,591) |
| Noncurrent obligation (included in Postretirement benefit obligations) | $ 1,387,317 | $ 1,269,168 |

The accrued postretirement benefit liability recorded on the consolidated balance sheets at December 31, 2011 and 2010 reflects the accumulated postretirement benefit obligation less any portion that is currently funded. The accumulated actuarial loss and prior service credit gain of $396.1 million and $4.1 million, respectively, that have not yet been reflected in net periodic postretirement benefit costs are included in “Accumulated other comprehensive loss.”

The increase in the actuarial loss in 2011 was mainly due to a lower discount rate. The change in the actuarial loss in 2010 mainly reflected a decrease in the discount rate and the incorporation of assumptions related to the excise tax promulgated in the 2010 healthcare legislation.

We amortize actuarial gains and losses using a 0% corridor with an amortization period that covers the average remaining service period of active employees (7.46 years, 7.55 years and 6.16 years utilized for 2011, 2010 and 2009, respectively). For the year ending December 31, 2012, an estimated actuarial loss of $56.0 million and an estimated gain from prior service credit of $0.8 million will be amortized from accumulated comprehensive loss into net periodic postretirement costs.

The weighted−average assumptions used to determine the benefit obligations as of the end of each year were as follows:

| | Year Ended December 31, | |
|---|---|---|
| | 2011 | 2010 |
| Discount rate | 5.10% | 5.92% |
| Rate of compensation increase | 3.50% | 3.50% |
| Measurement date | December 31, 2011 | December 31, 2010 |

The weighted−average assumptions used to determine net periodic benefit cost were as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| Discount rate | 5.92% | 6.30% | 6.80% |
| Rate of compensation increase | 3.50% | 3.50% | 3.50% |
| Measurement date | December 31, 2010 | December 31, 2009 | December 31, 2008 |

The following presents information about the assumed healthcare cost trend rate:

| | Year Ended December 31, | |
|---|---|---|
| | 2011 | 2010 |
| Healthcare cost trend rate assumed for next year | 7.00% | 7.00% |
| Rate to which the cost trend is assumed to decline (the ultimate trend rate) | 5.00% | 5.00% |
| Year that the rate reaches that ultimate trend rate | 2018 | 2017 |

Assumed healthcare cost trend rates have a significant effect on the amounts reported for healthcare plans. A one percentage−point change in the assumed healthcare cost trend would have the following effects:

| | +1.0% | −1.0% |
|---|---|---|
| | (Dollars in thousands) | |
| Effect on total service and interest cost components | $ 11,315 | $ (9,363) |
| Effect on year−end postretirement benefit obligation | 189,683 | (158,180) |

Plan Assets

Our postretirement benefit plans are unfunded.

Estimated Future Benefits Payments

The following benefit payments (net of retiree contributions), which reflect expected future service, as appropriate, are expected to be paid by Patriot:

| | Postretirement Benefit Payments |
|---|---|
| | (Dollars in thousands) |
| 2012 | $ 81,446 |
| 2013 | 87,123 |
| 2014 | 91,628 |
| 2015 | 96,161 |
| 2016 | 98,998 |
| 2017 and thereafter | 515,470 |

Plan Changes

In 2009, changes were made to certain defined benefit plans for retired and active, salaried individuals resulting in a reduction to projected healthcare costs of $8.5 million that will be amortized over 7.0 years and a reduction to projected healthcare costs of $10.9 million that will be amortized over 12.5 years.

Assumption of Certain Patriot Liabilities

Peabody assumed certain of our retiree healthcare liabilities at the spin−off, which had a present value of $696.8 million as of December 31, 2011 and are not reflected above. These liabilities included certain obligations under the Coal Act for which Peabody and Patriot are jointly and severally liable, obligations under the 2007 National Bituminous Coal Wage Agreement (2007 NBCWA) for which Patriot is secondarily liable, and obligations for certain active, vested employees of Patriot.

Multi−Employer Benefit Plans

Retirees formerly employed by certain subsidiaries and their predecessors receive health and death benefits provided by the Combined Fund, a fund created by the Coal Act, if they meet the following criteria: they were members of the UMWA; last worked before January 1, 1976; and were receiving health benefits on July 20, 1992. The Coal Act requires former employers (including certain entities of the Company) and their affiliates to contribute to the Combined Fund according to a formula. No new retirees will be added to this group. The Coal Act also established the 1992 Benefit Plan, which provides medical benefits to persons who are not eligible for the Combined Fund, who retired prior to October 1, 1994. Beneficiaries may continue to be added to this fund as employers default in providing their former employees with retiree medical benefits, but the overall exposure for new beneficiaries into this fund is limited to retirees covered under their employer’s plan who retired prior to October 1, 1994. A prior national labor agreement established the 1993 Benefit Plan to provide health benefits for retired miners not covered by the Coal Act. The 1993 Benefit Plan provides benefits to qualifying retired former employees, who retired after September 30, 1994, of certain signatory companies which have gone out of business and defaulted in providing their former employees with retiree medical benefits. Beneficiaries continue to be added to this fund as employers go out of business. We expect to pay $10.1 million in 2012 related to these funds.

The Surface Mining Control and Reclamation Act of 2006 (the 2006 Act), enacted in December 2006, amended the federal laws establishing the Combined Fund and 1992 Benefit Plan and addressed certain provisions of the 1993 Benefit Plan. Among other things, the 2006 Act guaranteed full funding of all beneficiaries in the Combined Fund, and provided funds on a phased−in basis for the 1992 Benefit Plan. The new and additional federal expenditures to the Combined Fund, 1992 Benefit Plan, 1993 Benefit Plan and certain Abandoned Mine Land payments to the states and Indian tribes are collectively limited by an aggregate annual cap of $490 million. To the extent that (i) the annual funding of the programs exceeds this amount (plus the amount of interest from the Abandoned Mine Land trust fund paid with respect to the Combined Fund), and (ii) Congress does not allocate additional funds to cover the shortfall, contributing employers and affiliates, including some of our entities, would be responsible for the additional costs.

We have recorded actuarially determined liabilities related to the Combined Fund. The noncurrent portion related to these obligations was $35.4 million and $39.0 million as of December 31, 2011 and 2010, respectively, and is reflected in “Obligation to industry fund” in the consolidated balance sheets. The current portion related to thes~~e obligations reflected in "Accounts payable and accrued expenses" in the consolidated balance sheets was $5.4~~ million and $5.9 million as of December 31, 2011 and 2010, respectively. Expense of $2.1 million was recognized related to these obligations for the year ended December 31, 2011, and consisted of interest of $2.2 million and amortization of actuarial gain of $0.1 million. Expense of $3.2 million was recognized related to these obligations for the year ended December 31, 2010, and consisted of interest of $2.6 million and amortization of actuarial loss of $0.6 million. Expense of $3.2 million was recognized related to these obligations for the year ended December 31, 2009, and consisted of interest of $3.4 million and amortization of actuarial gain of $0.2 million. We made payments of $5.4 million, $6.0 million and $6.3 million related to these obligations for the years ended December 31, 2011, 2010 and 2009, respectively.

The obligation to industry fund recorded on the consolidated balance sheets at December 31, 2011 and 2010 reflects the obligation less any portion that is currently funded. The accumulated actuarial loss that has not yet been reflected in expense as of December 31, 2011 and 2010 was $1.1 million, and is included in "Accumulated other comprehensive loss."

A portion of these funds qualify as multi−employer benefit plans, which allows us to recognize expense as contributions are made. The expense related to these funds was $2.5 million, $10.0 million and $11.2 million for the years ended December 31, 2011, 2010 and 2009, respectively.

Pursuant to the amended provisions of the 1992 Benefit Plan, we are required to provide security in an amount equal to one times the annual cost of providing healthcare benefits for all individuals receiving benefits from the 1992 Benefit Plan who are attributable to Patriot, plus all individuals receiving benefits from an individual employer plan maintained by Patriot who are entitled to receive such benefits.

(20) Multi−Employer Pension Plans

Certain subsidiaries participate in multi−employer pension plans (the 1950 Plan and the 1974 Plan), which provide defined benefits to a majority of the hourly coal production workers represented by the UMWA. The plan assets of the 1950 Plan and the 1974 Plan were combined and are managed by the UMWA. Benefits under the UMWA plans are computed based on service with our relevant subsidiaries or other signatory employers. The 1950 Plan and the 1974 Plan qualify as multi−employer benefit plans, allowing us to recognize expense as contributions are made. The expense related to these funds was $24.3 million, $21.0 million and $18.3 million for the years ended December 31, 2011, 2010 and 2009, respectively.

In December 2006, the 2007 NBCWA was signed, which required funding of the 1974 Plan through 2011 under a phased funding schedule. The funding is based on an hourly rate for certain UMWA workers. Under the 2007 NBCWA, the per−hour funding rate increased annually, beginning in 2007, until reaching $5.50 in 2011. The collective bargaining agreement with the UMWA was renegotiated in 2011 and generally extends through 2016. We refer to this as the 2011 National Bituminous Coal Wage Agreement (2011 NBCWA). The 2011 NBCWA requires funding at $5.50 per hour for certain UMWA workers. Our subsidiaries with UMWA−represented employees are required to contribute to the 1974 Plan. The 1974 Plan funding rate could change during the term of the 2011 NBCWA if additional funding is deemed necessary to guarantee benefit payments.

The 1974 Plan's legal name is United Mine Workers of America 1974 Pension Plan and the Employer Identification Number is 52−1050282. The 1974 Plan is considered to be in Seriously Endangered Status for the plan year beginning July 1, 2011, because the plan actuary determined that the 1974 Plan's funded percentage is less than 80%, and the 1974 Plan is projected to have an accumulated funding deficiency within six plan years after the plan year beginning July 1, 2011. A funding improvement plan must be adopted by May 25, 2012 and may include increased contributions to the plan and/or modifications to certain future benefit accruals. The contributions to the 1974 Plan made by one of our wholly−owned subsidiaries, Eastern Associated Coal LLC, represent more than 5% of the total contributions to the 1974 Plan.

New inexperienced miners hired after January 1, 2012 will not participate in the 1974 Plan. Such new hires will instead receive a payment of $1.00 per hour worked into the UMWA Cash Deferral Plan, increasing to $1.50 on January 1, 2014. Effective January 1, 2012, employers will also pay $1.50 per hour to a new Retiree Bonus Account Trust for the term of the 2011 NBCWA. This Trust will make a payment to retirees in November of 2014, 2015 and 2016 in the amount of $580 for most retirees and $455 for disabled retirees. This payment was also made in November 2011. If Trust funding is not sufficient to make these annual bonus payments, employers will pay the difference directly to their retirees. Also effective January 1, 2012, employers will also make an additional supplemental pension contribution of $1.00 per hour worked into the UMWA Cash Deferred Savings Plan for each active miner with at least 20 years of credited service under the 1974 Plan, increasing to $1.50 per hour on January 1, 2014. Effective January 1, 2012, any participant in the 1974 Plan may make an irrevocable election to opt out of the 1974 Plan. Such employee will cease to accrue any further service or benefits under the 1974 Plan. Effective with the election, employers will contribute $1.00 per hour worked to the UMWA Cash Deferred Plan on the employee's behalf as a Supplemental Pension Contribution, increasing to $1.50 on January 1, 2014.

We expect to make contributions of approximately $23 million to the 1974 Plan in 2012. Even with these increased rates, the difficult equity markets over recent years have resulted in materially underfunded multi−employer pension funds and rates could increase as this deficit is addressed. Furthermore, contributions to these funds could increase as a result of future collective bargaining with the UMWA, a shrinking contribution base as a result of the insolvency of other coal companies who currently contribute to these funds, lower than expected returns on pension fund assets or other funding deficiencies.

(21)Defined Contribution Plan

Patriot sponsors employee retirement accounts under a 401(k) plan for eligible salaried and non−union hourly employees of the Company (the 401(k) Plan). Generally, Patriot matches voluntary contributions to the 401(k) Plan up to specified levels. The match was temporarily suspended for the second half of 2009, and was reinstated January 1, 2010. A performance contribution feature under the 401(k) plan allows for additional contributions based upon meeting specified performance targets. We recognized 401(k) plan expense of $10.8 million, $7.9 million and $4.5 million for the years ended December 31, 2011, 2010 and 2009, respectively. We recognized additional expense of $2.3 million and $7.2 million under the performance contribution feature for the years ended December 31, 2011 and 2010, respectively.

(22)Guarantees

As part of our 2007 spin−off, Peabody had guaranteed occupational disease (black lung) workers' compensation obligations related to certain of our subsidiaries with the U.S. Department of Labor (DOL). In the first quarter of 2011, we posted our own surety, resulting in a $15.0 million interest−bearing deposit that was recorded to "Investments and other assets" on the consolidated balance sheet. Peabody no longer has any obligation to the DOL related to our subsidiaries included in the 2007 spin−off.

In the normal course of business, we are party to guarantees and financial instruments with off−balance−sheet risk, such as bank letters of credit, performance or surety bonds and other guarantees and indemnities, which are not reflected in the accompanying consolidated balance sheets. Such financial instruments are valued based on the amount of exposure under the instrument and the likelihood of required performance. We do not expect any material losses to result from these guarantees or off−balance−sheet instruments.

Letters of Credit and Bonding

Letters of credit and surety bonds in support of our reclamation, lease, workers' compensation and other obligations were as follows as of December 31, 2011:

| | Asset Retirement Obligations | Workers' Compensation | Retiree Health | Other(1) | Total |
|---|---|---|---|---|---|

| | | | | | |
|---|---|---|---|---|---|
| | | Obligations | Obligations | | |
| | | (Dollars in thousands) | | | |
| Surety bonds | $ 185,649 | $ 44 | $ — | $ 9,408 | $ 195,101 |
| Letters of credit | 139,392 | 132,181 | 56,730 | 3,498 | 331,801 |
| Third−party guarantees | — | — | — | 7,536 | 7,536 |
| | $ 325,041 | $ 132,225 | $ 56,730 | $ 20,442 | $ 534,438 |

(1) Includes collateral for surety companies and bank guarantees, road maintenance, lease obligations and performance guarantees.

As of December 31, 2011, Arch held surety bonds of $39.4 million related to properties acquired by Patriot in the Magnum acquisition, of which $38.5 million related to reclamation. We have posted letters of credit in Arch's favor, as required.

In relation to an exchange transaction involving the acquisition of Illinois Basin coal reserves in 2005, we guaranteed bonding for a partnership in which we formerly held an interest. The aggregate amount that we guaranteed was $2.8 million, and the fair value of the guarantee recognized as a liability was $0.2 million as of December 31, 2011. Our obligation under the guarantee extends to September 2015.

Other Guarantees

We are the lessee or sublessee under numerous equipment and property leases. It is common in such commercial lease transactions for Patriot, as the lessee, to agree to indemnify the lessor for the value of the property or equipment leased, should the property be damaged or lost during the course of our operations. We expect that losses with respect to leased property would be covered by insurance (subject to deductibles). Patriot and certain of our subsidiaries have guaranteed other subsidiaries' performance under their various lease obligations. Aside from indemnification of the lessor for the value of the property leased, our maximum potential obligations under the leases are equal to the respective future minimum lease payments and/or, in certain leases, liquidated damages, assuming no amounts could be recovered from third parties.

(23)Commitments and Contingencies (Restated)

Commitments

As of December 31, 2011, purchase commitments for equipment totaled $163.3 million primarily related to our build out of metallurgical coal production and $9.5 million related to our Apogee FBR and Hobet ABMet water treatment facilities. Of these amounts, we have equipment totaling $115.2 million scheduled for delivery in 2012, with the remainder in subsequent years. We typically finance a significant portion of equipment through leasing arrangements.

Other

On occasion, we become a party to claims, lawsuits, arbitration proceedings and administrative procedures in the ordinary course of business. Our material legal proceedings are discussed below.

Clean Water Act Permit Issues

The federal Clean Water Act (CWA) and corresponding state and local laws and regulations affect coal mining operations by restricting the discharge of pollutants, including dredged or fill materials, into waters of the United States. In particular, the CWA requires effluent limitations and treatment standards for wastewater discharge through the National Pollutant Discharge Elimination System (NPDES) program. NPDES permits, which we must obtain for both active and historical mining operations, govern the discharge of pollutants into water, require regular monitoring and reporting and set forth performance standards. Our discharges must comply with effluent limitations that are established based on the implementation of certain treatment technologies determined by the Environmental Protection Agency (EPA) to be appropriate for the coal mining sector or to meet the applicable water quality standards in the streams receiving the discharge. States are empowered to develop and enforce water quality standards, which are subject to change and must be approved by the EPA. Water quality standards vary from state to state.

Environmental claims and litigation in connection with our various NPDES permits, and related CWA requirements that were assumed in the Magnum acquisition, include the following:

Hobet West Virginia Department of Environmental Protection (WVDEP) Action

In 2007, Hobet Mining, LLC (Hobet) was sued for exceedances of effluent limits contained in four of its NPDES permits in state court in Boone County by the WVDEP. We refer to this case as the Hobet WVDEP Action. The Hobet WVDEP Action was resolved by a settlement and consent order entered in the Boone County Circuit Court on September 5, 2008. The settlement required us, among other things, to complete supplemental environmental projects, to gradually reduce selenium discharges from our Hobet Job 21 surface mine, to achieve full compliance with our NPDES permits by April 2010 and to study potential treatment alternatives for selenium.

On October 8, 2009, a motion to enter a modified settlement and consent order in the Hobet WVDEP Action was submitted to the Boone County Circuit Court. This motion to modify the settlement and consent order was jointly filed by Patriot and the WVDEP. On December 3, 2009, the Boone County Circuit Court approved and entered a modified settlement and consent order to, among other things, extend coverage of the September 5, 2008 settlement and consent order to two additional permits and extend the date to achieve full compliance with our NPDES permits from April 2010 to July 2012. One of the two additional permits subject to such extension, Hobet Surface Mine No. 22, was subsequently addressed in the September 1, 2010 U.S. District Court Ruling, as further discussed below.

Selenium Matters

Federal Apogee Case and Federal Hobet Case

In 2007, Apogee Coal Company, LLC (Apogee) was sued in the U.S. District Court by the Ohio Valley Environmental Coalition, Inc. (OVEC) and another environmental group (pursuant to the citizen suit provisions of the CWA). We refer to this lawsuit as the Federal Apogee Case. This lawsuit alleged that Apogee had violated effluent limits for selenium set forth in one of its NPDES permits. The lawsuit sought compliance with the effluent limits, fines and penalties as well as injunctive relief prohibiting Apogee from further violating laws and its permit.

In 2008, OVEC and another environmental group filed a lawsuit against Hobet and WVDEP in the U.S. District Court (pursuant to the citizen suit provisions of the CWA). We refer to this case as the Federal Hobet Case and it is very similar to the Federal Apogee Case. Additionally, the Federal Hobet Case involved the same four NPDES permits that were the subject of the original Hobet WVDEP Action in state court. However, the Federal Hobet Case focused exclusively on selenium exceedances in permitted water discharges, while the Hobet WVDEP Action addressed all effluent limits, including selenium, established by the permits.

On March 19, 2009, the U.S. District Court approved two separate consent decrees, one between Apogee and the plaintiffs and the other between Hobet and the plaintiffs. The consent decrees extended the deadline to comply with effluent limits for selenium with respect to the permits covered by the Federal Apogee Case and the Federal Hobet Case to April 5, 2010 and added interim reporting requirements up to that date. We agreed to, among other things, undertake pilot projects at Apogee and Hobet involving reverse osmosis technology along with interim reporting obligations and to comply with our NPDES permits' effluent limits for selenium by April 5, 2010. On February 26, 2010, we filed a motion requesting a hearing to discuss the modification of the March 19, 2009 consent decrees to, among other things, extend the compliance deadline to July 2012 in order to continue our efforts to identify viable treatment alternatives. On April 18, 2010, the plaintiffs in the Federal Apogee Case filed a motion asking the court to issue an order to show cause why Apogee should not be found in contempt for its failure to comply with the terms and conditions of the March 19, 2009 consent decree. The remedies sought by the plaintiffs included compliance with the terms of the consent decree, the imposition of fines and an obligation to pay plaintiffs' attorneys fees. A hearing to discuss these motions was held beginning on August 9, 2010. See September 1, 2010 U.S. District Court Ruling below for the outcome of this hearing.

Federal Hobet Surface Mine No. 22 Case

In March 2010, the U.S. District Court permitted a lawsuit to proceed that was filed in October 2009 by OVEC and other environmental groups against Hobet, alleging that Hobet has in the past violated, and continued to violate, effluent limitations for selenium in an NPDES permit and the requirements of a Surface Mining Control and Reclamation Act (SMCRA) permit for Hobet Surface Mine No. 22 and seeking injunctive relief. We refer to this as the Federal Hobet Surface Mine No. 22 Case. In addition to the Federal Apogee Case, the scope and terms of injunctive relief in the Federal Hobet Surface Mine No. 22 Case were discussed at the hearing that began on August 9, 2010. See September 1, 2010 U.S. District Court Ruling below for the outcome of this hearing.

Other WVDEP Actions

On April 23, 2010, WVDEP filed a lawsuit against Catenary Coal Company, LLC (Catenary), one of our subsidiaries, in the Boone County Circuit Court. We refer to this case as the Catenary WVDEP Action. This lawsuit alleged that Catenary had discharged selenium from its surface mining operations in violation of certain of its NPDES and surface mining permits. On June 11, 2010, WVDEP filed a lawsuit against Apogee in the Logan County Circuit Court, alleging discharge of pollutants, including selenium, in violation of certain of its NPDES and SMCRA permits. We refer to this case as the Apogee WVDEP Action. The permits contained in the Catenary WVDEP Action and the Apogee WVDEP Action are also involved in the February 2011 Litigation discussed below. WVDEP is seeking fines and penalties as well as injunctions prohibiting Catenary and Apogee from discharging pollutants, including selenium, in violation of laws and NPDES permits. A July 2012 trial date has been set for the Apogee WVDEP Action. The Catenary WVDEP Action has not been set for hearing. We are unable to predict the likelihood of success of the plaintiffs' claims. Although we intend to defend ourselves vigorously against these allegations, we may consider alternative resolutions to these matters if they would be in the best interest of the Company.

September 1, 2010 U.S. District Court Ruling

On September 1, 2010, the U.S. District Court found Apogee in contempt for failing to comply with the March 19, 2009 consent decree entered in the Federal Apogee Case. Apogee was ordered to install a Fluidized Bed Reactor (FBR) water treatment facility for three outfalls and to come into compliance with applicable selenium discharge limits at these three outfalls by March 1, 2013. In September 2010, we increased the portion of the selenium water treatment liability related to Apogee by $69.5 million ($48.8 million related to installation costs and $20.7 million related to operating costs) for the change in the fair value of the estimated costs related to these three outfalls. This charge is reflected in “Asset retirement obligation expense” in the consolidated statement of operations. As of December 31, 2011, we have spent approximately $12.6 million on the construction of the Apogee FBR facility and the total expenditures are estimated to be approximately $55 million. We began construction on the Apogee FBR facility in the third quarter of 2011.

Additionally, the U.S. District Court ordered Hobet to submit a proposed schedule to develop a treatment plan for a Hobet Surface Mine No. 22 outfall by October 1, 2010 and to come into compliance with applicable discharge limits under the permit by May 1, 2013. We submitted the required schedule, which included conducting additional pilot projects related to certain technological alternatives. A treatment technology to be utilized at this Hobet Surface Mine No. 22 outfall was filed with the U.S. District Court in June 2011 in accordance with the submitted schedule. In June 2011, we recorded an adjustment of $60.6 million ($36.6 million related to installation costs and $24.0 million related to operating costs) to the selenium water treatment liability primarily related to fair value of the estimated costs of an FBR water treatment facility at this outfall. This charge is reflected in “Asset retirement obligation expense” in the consolidated statement of operations.

In December 2011, the Special Master appointed by the U.S. District Court to oversee the Hobet Surface Mine No. 22 project approved Hobet's request to substitute ABMet selenium treatment technology for the FBR technology at this outfall. The U.S. District Court subsequently confirmed this substitution. We continue to design and seek permits for the Hobet ABMet facility and anticipate beginning construction on the facility in the first half of 2012. The estimated total cost for installing the ABMet water treatment facility is approximately $25 million, which is significantly less than the estimated $40 million to build the Hobet FBR facility.

In December 2011, we adjusted the portion of the selenium water treatment liability related to Hobet Surface Mine No. 22 by $25.6 million ($15.3 million related to installation costs and $10.3 million related to operating costs) for the decrease in the fair value of the estimated costs related to this outfall due to the change in the technology approved by the Special Master. Prior to the technology change, we spent approximately $3.0 million related to the final engineering specifications for the Hobet FBR facility.

FBR technology had not been used to remove selenium or any other minerals discharged at coal mining operations prior to our pilot project performed in 2010. The FBR water treatment facility required by the September 1, 2010 ruling will be the first facility constructed for selenium removal on a commercial scale. Further, neither FBR nor ABMet technology has been proven effective on a full−scale commercial basis at coal mining operations and there can be no assurance that either of these technologies will be successful under all variable conditions experienced at our mining operations.

February 2011 Litigation

In February 2011, OVEC and two other environmental groups filed a lawsuit against us, Apogee, Catenary and Hobet, in the U.S. District Court alleging violations of ten NPDES permits and certain SMCRA permits relating to outfalls created prior to the Magnum acquisition. We refer to this case as the February 2011 Litigation. The February 2011 Litigation involves the same four NPDES permits that are the subject of the Catenary WVDEP Action, the same Apogee permit that is the subject of the Apogee WVDEP Action, the same four NPDES permits that are the subject of the Hobet WVDEP Action and one additional NPDES permit held by Hobet that is not the subject of any action by WVDEP. The plaintiffs were seeking fines, compliance with permit limits and other requirements, and injunctive relief.

In late 2011, we substantially agreed to the terms of a settlement agreement with OVEC and the other environmental groups. On January 18, 2012, we finalized a comprehensive consent decree that, when entered by the U.S. District Court, will resolve the February 2011 Litigation. The comprehensive consent decree sets technology selection and compliance dates for the outfalls in the ten permits included in the February 2011 Litigation on a staggered basis, allowing us to continue testing certain technologies as well as to take advantage of technology that is still in the development stage. See our discussion below in relation to the uncertainties experienced in making technology selections. The comprehensive consent decree separates the outfalls included in these ten NPDES permits into categories based on the average gallons per minute water flow at each outfall. The comprehensive consent decree requires that we select water treatment technology alternatives by category beginning with the first category in September 2012 and ending with the last category in September 2014.

Additionally, we agreed to, among other things, come into compliance with applicable selenium discharge limits at each outfall in the category beginning with the first category within 24 months of the effective date of the agreement and ending with the last category within 60 months of the effective date of the agreement. We also agreed to, among other things, waive our rights to mine certain coal reserves and to pay $7.5 million in civil penalties. The plaintiffs agreed to, among other things, refrain from instituting new lawsuits with respect to the permits and outfalls identified in the comprehensive consent decree for certain periods, provided we meet the specified requirements. The comprehensive consent decree also established a framework under which we will interface with the plaintiffs with respect to the identified permits and outfalls. See the table below for additional details. The comprehensive consent decree will become effective upon entry by the U.S. District Court after the conclusion of a public comment period.

The comprehensive consent decree was determined to be a recognized subsequent event and the amounts paid per the agreement of approximately $7.5 million and the write−off of the forfeited coal reserves of approximately $2.3 million are reflected in “Asset retirement obligation expense” in our consolidated statement of operations at December 31, 2011.

| Category/Gallons Per Minute | Technology Selection Date | Projected Compliance Date |
|---|---|---|
| I / 0−200 | September 1, 2012 | 24 months from the effective date of the agreement |
| II / 201−400 | December 31, 2012 | 36 months from the effective date of the agreement |
| III / 401−600 | March 31, 2013 | 45 months from the effective date of the agreement |
| IV / 601−1000 | September 1, 2013 | 50 months from the effective date of the agreement |
| V / 1000 + | September 1, 2014 | 60 months from the effective date of the agreement |

Selenium Water Treatment Liability

We estimated the costs to treat our selenium discharges in excess of allowable limits at a fair value of $85.2 million at the Magnum acquisition date. This liability was recorded in the purchase accounting for the Magnum acquisition and included the estimated costs of installing Zero Valent Iron (ZVI) water treatment technology, which was the most successful methodology at the time based on our testing results. At the time we recorded this liability, it reflected the estimated total costs of the planned ZVI water treatment installations to be implemented and maintained in consideration of the requirements of our mining permits, court orders, and consent decrees. This estimate was prepared considering the dynamics of legislation, capabilities of available technology and our planned water treatment strategy. Based on this planned ZVI water treatment strategy, our expected annual operating costs are approximately $7.3 million each year over the next five years.

At the time of the Magnum acquisition, various outfalls across the acquired operations had been tested for selenium discharges. Of the outfalls tested, 88 were identified as potential sites of selenium discharge limit exceedances, of which 78 were identified as having known exceedances. The estimated liability recorded at fair value in the purchase allocation took into consideration the 78 outfalls with known exceedances at the acquisition date. The estimated aggregate undiscounted amount of the initial accrual was $390.7 million at the Magnum acquisition date.

As of December 31, 2011, we have a $196.0 million liability recorded for the treatment of selenium discharges related to the 78 outfalls acquired in the Magnum acquisition. The current portion of the estimated liability is $63.1 million and is included in “Accounts payable and accrued expenses” and the long−term portion is recorded in “Asset retirement obligations” on our consolidated balance sheets. This total liability is inclusive of the adjustments that were recorded in connection with the September 1, 2010 U.S. District Court Ruling described above.

Our liability to treat selenium discharges at the other outfalls not addressed in the September 1, 2010 ruling is based on the use of ZVI technology. We have installed ZVI systems according to our original water treatment strategy, while also performing a further review of other potential water treatment solutions. Our water treatment strategy reflects implementing scalable ZVI installations at each of the other outfalls due to its modular design that can be reconfigured as further knowledge and certainty is gained. Initial pilot testing of ZVI technology began in 2008 and has identified potential shortfalls requiring additional research to resolve certain detailed design considerations. To date, ZVI technology has not been demonstrated to perform consistently and sustainably in achieving effluent selenium limitations or in treating the expected water flows at all outfalls. However, based on the flexibility of the scalable system for configuration adjustments, improvements in the system design and demonstrated success in reducing selenium at certain flows, we plan to continue to pursue the ZVI−based water treatment installations and determine whether modifications to the technology could result in its ability to treat selenium successfully at outlets identified in the February 2011 Litigation.

At this time, there is no definitive plan to install any technology other than ZVI−based technology at the other outfalls not included in the September 1, 2010 ruling as none of the other technologies has been proven effective on a full−scale basis. Our comprehensive consent decree with the plaintiffs in the February 2011 Litigation requires that we select water treatment technology by category beginning with the first category in September 2012 and ending with the last category in September 2014. We are continuing to research and evaluate various treatment solutions in addition to ZVI−based systems for the other outfalls. Results of pilot testing in the first half of 2011 indicated that ZVI−based systems, FBR and an additional technology may be viable selenium treatment options. We are continuing to test modifications to these treatment options and we are pilot testing alternative solutions. Alternative technology solutions that we may ultimately select are still in the early phases of development and their related costs can not be estimated at this time.

We continue to implement treatment installations at various permitted outfalls, but we have been unable to comply with selenium discharge limits due to the ongoing inability to identify a water treatment solution that can remove selenium sustainably, consistently and uniformly under all variable conditions experienced at our mining operations. While we are actively continuing to explore new treatment options and modifying existing technologies, a definitive solution has not been identified and it is unknown when or if such a solution will be identified. Even if a definitive solution would have existed as of December 31, 2011, it likely would not have been possible to install such technology at all of the outfalls included in the Hobet WVDEP Action by the July 2012 compliance deadline, and we are taking the requisite steps to seek an extension approved by the court.

If ZVI−based systems are not ultimately successful in treating the effluent selenium exceedances at the outfalls covered by the Hobet WVDEP Action and the February 2011 Litigation, we will be required to install alternative treatment solutions. The cost of other water treatment solutions could be materially higher than the costs reflected in our liability. Furthermore, costs associated with potential modifications to ZVI or the scale of our current ZVI−based systems could also cause the costs to be materially higher than the costs reflected in our liability. We cannot provide an estimate of the possible additional range of costs associated with alternate treatment solutions at this time as no solution has been proven to be effective on a full−scale commercial basis and we have not made any changes to our treatment plans for these outfalls as of December 31, 2011. Potential installations of selenium treatment alternatives are further complicated by the variable geological and topographical considerations of each individual outfall.

While we are actively continuing to explore treatment options, there can be no assurance as to if or when a definitive solution will be identified and implemented. As a result, actual costs may differ from our current estimates. We will make additional adjustments to our liability when it becomes probable that we will utilize a different technology or modify the current technology, whether due to developments in our ongoing research, technology changes or modifications according to the comprehensive consent decree or other legal obligations to do so. Additionally, there are no assurances we will meet the timetable stipulated in the various court orders, consent decrees and permits.

General Clean Water Act Matters

With respect to all outfalls with known exceedances for selenium or any other parameter, including the specific sites discussed above, any failure to meet the deadlines set forth in our consent decrees or established by the federal government, the U.S. District Court or the State of West Virginia or to otherwise comply with our permits could result in further litigation against us, an inability to obtain new permits or to maintain existing permits, which could impact our ability to mine our coal reserves, and the imposition of significant and material fines and penalties or other costs and could otherwise materially adversely affect our results of operations, cash flows and financial condition. The specific sites discussed above were created prior to the Magnum acquisition under legacy permitting standards and resulted in violations of current selenium requirements, which were promulgated in West Virginia in 2007.

In addition to the uncertainties related to technology discussed above, future changes to legislation, compliance with judicial rulings, consent decrees and regulatory requirements, findings from current research initiatives and the pace of future technological progress could result in costs that differ from our current estimates, which could have a material adverse affect on our results of operations, cash flows and financial condition.

We may incur costs relating to the lawsuits discussed above and possible additional costs, including potential fines and penalties relating to selenium matters. Additionally, as a result of these ongoing litigation matters and federal regulatory initiatives related to water quality standards that affect valley fills, impoundments and other mining practices, including the selenium discharge matters described above, the process of applying for new permits has become more time−consuming and complex, the review and approval process is taking longer, and in certain cases, new permits may not be issued.

Comprehensive Environmental Response, Compensation and Liability Act (CERCLA)

CERCLA and similar state laws create liability for investigation and remediation in response to releases of hazardous substances in the environment and for damages to natural resources. Under CERCLA and many similar state statutes, joint and several liability may be imposed on waste generators, site owners and operators and others regardless of fault. These laws and related regulations could require us to do some or all of the following: (i) remove or mitigate the effects on the environment at various sites from the disposal or release of certain substances; (ii) perform remediation work at such sites; and (iii) pay damages for loss of use and non−use values.

Although waste substances generated by coal mining and processing are generally not regarded as hazardous substances for the purposes of CERCLA and similar legislation, and are generally covered by SMCRA, some products used by coal companies in operations, such as chemicals, and the disposal of these products are governed by CERCLA. Thus, coal mines currently or previously owned or operated by us, and sites to which we have sent waste materials, may be subject to liability under CERCLA and similar state laws. A predecessor of one of our subsidiaries has been named as a potentially responsible party at a third−party site, but given the large number of entities involved at the site and our anticipated share of expected cleanup costs, we believe that its ultimate liability, if any, will not be material to our financial condition and results of operations.

Flood Litigation

In 2006, Hobet and Catenary were named as defendants along with various other property owners, coal companies, timbering companies and oil and natural gas companies in lawsuits arising from flooding that occurred on May 30, 2004 in various watersheds, primarily located in southern West Virginia. This litigation is pending before two different judges in the Circuit Court of Logan County, West Virginia. In the first action, the plaintiffs have asserted that (i) Hobet failed to maintain an approved drainage control system for a pond on land near, on, and/or contiguous to the sites of flooding; and (ii) Hobet participated in the development of plans to grade, blast, and alter the land near, on, and/or contiguous to the sites of the flooding. Hobet has filed a motion to dismiss both claims based upon the assertion that insufficient facts have been stated to support the claims of the plaintiffs.

In the second action, motions to dismiss have been filed, asserting that the allegations by the plaintiffs are conclusory in nature and likely deficient as a matter of law. Most of the other defendants also filed motions to dismiss. Both actions were stayed during the pendency of the appeals to the West Virginia Supreme Court of Appeals in a similar case which was dismissed in April 2010.

The outcome of the flood litigation is subject to numerous uncertainties. Based on our evaluation of the issues and their potential impact, the amount of any future loss cannot be reasonably estimated. However, based on current information, we believe this matter is likely to be resolved without a material adverse effect on our financial condition, results of operations and cash flows.

Other Litigation and Investigations

Apogee has been sued, along with eight other defendants, including Monsanto Company (Monsanto), Pharmacia Corporation and Akzo Nobel Chemicals, Inc., by certain plaintiffs in state court in Putnam County, West Virginia. In total, 243 similar lawsuits have been served on Apogee, which are identical except for the named plaintiff. Of the 243 lawsuits, 75 were served in February 2008, 167 were served in December 2009, and one was served in January 2011. Each lawsuit alleges personal injury occasioned by exposure to dioxin generated by a plant owned and operated by certain of the other defendants during production of a chemical, 2,4,5−T, from 1949−1969. Apogee is alleged to be liable as the successor to the liabilities of a company that owned and/or controlled a dump site known as the Manila Creek landfill, which allegedly received and incinerated dioxin−contaminated waste from the plant. The lawsuits seek compensatory and punitive damages for personal injury. As of December 31, 2011, 47 of the lawsuits have been dismissed. Under the terms of the governing lease, Monsanto has assumed the defense of these lawsuits and has agreed to indemnify Apogee for any related damages. The failure of Monsanto to satisfy its indemnification obligations under the lease could have a material adverse effect on us.

We were a defendant in litigation involving Peabody in relation to their negotiation and June 2005 sale of two properties previously owned by two of our subsidiaries. Environmental Liability Transfer, Inc. (ELT) and its subsidiaries commenced litigation against these subsidiaries in the Circuit Court of the City of St. Louis in the State of Missouri alleging, among other claims, fraudulent misrepresentation, fraudulent omission, breach of duty and breach of contract. In May 2011, we entered into a litigation settlement agreement with ELT and its subsidiaries. See Note 7 for a detailed description of the settlement.

A predecessor of one of our subsidiaries operated the Eagle No. 2 mine located near Shawneetown, Illinois from 1969 until closure of the mine in July 1993. In March 1999, the State of Illinois brought a proceeding before the Illinois Pollution Control Board against the subsidiary alleging that groundwater contamination due to leaching from a coal waste pile at the mine site violated state standards. The subsidiary has developed a remediation plan with the State of Illinois and is in litigation before the Illinois Pollution Control Board with the Illinois Attorney General's office with respect to its claim for a civil penalty of $1.3 million.

One of our subsidiaries is a defendant in approximately 140 related lawsuits filed in the Circuit Court of Boone County, West Virginia. In addition to our subsidiary, the lawsuits name Peabody and other coal companies as defendants. The plaintiffs in each case allege contamination of their drinking water wells over a period in excess of 30 years from coal mining activities in Boone County, including underground coal slurry injection and coal slurry impoundments. The lawsuits seek property damages, personal injury damages and medical monitoring costs. The Boone County Public Service Commission installed public water lines and most of the plaintiffs now have access to public water. Pursuant to the terms of the Separation Agreement, Plan of Reorganization and Distribution from our 2007 spin−off, Patriot is indemnifying and defending Peabody in this litigation. The lawsuits have been settled and all settlement fees were paid in full in 2011.

In late January 2010, the U.S. Attorney's office and the State of West Virginia began investigations relating to one or more of our employees making inaccurate entries in official mine records at our Federal No. 2 mine. We terminated one employee and two other employees resigned after being placed on administrative leave. The terminated employee subsequently admitted to falsifying inspection records and has been cooperating with the U.S. Attorney's office. In April 2010, we received a federal subpoena requesting methane detection systems equipment used at our Federal No. 2 mine since July 2008 and the results of tests performed on the equipment since that date. We have provided the equipment and information as required by the subpoena. We have not received any additional requests for information in 2011. In January 2012, the terminated employee filed a civil lawsuit against us alleging retaliatory discharge and intentional infliction of emotional distress. In addition, five employees filed a purported class action lawsuit against us and the terminated employee seeking compensation for lost wages, emotional distress, and punitive damages for the alleged intentional violation of employee safety at the mine. We deny the validity of the allegations and intend to vigorously defend both civil lawsuits.

The outcome of other litigation and the investigations is subject to numerous uncertainties. Based on our evaluation of the issues and their potential impact, the amount of any future loss cannot be reasonably estimated. However, based on current information, we believe these matters are likely to be resolved without a material adverse effect on our financial condition, results of operations and cash flows.

(24)Segment Information (Restated)

We report our operations through two reportable operating segments, Appalachia and Illinois Basin. The Appalachia and Illinois Basin segments primarily consist of our mining operations in West Virginia and Kentucky, respectively. The principal business of the Appalachia segment is the mining and preparation of thermal coal, sold primarily to electricity generators and metallurgical coal, sold to steel and coke producers. The principal business of the Illinois Basin segment is the mining and preparation of thermal coal, sold primarily to electricity generators. For the years ended December 31, 2011, 2010 and 2009, our sales to electricity generators were 76%, 78% and 83% of our total volume, respectively. Our sales to steel and coke producers were 24%, 22% and 17% of our total volume for the years ended December 31, 2011, 2010 and 2009, respectively. For the years ended December 31, 2011, 2010, and 2009, our export sales were 29%, 20% and 11% of our total volume, respectively. Our revenues attributable to foreign countries, based on where the product was shipped, were $952.3 million, $555.0 million and $322.2 million for the years ended December 31, 2011, 2010 and 2009, respectively. There are no material revenues attributed to any individual foreign country.

We utilize underground and surface mining methods and produce coal with high and medium Btu content. Our operations have relatively short shipping distances from the mine to most of our domestic utility customers and certain metallurgical coal customers. “Corporate and Other” in the table below includes selling and administrative expenses, net gain on disposal or exchange of assets and costs associated with past mining obligations.

Our chief operating decision makers use Adjusted EBITDA as the primary measure of segment profit and loss. We believe that in our industry such information is a relevant measurement of a company’s operating financial performance. Adjusted EBITDA is defined as net income (loss) before deducting interest income and expense; income taxes; asset retirement obligation expense; depreciation, depletion and amortization; restructuring and impairment charge; and sales contract accretion. Segment Adjusted EBITDA is calculated the same as Adjusted EBITDA but excludes “Corporate and Other” as defined above. Because Adjusted EBITDA and Segment Adjusted EBITDA are not calculated identically by all companies, our calculation may not be comparable to similarly titled measures of other companies.

Operating segment results for the year ended December 31, 2011 were as follows:

| | Appalachia | Illinois Basin | Corporate and Other | Consolidated |
|---|---|---|---|---|
| | | (Dollars in thousands) | | |
| Revenues | $ 2,090,885 | $ 311,621 | $ — | $ 2,402,506 |
| Adjusted EBITDA | 386,340 | (12,140) | (197,459) | 176,741 |
| Additions to property, plant, equipment and mine development | 146,272 | 15,929 | 764 | 162,965 |
| Income from equity affiliates | 4,709 | — | — | 4,709 |

Operating segment results for the year ended December 31, 2010 were as follows:

| | Appalachia | Illinois Basin | Corporate and Other | Consolidated |
|---|---|---|---|---|
| | | (Dollars in thousands) | | |
| Revenues | $ 1,759,077 | $ 276,034 | $ — | $ 2,035,111 |
| Adjusted EBITDA | 316,324 | 1,295 | (175,758) | 141,861 |
| Additions to property, plant, equipment and mine development | 96,844 | 23,379 | 1,708 | 121,931 |
| Income from equity affiliates | 9,476 | — | — | 9,476 |

Operating segment results for the year ended December 31, 2009 were as follows:

| | Appalachia | Illinois Basin | Corporate and Other | Consolidated |
|---|---|---|---|---|
| | | (Dollars in thousands) | | |
| Revenues | $ 1,776,204 | $ 269,079 | $ — | $ 2,045,283 |
| Adjusted EBITDA | 294,373 | 8,550 | (192,178) | 110,745 |
| Additions to property, plant, equipment and mine development | 69,931 | 7,437 | 895 | 78,263 |
| Loss from equity affiliates | 398 | — | — | 398 |

A reconciliation of Adjusted EBITDA to net income (loss) follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| | | (Dollars in thousands) | |
| Adjusted EBITDA | $ 176,741 | $ 141,861 | $ 110,745 |
| Depreciation, depletion and amortization | (186,348) | (188,074) | (205,339) |
| Asset retirement obligation expense | (105,232) | (112,697) | (35,116) |
| Sales contract accretion | 55,020 | 121,475 | 298,572 |

| | | | |
|---|---|---|---|
| Restructuring and impairment charge | (13,657) | (15,174) | (20,157) |
| Interest expense | (65,533) | (57,419) | (38,108) |
| Interest income | 246 | 12,831 | 16,646 |
| Income tax provision | (372) | (492) | — |
| Net income (loss) | $ (139,135) | $ (97,689) | $ 127,243 |

(25)Stockholders' Equity

Common Stock

Patriot has 300 million authorized shares of $0.01 par value common stock. Each share of common stock is entitled to one vote in the election of directors and all other matters submitted to stockholder vote. Except as otherwise required by law or provided in any resolution adopted by the Board of Directors with respect to any series of preferred stock, the holders of common stock will possess all voting power. The holders of common stock do not have cumulative voting rights. In general, all matters submitted to a meeting of stockholders, other than as described below, shall be decided by vote of a majority of the shares of Patriot's common stock. Directors are elected by a plurality of the shares of Patriot's common stock.

Subject to preferences that may be applicable to any series of preferred stock, the owners of Patriot's common stock may receive dividends when declared by the Board of Directors. Common stockholders will share equally in the distribution of all assets remaining after payment to creditors and preferred stockholders upon liquidation, dissolution or winding up of the Company, whether voluntarily or not. The common stock will have no preemptive or similar rights.

Effective August 11, 2008, we implemented a 2−for−1 stock split on all shares of our common stock. All share and per share amounts in these consolidated financial statements and related notes reflect the stock split.

On June 16, 2009, we completed a public offering of 12 million shares of our common stock in a registered public offering under our shelf registration at $7.90 per share. The net proceeds from the sale of shares, after deducting fees and commissions, were $89.1 million. The proceeds were used to repay the outstanding balance on our revolving credit facility, with the remainder used for general corporate purposes.

The following table summarizes common stock activity from January 1, 2009 to December 31, 2011:

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Shares outstanding at the beginning of the year | 90,944,595 | 90,319,939 | 77,383,199 |
| Stock options exercised | 23,000 | 61,097 | 12,729 |
| Stock grants to employees | 758,096 | 259,458 | 553,428 |
| Employee stock purchases | 159,647 | 304,101 | 370,583 |
| Shares issued in equity offering | — | — | 12,000,000 |
| Shares outstanding at the end of the year | 91,885,338 | 90,944,595 | 90,319,939 |

Preferred Stock

In addition to the common stock, the Board of Directors is authorized to issue up to 10 million shares of $0.01 par value preferred stock. The authorized preferred shares include 1,000,000 shares of Series A Junior Participating Preferred Stock. Our certificate of incorporation authorizes the Board of Directors, without the approval of the stockholders, to fix the designation, powers, preferences and rights of one or more series of preferred stock, which may be greater than those of the common stock. We believe that the ability of the Board to issue one or more series of preferred stock will provide us with flexibility in structuring possible future financings and acquisitions and in meeting other corporate needs that might arise. The issuance of shares of preferred stock, or the issuance of rights to purchase shares of preferred stock, could be used to discourage an unsolicited acquisition proposal. There were no outstanding shares of preferred stock as of December 31, 2011 and 2010.

Preferred Share Purchase Rights Plan and Series A Junior Participating Preferred Stock

The Board of Directors adopted a stockholders rights plan pursuant to the Rights Agreement with American Stock Transfer & Trust Company (the Rights Agreement). In connection with the Rights Agreement, on October 31, 2007, we filed the Certificate of Designations of Series A Junior Participating Preferred Stock (the Certificate of Designations) with the Secretary of State of the State of Delaware. Pursuant to the Certificate of Designations, we designated 1,000,000 shares of preferred stock as Series A Junior Participating Preferred Stock having the designations, rights, preferences and limitations set forth in the Rights Agreement. Each preferred share purchase right represents the right to purchase one−half of one−hundredth of a share of Series A Junior Participating Preferred Stock.

The rights have certain anti−takeover effects. If the rights become exercisable, the rights will cause substantial dilution to a person or group that attempts to acquire Patriot on terms not approved by the Board of Directors, except pursuant to any offer conditioned on a substantial number of rights being acquired. The rights should not interfere with any merger or other business combination approved by the Board since the rights may be redeemed by Patriot at a nominal price prior to the time that a person or group has acquired beneficial ownership of 15% or more of common stock. Thus, the rights are intended to encourage persons who may seek to acquire control of Patriot to initiate such an acquisition through negotiations with the Board. However, the effect of the rights may be to discourage a third party from making a partial tender offer or otherwise attempting to obtain a substantial equity position in our equity securities or seeking to obtain control of Patriot. To the extent any potential acquirers are deterred by the rights, the rights may have the effect of preserving incumbent management in office. There were no outstanding shares of Series A Junior Participating Preferred Stock as of December 31, 2011 and 2010.

We have not paid cash dividends and do not anticipate that we will pay cash dividends on our common stock in the near term. The declaration and amount of future dividends, if any, will be determined by our Board of Directors and will be dependent upon covenant limitations in our credit facility and other debt agreements, our financial condition and future earnings, our capital, legal and regulatory requirements, and other factors the Board deems relevant.

(26)Stock−Based Compensation

We have one equity incentive plan for employees and eligible non−employee directors that allows for the issuance of share−based compensation in the form of restricted stock, incentive stock options, nonqualified stock options, stock appreciation rights, performance awards, restricted stock units and deferred stock units. Members of our Board of Directors are eligible for deferred stock unit grants at the date of their election and annually. This plan has 11.7 million shares of our common stock available for grant, with 6.7 million shares remaining available for grant as of December 31, 2011. Additionally, we have established an employee stock purchase plan that provides for the purchase of up to 2.5 million shares of our common stock, with 1.6 million shares available for grant as of December 31, 2011.

Share−based compensation expense of $12.4 million, $10.7 million and $11.4 million was recorded in “Selling and administrative expenses” in the consolidated statements of operations for the years ended December 31, 2011, 2010 and 2009, respectively, and $1.4 million, $1.2 million and $1.3 million was recorded in “Operating costs and expenses” for the years ended December 31, 2011, 2010 and 2009, respectively. Share−based compensation expense included $0.1 million, $0.5 million and $0.9 million related to awards from restricted stock and stock options granted by Peabody to Patriot employees prior to spin−off for the years ended December 31, 2011, 2010 and 2009, respectively. As of December 31, 2011, the total unrecognized compensation cost related to nonvested awards granted after the spin−off was $13.6 million, net of taxes, which is expected to be recognized over a weighted−average period of 1.6 years. As of December 31, 2011, there was no unrecognized compensation cost related to nonvested awards granted by Peabody prior to the spin−off.

Restricted Stock

We have restricted stock agreements in place for grants to employees and service providers of Patriot and our subsidiaries. Certain of these agreements provide that restricted stock issued will fully vest on the third anniversary of the date the restricted stock was granted, while more recent grants provide a graded vesting schedule over three years. The restricted stock will fully vest sooner if a grantee terminates employment with or stops providing services to Patriot because of death or disability, or if a change in control occurs, as defined in the equity plan.

A summary of restricted stock award activity is as follows:

| | Year Ended December 31, 2011 | Weighted Average Grant−Date Fair Value |
|---|---|---|
| Nonvested at January 1, 2011 | 941,955 | $ 10.70 |
| Granted | 434,894 | 19.49 |
| Forfeited | (127,166) | 10.38 |
| Vested | (138,476) | 22.65 |
| Nonvested at December 31, 2011 | 1,111,207 | 12.68 |

Restricted Stock Units

We have long−term incentive restricted stock unit agreements in place for grants to employees and service providers. These agreements grant restricted stock units that vest over time as well as restricted stock units that vest based upon our financial performance. In general, the restricted stock units that vest over time will be 50% vested on the fifth anniversary of the initial date of grant, 75% vested on the sixth such anniversary and 100% vested on the seventh such anniversary. The restricted stock units that vest over time will fully vest sooner if a grantee terminates employment with or stops providing services to Patriot because of death or disability, or if a change in control occurs, as defined in the equity plan.

In addition, we have deferred stock unit agreements in place for grants to non−employee directors of Patriot. These agreements provide that the deferred stock units will fully vest on the first anniversary of the date of grant, if the non−employee director served as a director for the entire one−year period between the date of grant and the first anniversary of the grant. The deferred stock units will fully vest sooner if a non−employee director ceases to be a Patriot director due to death or disability, or if a change in control occurs (as such term is defined in the Equity Plan). Any unvested deferred stock units will be forfeited if a non−employee director terminates service with Patriot for any reason other than death or disability prior to the first anniversary of the grant date. After vesting, the deferred stock units will be settled by issuing shares of Patriot common stock equal to the number of deferred stock units, and the settlement will occur upon the earlier of (i) the non−employee director’s termination of service as a director or (ii) the third anniversary of the grant date or a different date chosen by the non−employee director, provided the date was chosen by the non−employee director prior to January 1 of the year in which the director received the grant.

A summary of restricted stock time−based units and deferred stock units award activity is as follows:

| | Year Ended December 31, 2011 | Weighted Average Grant−Date Fair Value |
|---|---|---|
| Nonvested at January 1, 2011 | 409,867 | $ 19.49 |
| Granted | 35,809 | 21.08 |
| Forfeited | (28,520) | 18.75 |
| Vested | (22,542) | 17.30 |
| Nonvested at December 31, 2011 | 394,614 | 19.81 |

As of December 31, 2011, there were 52,326 deferred stock units vested that had an aggregate intrinsic value of $0.4 million.

Certain performance−based restricted stock units vest according to a formula, which is primarily based on our financial performance as measured by EBITDA, return on equity and leverage ratios. The achievement of the performance−based unit calculations is determined on December 31 following the fifth, sixth and seventh anniversaries of the initial grant date. We estimated the number of performance−based units that are expected to vest and utilized this amount in the calculation of the stock−based compensation expense related to these awards. Any changes to this estimate will impact stock−based compensation expense in the period during which the estimate is changed.

We have also granted performance−based stock units that vest based on market conditions. The number of shares issued is dependent upon the change in our shareholder value over a three−year vesting period versus the change of various peers for that time period. The fair value of the awards granted in 2011 was determined using a Monte Carlo simulation model, allowing us to factor in the probability of various outcomes. The weighted−average fair value of $30.40 was determined using a risk−free rate of 0.99%, an expected option life of 3.0 years, an expected dividend yield of zero, and volatilities that ranged from 74.0% to 106.6%. As of December 31, 2011, we had performance−based stock units that vested at a multiplier of 2, resulting in an issuance of 458,706 shares, with the remainder relinquished for taxes.

A summary of restricted stock performance units award activity is as follows:

| | Year Ended December 31, 2011 | Weighted Average Grant−Date Fair Value |
|---|---|---|
| Nonvested at January 1, 2011 | 876,144 | $ 17.12 |
| Granted | 75,382 | 30.40 |
| Forfeited | (42,782) | 18.75 |
| Vested | (241,332) | 7.48 |
| Nonvested at December 31, 2011 | 667,412 | 22.00 |

Long−Term Incentive Non−Qualified Stock Option

We have long−term incentive non−qualified stock option agreements in place for grants to employees and service providers of Patriot. Generally, the agreements provide that any option awarded will become exercisable in three installments. Options granted in 2007 and 2008 will be 50% exercisable on the fifth anniversary of the November 2007 grant date, 75% exercisable on the sixth such anniversary and 100% exercisable on the seventh such anniversary. Options granted in 2009, 2010 and 2011 are exercisable on a graded vesting schedule of 33.33% on each anniversary over a three year period. The option will become fully exercisable sooner if a grantee terminates employment with or stops providing services to Patriot because of death or disability, or if a change in control occurs, as defined in the equity plan. No option can be exercised more than ten years after the date of grant, but the ability to exercise the option may terminate sooner upon the occurrence of certain events detailed in the Long−Term Incentive Non−Qualified Stock Option Agreement.

A summary of non−qualified stock options outstanding activity is as follows:

| | Year Ended December 31, 2011 | Weighted Average Exercise Price | Aggregate Intrinsic Value (in millions) | Weighted Average Remaining Contractual Life |
|---|---|---|---|---|
| Options outstanding at January 1, 2011 | 1,509,348 | $ 15.04 | | |
| Granted | 246,918 | 17.25 | | |
| Forfeited | (67,012) | 18.75 | | |
| Exercised | (23,000) | 5.13 | $ 0.2 | |
| Options outstanding at December 31, 2011 | 1,666,254 | $ 15.35 | $ 1.5 | 6.35 |
| Vested and Exercisable | 346,433 | $ 6.80 | $ 1.0 | 5.84 |

We used the Black−Scholes option pricing model to determine the fair value of stock options. Determining the fair value of share−based awards requires judgment, including estimating the expected term that stock options will be outstanding prior to exercise and the associated volatility. We utilized U.S. Treasury yields as of the grant date for the risk−free interest rate assumption, matching the treasury yield terms to the expected life of the option. We utilized a peer historical “look−back” to develop the expected volatility. Expected option life assumptions were developed by taking the weighted average time to vest plus the weighted average holding period after vesting.

| | Year Ended December 31, 2011 | 2010 | 2009 |
|---|---|---|---|
| Weighted−average fair value | $ 8.98 | $ 9.63 | $ 2.49 |
| Risk−free interest rate | 0.74% | 1.49% | 1.31% |
| Expected option life | 2.95 years | 2.95 years | 2.87 years |
| Expected volatility | 80.52% | 87.67% | 78.41% |
| Dividend yield | 0% | 0% | 0% |

Employee Stock Purchase Plan

Based on our employee stock purchase plan, eligible full−time and part−time employees are able to contribute up to 15% of their base compensation into this plan, subject to a fair market value limit of $25,000 per person per year as defined by the Internal Revenue Service (IRS). Effective January 1, 2008, employees are able to purchase Patriot common stock at a 15% discount to the lower of the fair market value of our common stock on the initial or final trading dates of each six−month offering period. Offering periods begin on January 1 and July 1 of each year. The fair value of the six−month “look−back” option in our employee stock purchase plan is estimated by adding the fair value of 0.15 of one share of stock to the fair value of 0.85 of an option on one share of stock. We issued 159,647 shares of common stock and recognized $0.9 million expense in “Selling and administrative expenses” and $0.1 million in “Operating costs and expenses” for the year ended December 31, 2011. We issued 304,101 shares of common stock and recognized $0.8 million expense in “Selling and administrative expenses” and $0.1 million in “Operating costs and expenses” for the year ended December 31, 2010. We issued 370,583 shares of common stock and recognized $1.1 million expense in “Selling and administrative expenses” and $0.1 million in “Operating costs and expenses” for the year ended December 31, 2009.

(27)Summary Quarterly Financial Information (Unaudited) (Restated)

A summary of the unaudited quarterly results of operations and selected balance sheet data as of and for the years ended December 31, 2011 and 2010 is presented below. This Report on Form 10−K/A amends our Annual Report on Form 10−K for the year ended December 31, 2011 (Original Filing). The tables below present unaudited financial information first as restated in this filing (Restated) and then as it was reported in our Original Filing (As Reported). See Note 30 for additional details related to the restatement.

Patriot common stock is listed on the New York Stock Exchange under the symbol PCX.

Year Ended December 31, 2011 (Restated)

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|---|---|---|---|---|
| | (Dollars in thousands, except per share and stock price data) | | | |
| Revenues | $577,024 | $632,160 | $589,395 | $603,927 |
| Asset retirement obligation expense | 15,067 | 72,356 | 13,299 | 4,510 |
| Operating profit (loss) | 7,300 | (32,847) | (34,302) | (13,627) |
| Net loss | (15,909) | (49,596) | (50,452) | (23,178) |
| Basic loss per share | $(0.17) | $(0.54) | $(0.55) | $(0.25) |
| Diluted loss per share | $(0.17) | $(0.54) | $(0.55) | $(0.25) |
| Weighted average shares used in calculating basic earnings per share | 91,284,321 | 91,284,418 | 91,329,096 | 91,388,664 |
| Stock price − high and low prices | $29.20−$19.68 | $27.56−$18.61 | $24.99−$8.45 | $13.43−$6.92 |
| Balance Sheet Data (at period end): | | | | |
| Property, plant, equipment and mine development, net | $3,146,141 | $3,175,020 | $3,179,536 | $3,202,121 |
| Total assets | 3,792,768 | 3,841,261 | 3,806,456 | 3,763,738 |
| Current liabilities | 487,883 | 532,725 | 570,623 | 559,092 |
| Asset retirement obligations | 388,753 | 439,111 | 430,181 | 424,974 |
| Total liabilities | 2,999,004 | 3,083,753 | 3,088,680 | 3,170,896 |
| Total stockholders' equity | 793,764 | 757,508 | 717,776 | 592,842 |

| | Year Ended December 31, 2011 (As Reported) | | | |
|---|---|---|---|---|
| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
| | (Dollars in thousands, except per share and stock price data) | | | |
| Revenues | $577,024 | $632,160 | $589,395 | $603,927 |
| Asset retirement obligation expense | 14,454 | 35,115 | 12,364 | 19,653 |
| Operating profit (loss) | 7,913 | 4,394 | (33,367) | (28,770) |
| Net loss | (15,296) | (12,355) | (49,517) | (38,321) |
| Basic loss per share | $(0.17) | $(0.14) | $(0.54) | $(0.42) |
| Diluted loss per share | $(0.17) | $(0.14) | $(0.54) | $(0.42) |
| Weighted average shares used in calculating basic earnings per share | 91,284,321 | 91,284,418 | 91,329,096 | 91,388,664 |
| Stock price − high and low prices | $29.20−$19.68 | $27.56−$18.61 | $24.99−$8.45 | $13.43−$6.92 |
| Balance Sheet Data (at period end): | | | | |
| Property, plant, equipment and mine development, net | $3,148,859 | $3,179,381 | $3,188,259 | $3,214,927 |
| Total assets | 3,795,486 | 3,845,622 | 3,815,179 | 3,776,544 |
| Current liabilities | 471,872 | 485,362 | 511,338 | 505,663 |
| Asset retirement obligations | 357,206 | 403,318 | 409,736 | 417,900 |
| Total liabilities | 2,951,446 | 3,000,597 | 3,008,950 | 3,110,393 |
| Total stockholders' equity | 844,040 | 845,025 | 806,229 | 666,151 |

| | Year Ended December 31, 2010 (Restated) | | | |
|---|---|---|---|---|
| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
| | (Dollars in thousands, except per share and stock price data) | | | |
| Revenues | $467,257 | $538,992 | $500,683 | $528,179 |
| Asset retirement obligation expense | 10,846 | 11,004 | 80,331 | 10,516 |
| Operating profit (loss) | 10,086 | (1,863) | (81,139) | 20,307 |
| Net loss | 4,261 | (13,574) | (95,033) | 6,657 |
| Basic loss per share | $0.05 | $(0.15) | $(1.04) | $0.07 |
| Diluted loss per share | $0.05 | $(0.15) | $(1.04) | $0.07 |
| Weighted average shares used in calculating basic earnings per share | 90,835,561 | 90,863,950 | 90,968,377 | 90,959,138 |
| Stock price − high and low prices | $22.37−$13.87 | $24.25−$11.68 | $14.03−$9.76 | $19.94−$11.52 |
| Balance Sheet Data (at period end): | | | | |
| Property, plant, equipment and mine development, net | | | $3,161,514 | $3,159,477 |
| Total assets | | | 3,829,023 | 3,808,978 |
| Current liabilities | | | 534,411 | 493,852 |
| Asset retirement obligations | | | 385,789 | 388,074 |
| Total liabilities | | | 2,970,258 | 3,015,560 |
| Total stockholders' equity | | | 858,765 | 793,418 |

Selected balance sheet data for the first and second quarters of 2010 is not presented above because these periods were not affected by the restatement. The quarterly financial information for the affected periods in 2010 is presented below as reported.

| | Year Ended December 31, 2010 (As Reported) | |
|---|---|---|
| | Third Quarter | Fourth Quarter |
| | (Dollars in thousands, except per share and stock price data) | |
| Revenues | $500,683 | $528,179 |
| Asset retirement obligation expense | 31,291 | 9,893 |
| Operating profit (loss) | (32,099) | 20,930 |
| Net income (loss) | (45,993) | 7,280 |
| Basic earnings (loss) per share | $(0.51) | $0.08 |
| Diluted earnings (loss) per share | $(0.51) | $0.08 |
| Weighted average shares used in calculating basic earnings per share | 90,968,377 | 90,959,138 |
| Stock price − high and low prices | $14.03−$9.76 | $19.94−$11.52 |
| Balance Sheet Data (at period end): | | |
| Property, plant, equipment and mine development, net | $3,161,514 | $3,160,535 |

| | | |
|---|---|---|
| Total assets | 3,829,023 | 3,810,036 |
| Current liabilities | 526,559 | 483,530 |
| Asset retirement obligations | 344,601 | 349,791 |
| Total liabilities | 2,921,218 | 2,966,955 |
| Total stockholders' equity | 907,805 | 843,081 |

(28)Subsequent Event

In January 2012, we announced the idling of and production curtailment at certain metallurgical coal mines in our Rocklick and Wells mining complexes in response to weaker demand. In February 2012, we also announced the closure of the Big Mountain mining complex in response to weaker thermal coal demand. The Big Mountain mining complex produced 1.8 million tons of thermal coal in 2011. We expect to record a charge of approximately $50 million to $60 million in the first quarter of 2012 in relation to this closure. This charge is expected to include an impairment component related to certain assets, including infrastructure, mine development, equipment and certain coal reserves. We also expect to record a charge to asset retirement obligation expense related to the acceleration of the reclamation activities.

(29)Supplemental Guarantor/Non−Guarantor Financial Information (Restated)

The following tables present consolidating financial information for: (a) Patriot Coal Corporation (the “Parent”) on a stand−alone basis; (b) the subsidiary guarantors of our 8.25% Senior Notes due 2018 (“Guarantor Subsidiaries”) on a combined basis and (c) the Non−Guarantor Subsidiary, Patriot Coal Receivables (SPV) Ltd., on a stand−alone basis. Each Guarantor Subsidiary is 100% wholly−owned by Patriot Coal Corporation. The guarantees from each of the Guarantor Subsidiaries are full, unconditional, joint and several. Accordingly, separate financial statements of the wholly−owned Guarantor Subsidiaries are not presented because the Guarantor Subsidiaries are jointly, severally and unconditionally liable under the guarantees, and we believe that separate financial statements and other disclosures regarding the Guarantor Subsidiaries are not material to investors.

SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

| | Year Ended December 31, 2011 | | | | |
|---|---|---|---|---|---|
| | Parent Company | Guarantor Subsidiaries | Non−Guarantor Subsidiary | Eliminations | Consolidated |
| | | | (Dollars in thousands) | | |
| Revenues | | | | | |
| Sales | $ — | $ 2,378,260 | $ — | $ — | $ 2,378,260 |
| Other revenues | — | 24,246 | — | — | 24,246 |
| Total revenues | — | 2,402,506 | — | — | 2,402,506 |
| Costs and expenses | | | | | |
| Operating costs and expenses | — | 2,213,124 | — | — | 2,213,124 |
| Depreciation, depletion and amortization | — | 186,348 | — | — | 186,348 |
| Asset retirement obligation expense | — | 105,232 | — | — | 105,232 |
| Sales contract accretion | — | (55,020) | — | — | (55,020) |
| Restructuring and impairment charge | — | 13,657 | — | — | 13,657 |
| Selling and administrative expenses | 18,661 | 34,246 | — | — | 52,907 |
| Net gain on disposal or exchange of assets | — | (35,557) | — | — | (35,557) |
| Income from equity affiliates | 73,680 | (4,709) | — | (73,680) | (4,709) |
| Operating profit (loss) | (92,341) | (54,815) | — | 73,680 | (73,476) |
| Interest expense and other | 47,024 | 18,509 | 1,539 | (1,539) | 65,533 |
| Interest income | (230) | (16) | (1,539) | 1,539 | (246) |
| Income (loss) before income taxes | (139,135) | (73,308) | — | 73,680 | (138,763) |
| Income tax provision | — | 372 | — | — | 372 |
| Net income (loss) | $ (139,135) | $ (73,680) | $ — | $ 73,680 | $ (139,135) |

SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

| | Year Ended December 31, 2010 | | | | |
|---|---|---|---|---|---|
| | Parent Company | Guarantor Subsidiaries | Non−Guarantor Subsidiary | Eliminations | Consolidated |
| | | | (Dollars in thousands) | | |
| Revenues | | | | | |
| Sales | $ — | $ 2,017,464 | $ — | $ — | $ 2,017,464 |
| Other revenues | — | 17,647 | — | — | 17,647 |
| Total revenues | — | 2,035,111 | — | — | 2,035,111 |
| Costs and expenses | | | | | |
| Operating costs and expenses | 122 | 1,900,582 | — | — | 1,900,704 |
| Depreciation, depletion and amortization | 1,761 | 186,313 | — | — | 188,074 |
| Asset retirement obligation expense | — | 112,697 | — | — | 112,697 |
| Sales contract accretion | — | (121,475) | — | — | (121,475) |
| Restructuring and impairment charge | — | 15,174 | — | — | 15,174 |
| Selling and administrative expenses | 50,222 | 26 | — | — | 50,248 |
| Net gain on disposal or exchange of assets | — | (48,226) | — | — | (48,226) |
| Income from equity affiliates | (4,219) | (9,476) | — | 4,219 | (9,476) |
| Operating profit (loss) | (47,886) | (504) | — | (4,219) | (52,609) |
| Interest expense and other | 49,885 | 7,534 | 1,041 | (1,041) | 57,419 |
| Interest income | (82) | (12,749) | (1,041) | 1,041 | (12,831) |
| Income (loss) before income taxes | (97,689) | 4,711 | — | (4,219) | (97,197) |
| Income tax provision | — | 492 | — | — | 492 |
| Net income (loss) | $ (97,689) | $ 4,219 | $ — | $ (4,219) | $ (97,689) |

SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

Year Ended December 31, 2009

| | Parent Company | Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|
| | (Dollars in thousands) | | | |
| Revenues | | | | |
| Sales | $ — | $ 1,995,667 | $ — | $ 1,995,667 |
| Other revenues | — | 49,616 | — | 49,616 |
| Total revenues | — | 2,045,283 | — | 2,045,283 |
| Costs and expenses | | | | |
| Operating costs and expenses | 254 | 1,893,165 | — | 1,893,419 |
| Depreciation, depletion and amortization | 2,316 | 203,023 | — | 205,339 |
| Asset retirement obligation expense | — | 35,116 | — | 35,116 |
| Sales contract accretion | — | (298,572) | — | (298,572) |
| Restructuring and impairment charge | — | 20,157 | — | 20,157 |
| Selling and administrative expenses | 47,334 | 1,398 | — | 48,732 |
| Net gain on disposal or exchange of assets | — | (7,215) | — | (7,215) |
| Income from equity affiliates | (206,492) | (398) | 206,492 | (398) |
| Operating profit (loss) | 156,588 | 198,609 | (206,492) | 148,705 |
| Interest expense and other | 29,415 | 8,693 | — | 38,108 |
| Interest income | (70) | (16,576) | — | (16,646) |
| Income (loss) before income taxes | 127,243 | 206,492 | (206,492) | 127,243 |
| Income tax provision | — | — | — | — |
| Net income (loss) | $ 127,243 | $ 206,492 | $ (206,492) | $ 127,243 |

SUPPLEMENTAL CONDENSED CONSOLIDATING BALANCE SHEETS

| | December 31, 2011 | | | | |
|---|---|---|---|---|---|
| | Parent Company | Guarantor Subsidiaries | Non−Guarantor Subsidiary | Eliminations | Consolidated |
| | (Dollars in thousands) | | | | |
| ASSETS | | | | | |
| Current assets | | | | | |
| Cash and cash equivalents | $ 193,882 | $ 280 | $ — | $ — | $ 194,162 |
| Accounts receivable and other, net | 313 | 177,382 | 171,101 | (171,101) | 177,695 |
| Inventories | — | 98,366 | — | — | 98,366 |
| Prepaid expenses and other current assets | 709 | 27,482 | — | — | 28,191 |
| Total current assets | 194,904 | 303,510 | 171,101 | (171,101) | 498,414 |
| Property, plant, equipment and mine development | | | | | |
| Land and coal interests | — | 2,935,796 | — | — | 2,935,796 |
| Buildings and improvements | — | 504,275 | — | — | 504,275 |
| Machinery and equipment | — | 735,207 | — | — | 735,207 |
| Less accumulated depreciation, depletion and amortization | — | (973,157) | — | — | (973,157) |
| Property, plant, equipment and mine development, net | — | 3,202,121 | — | — | 3,202,121 |
| Notes receivable | — | — | — | — | — |
| Investments, intercompany and other assets | 1,226,309 | (89,162) | — | (1,073,944) | 63,203 |
| Total assets | $ 1,421,213 | $ 3,416,469 | $ 171,101 | $ (1,245,045) | $ 3,763,738 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | |
| Current liabilities | | | | | |
| Accounts payable and accrued expenses | $ 7,993 | $ 505,130 | $ 171,101 | $ (171,101) | $ 513,123 |
| Below market sales contracts acquired | — | 44,787 | — | — | 44,787 |
| Current portion of debt | — | 1,182 | — | — | 1,182 |
| Total current liabilities | 7,993 | 551,099 | 171,101 | (171,101) | 559,092 |
| Long−term debt, less current maturities | 433,951 | 7,113 | — | — | 441,064 |
| Asset retirement obligations | — | 424,974 | — | — | 424,974 |
| Workers' compensation obligations | — | 231,585 | — | — | 231,585 |
| Postretirement benefit obligations | — | 1,387,317 | — | — | 1,387,317 |
| Obligation to industry fund | — | 35,429 | — | — | 35,429 |
| Below market sales contracts acquired, noncurrent | — | 46,217 | — | — | 46,217 |
| Other noncurrent liabilities | 1,213 | 44,005 | — | — | 45,218 |
| Total liabilities | 443,157 | 2,727,739 | 171,101 | (171,101) | 3,170,896 |
| Stockholders' equity | 978,056 | 688,730 | — | (1,073,944) | 592,842 |
| Total liabilities and stockholders' equity | $ 1,421,213 | $ 3,416,469 | $ 171,101 | $ (1,245,045) | $ 3,763,738 |

SUPPLEMENTAL CONDENSED CONSOLIDATING BALANCE SHEETS

| | December 31, 2010 | | | | |
|---|---|---|---|---|---|
| | Parent Company | Guarantor Subsidiaries | Non−Guarantor Subsidiary | Eliminations | Consolidated |
| | (Dollars in thousands) | | | | |
| ASSETS | | | | | |
| Current assets | | | | | |
| Cash and cash equivalents | $ 192,593 | $ 474 | $ — | $ — | $ 193,067 |
| Accounts receivable and other, net | 522 | 206,843 | 146,652 | (146,652) | 207,365 |
| Inventories | — | 97,973 | — | — | 97,973 |
| Prepaid expenses and other current assets | 2,603 | 26,045 | — | — | 28,648 |
| Total current assets | 195,718 | 331,335 | 146,652 | (146,652) | 527,053 |

| | | | | | |
|---|---|---|---|---|---|
| Property, plant, equipment and mine development | | | | | |
| Land and coal interests | — | 2,870,182 | — | — | 2,870,182 |
| Buildings and improvements | 2,554 | 436,772 | — | — | 439,326 |
| Machinery and equipment | 16,147 | 662,224 | — | — | 678,371 |
| Less accumulated depreciation, depletion and amortization | (13,806) | (814,596) | — | — | (828,402) |
| Property, plant, equipment and mine development, net | 4,895 | 3,154,582 | — | — | 3,159,477 |
| Notes receivable | — | 69,540 | — | — | 69,540 |
| Investments, intercompany and other assets | 1,359,678 | (159,146) | — | (1,147,624) | 52,908 |
| Total assets | $ 1,560,291 | $ 3,396,311 | $ 146,652 | $ (1,294,276) | $ 3,808,978 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | |
| Current liabilities | | | | | |
| Accounts payable and accrued expenses | $ 26,752 | $ 392,854 | $ 146,652 | $ (146,652) | $ 419,606 |
| Below market sales contracts acquired | — | 70,917 | — | — | 70,917 |
| Current portion of debt | — | 3,329 | — | — | 3,329 |
| Total current liabilities | 26,752 | 467,100 | 146,652 | (146,652) | 493,852 |
| Long−term debt, less current maturities | 424,408 | 27,121 | — | — | 451,529 |
| Asset retirement obligations | — | 388,074 | — | — | 388,074 |
| Workers' compensation obligations | — | 220,757 | — | — | 220,757 |
| Postretirement benefit obligations | 3,721 | 1,265,447 | — | — | 1,269,168 |
| Obligation to industry fund | — | 38,978 | — | — | 38,978 |
| Below market sales contracts acquired, noncurrent | — | 92,253 | — | — | 92,253 |
| Other noncurrent liabilities | 2,022 | 58,927 | — | — | 60,949 |
| Total liabilities | 456,903 | 2,558,657 | 146,652 | (146,652) | 3,015,560 |
| Stockholders' equity | 1,103,388 | 837,654 | — | (1,147,624) | 793,418 |
| Total liabilities and stockholders' equity | $ 1,560,291 | $ 3,396,311 | $ 146,652 | $ (1,294,276) | $ 3,808,978 |

SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

| | Year Ended December 31, 2011 | | | | |
|---|---|---|---|---|---|
| | Parent Company | Guarantor Subsidiaries | Non−Guarantor Subsidiary | Eliminations | Consolidated |
| | | | (Dollars in thousands) | | |
| Cash Flows From Operating Activities | | | | | |
| Net cash provided by (used in) operating activities | $ (51,137) | $ 164,126 | $ — | $ — | $ 112,989 |
| Cash Flows From Investing Activities | | | | | |
| Additions to property, plant, equipment and mine development | — | (162,965) | — | — | (162,965) |
| Proceeds from notes receivable | — | 115,679 | — | — | 115,679 |
| Additions to advance mining royalties | — | (26,030) | — | — | (26,030) |
| Proceeds from disposal or exchange of assets | — | 6,928 | — | — | 6,928 |
| Net cash paid in litigation settlement and asset acquisition | — | (14,787) | — | — | (14,787) |
| Net cash used in investing activities | — | (81,175) | — | — | (81,175) |
| Cash Flows From Financing Activities | | | | | |
| Deferred financing costs | (1,832) | — | — | — | (1,832) |
| Long−term debt payments | — | (31,002) | — | — | (31,002) |
| Proceeds from employee stock programs | 2,115 | — | — | — | 2,115 |
| Intercompany transactions | 52,143 | (52,143) | — | — | — |
| Net cash provided by (used in) financing activities | 52,426 | (83,145) | — | — | (30,719) |
| Net increase (decrease) in cash and cash equivalents | 1,289 | (194) | — | — | 1,095 |
| Cash and cash equivalents at beginning of period | 192,593 | 474 | — | — | 193,067 |
| Cash and cash equivalents at end of period | $ 193,882 | $ 280 | $ — | $ — | $ 194,162 |

SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

| | Year Ended December 31, 2010 | | | | |
|---|---|---|---|---|---|
| | Parent Company | Guarantor Subsidiaries | Non−Guarantor Subsidiary | Eliminations | Consolidated |
| | | | (Dollars in thousands) | | |
| Cash Flows From Operating Activities | | | | | |
| Net cash provided by (used in) operating activities | $ (61,469) | $ 96,722 | $ — | $ — | $ 35,253 |
| Cash Flows From Investing Activities | | | | | |
| Additions to property, plant, equipment and mine development | (1,708) | (120,223) | — | — | (121,931) |
| Proceeds from notes receivable | — | 33,100 | — | — | 33,100 |
| Additions to advance mining royalties | — | (21,510) | — | — | (21,510) |
| Proceeds from disposal or exchange of assets | — | 1,766 | — | — | 1,766 |
| Other | — | (300) | — | — | (300) |
| Net cash used in investing activities | (1,708) | (107,167) | — | — | (108,875) |
| Cash Flows From Financing Activities | | | | | |
| Proceeds from debt offering, net of discount | 248,198 | — | — | — | 248,198 |
| Proceeds from coal reserve financing transaction | — | 17,700 | — | — | 17,700 |
| Deferred financing costs | (20,740) | — | — | — | (20,740) |
| Long−term debt payments | — | (8,042) | — | — | (8,042) |
| Proceeds from employee stock programs | 2,475 | — | — | — | 2,475 |
| Intercompany transactions | (737) | 737 | — | — | — |

| | | | | | |
|---|---|---|---|---|---|
| Net cash provided by financing activities | 229,196 | 10,395 | — | — | 239,591 |
| Net increase (decrease) in cash and cash equivalents | 166,019 | (50) | — | — | 165,969 |
| Cash and cash equivalents at beginning of period | 26,574 | 524 | — | — | 27,098 |
| Cash and cash equivalents at end of period | $ 192,593 | $ 474 | $ — | $ — | $ 193,067 |

SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

| | Year Ended December 31, 2009 | | | |
|---|---|---|---|---|
| | Parent Company | Guarantor Subsidiaries | Eliminations | Consolidated |
| | (Dollars in thousands) | | | |
| Cash Flows From Operating Activities | | | | |
| Net cash provided by (used in) operating activities | $ (45,370) | $ 84,981 | $ — | $ 39,611 |
| Cash Flows From Investing Activities | | | | |
| Additions to property, plant, equipment and mine development | (896) | (77,367) | — | (78,263) |
| Additions to advance mining royalties | — | (16,997) | — | (16,997) |
| Proceeds from notes receivable | — | 11,000 | — | 11,000 |
| Proceeds from disposal or exchange of assets | — | 5,513 | — | 5,513 |
| Other | — | 1,154 | — | 1,154 |
| Net cash used in investing activities | (896) | (76,697) | — | (77,593) |
| Cash Flows From Financing Activities | | | | |
| Proceeds from equity offering, net of costs | 89,077 | — | — | 89,077 |
| Long−term debt payments | — | (5,905) | — | (5,905) |
| Short−term debt payments | (23,000) | — | — | (23,000) |
| Proceeds from employee stock programs | 2,036 | — | — | 2,036 |
| Intercompany transactions | 2,770 | (2,770) | — | — |
| Net cash provided by financing activities | 70,883 | (8,675) | — | 62,208 |
| Net increase (decrease) in cash and cash equivalents | 24,617 | (391) | — | 24,226 |
| Cash and cash equivalents at beginning of period | 1,957 | 915 | — | 2,872 |
| Cash and cash equivalents at end of period | $ 26,574 | $ 524 | $ — | $ 27,098 |

(30)Restatement of Consolidated Financial Statements

As disclosed in Note 23, we are installing the FBR and ABMet water treatment facilities as required by the U.S. District Court. On September 1, 2010, the U.S. District Court ordered Apogee to install an FBR water treatment facility for three outfalls. Additionally, the U.S. District Court ordered Hobet to submit a proposed schedule to develop a treatment plan for a Hobet Surface Mine No. 22. We submitted the required schedule, which included conducting additional pilot projects related to certain technological alternatives. In June 2011, Hobet submitted FBR treatment technology to be utilized at this Hobet Surface Mine No. 22 outfall in accordance with the submitted schedule. In December 2011, the Special Master appointed by the U.S. District Court to oversee the Hobet Surface Mine No. 22 project approved Hobet's request to substitute ABMet treatment technology for the FBR technology at this outfall. The U.S. District Court subsequently confirmed this substitution. We refer to these facilities collectively as the Apogee FBR and the Hobet ABMet water treatment facilities.

The accounting treatment related to the costs of installing these two water treatment facilities, which have an anticipated 30 year useful life, involves significant operational and accounting complexities. FBR technology had not been used to remove selenium or any other minerals discharged at coal mining operations prior to our pilot project performed in 2010. The FBR water treatment facility required by the September 1, 2010 ruling will be the first facility constructed for selenium removal on a commercial scale and neither FBR nor ABMet technology has been proven effective on a full−scale commercial basis at coal mining operations. The primary use of the Apogee FBR and Hobet ABMet water treatment facilities will be to treat selenium exceedances in water discharges resulting from past mining under legacy permit standards.

As disclosed in our Original Filing, we have been recording the costs to install the Apogee FBR and Hobet ABMet water treatment facilities as capital expenditures when incurred. The total capital expenditure is estimated to be approximately $55.0 million for the Apogee FBR water treatment facility and $25.0 million for the Hobet ABMet water treatment facility. This Amendment is restating our consolidated financial statements to accrue a liability and recognize a loss for the estimated costs of installing these two water treatment facilities, rather than record the cost of these two facilities as a capital expenditure. Such restatement is increasing asset retirement obligation expense and net loss by $23.6 million ($21.3 million for installation costs for the Hobet ABMet facility and $2.3 million of accretion expense) for the year ended December 31, 2011 and by $49.7 million ($48.8 million for installation costs of the Apogee FBR facility and $0.9 million of accretion expense) for the year ended December 31, 2010. This restatement has no impact on our revenue or Adjusted EBITDA for any such period. The estimated cash spending for these facilities has not changed from our prior disclosures as a result of this restatement.

The following tables present the impact of the restatement on our previously issued audited Consolidated Statements of Operations and Cash Flows for the years ended December 31, 2011 and 2010, and our audited Consolidated Balance Sheets as of December 31, 2011 and 2010.

CONSOLIDATED STATEMENTS OF OPERATIONS

| | Year Ended December 31, 2011 | | |
|---|---|---|---|
| | As Previously Reported | Adjustments | Restated |
| | (Dollars in thousands, except share and per share data) | | |
| Revenues | | | |
| Sales | $ 2,378,260 | $ — | $ 2,378,260 |
| Other revenues | 24,246 | — | 24,246 |
| Total revenues | 2,402,506 | — | 2,402,506 |
| Costs and expenses | | | |
| Operating costs and expenses | 2,213,124 | — | 2,213,124 |
| Depreciation, depletion and amortization | 186,348 | — | 186,348 |
| Asset retirement obligation expense | 81,586 | 23,646 | 105,232 |
| Sales contract accretion | (55,020) | — | (55,020) |
| Restructuring and impairment charge | 13,657 | — | 13,657 |
| Selling and administrative expenses | 52,907 | — | 52,907 |
| Net gain on disposal or exchange of assets | (35,557) | — | (35,557) |
| Income from equity affiliates | (4,709) | — | (4,709) |
| Operating profit (loss) | (49,830) | (23,646) | (73,476) |
| Interest expense and other | 65,533 | — | 65,533 |
| Interest income | (246) | — | (246) |
| Income (loss) before income taxes | (115,117) | (23,646) | (138,763) |
| Income tax provision | 372 | — | 372 |
| Net income (loss) | $ (115,489) | $ (23,646) | $ (139,135) |
| Weighted average shares outstanding: | | | |
| Basic | 91,321,931 | — | 91,321,931 |
| Effect of dilutive securities | — | — | — |
| Diluted | 91,321,931 | — | 91,321,931 |
| Earnings (loss) per share: | | | |
| Basic | $ (1.26) | $ (0.26) | $ (1.52) |
| Diluted | $ (1.26) | $ (0.26) | $ (1.52) |

CONSOLIDATED STATEMENTS OF OPERATIONS

| | Year Ended December 31, 2010 | | |
|---|---|---|---|
| | As Previously Reported | Adjustments | Restated |
| | (Dollars in thousands, except share and per share data) | | |
| Revenues | | | |

| | | | |
|---|---|---|---|
| Sales | $ 2,017,464 | $ — | $ 2,017,464 |
| Other revenues | 17,647 | — | 17,647 |
| Total revenues | 2,035,111 | — | 2,035,111 |
| Costs and expenses | | | |
| Operating costs and expenses | 1,900,704 | — | 1,900,704 |
| Depreciation, depletion and amortization | 188,074 | — | 188,074 |
| Asset retirement obligation expense | 63,034 | 49,663 | 112,697 |
| Sales contract accretion | (121,475) | — | (121,475) |
| Restructuring and impairment charge | 15,174 | — | 15,174 |
| Selling and administrative expenses | 50,248 | — | 50,248 |
| Net gain on disposal or exchange of assets | (48,226) | — | (48,226) |
| Income from equity affiliates | (9,476) | — | (9,476) |
| Operating profit (loss) | (2,946) | (49,663) | (52,609) |
| Interest expense and other | 57,419 | — | 57,419 |
| Interest income | (12,831) | — | (12,831) |
| Income (loss) before income taxes | (47,534) | (49,663) | (97,197) |
| Income tax provision | 492 | — | 492 |
| Net income (loss) | $ (48,026) | $ (49,663) | $ (97,689) |
| | | | |
| Weighted average shares outstanding: | | | |
| Basic | 90,907,264 | — | 90,907,264 |
| Effect of dilutive securities | — | — | — |
| Diluted | 90,907,264 | — | 90,907,264 |
| | | | |
| Earnings (loss) per share: | | | |
| Basic | $ (0.53) | $ (0.54) | $ (1.07) |
| Diluted | $ (0.53) | $ (0.54) | $ (1.07) |

CONSOLIDATED BALANCE SHEETS

| | December 31, 2011 | | |
|---|---|---|---|
| | As Previously Reported | Adjustments | Restated |
| | (Dollars in thousands) | | |
| **ASSETS** | | | |
| Current assets | | | |
| Cash and cash equivalents | $ 194,162 | $ — | $ 194,162 |
| Accounts receivable and other, net | 177,695 | — | 177,695 |
| Inventories | 98,366 | — | 98,366 |
| Prepaid expenses and other current assets | 28,191 | — | 28,191 |
| Total current assets | 498,414 | — | 498,414 |
| Property, plant, equipment and mine development | | | |
| Land and coal interests | 2,935,796 | — | 2,935,796 |
| Buildings and improvements | 504,275 | — | 504,275 |
| Machinery and equipment | 748,013 | (12,806) | 735,207 |
| Less accumulated depreciation, depletion and amortization | (973,157) | — | (973,157) |
| Property, plant, equipment and mine development, net | 3,214,927 | (12,806) | 3,202,121 |
| Notes receivable | — | — | — |
| Investments and other assets | 63,203 | — | 63,203 |
| Total assets | $ 3,776,544 | $ (12,806) | $ 3,763,738 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | | |
| Current liabilities | | | |
| Accounts payable and accrued expenses | $ 459,694 | $ 53,429 | $ 513,123 |
| Below market sales contracts acquired | 44,787 | — | 44,787 |
| Current portion of debt | 1,182 | — | 1,182 |
| Total current liabilities | 505,663 | 53,429 | 559,092 |
| Long−term debt, less current maturities | 441,064 | — | 441,064 |
| Asset retirement obligations | 417,900 | 7,074 | 424,974 |
| Workers' compensation obligations | 231,585 | — | 231,585 |
| Postretirement benefit obligations | 1,387,317 | — | 1,387,317 |
| Obligation to industry fund | 35,429 | — | 35,429 |
| Below market sales contracts acquired, noncurrent | 46,217 | — | 46,217 |
| Other noncurrent liabilities | 45,218 | — | 45,218 |
| Total liabilities | 3,110,393 | 60,503 | 3,170,896 |
| Stockholders' equity | | | |
| Common stock ($0.01 par value; 300,000,000 shares authorized; 91,885,338 and 90,944,595 shares issued and outstanding at December 31, 2011 and 2010, respectively | 919 | — | 919 |
| Preferred stock ($0.01 par value; 10,000,000 shares authorized; no shares issued and outstanding at December 31, 2011 and 2010) | — | — | — |
| Series A Junior Participating Preferred Stock ($0.01 par value; 1,000,000 shares authorized; no shares issued and outstanding at December 31, 2011 and 2010) | — | — | — |
| Additional paid−in capital | 977,169 | — | 977,169 |
| Retained earnings (deficit) | 73,093 | (73,309) | (216) |
| Accumulated other comprehensive loss | (385,030) | — | (385,030) |
| Total stockholders' equity | 666,151 | (73,309) | 592,842 |
| Total liabilities and stockholders' equity | $ 3,776,544 | $ (12,806) | $ 3,763,738 |

PATRIOT COAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS − (Continued)

CONSOLIDATED BALANCE SHEETS

| | December 31, 2010 | | |
|---|---|---|---|
| | As Previously Reported | Adjustments | Restated |
| | | (Dollars in thousands) | |
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | $ 193,067 | $ — | $ 193,067 |
| Accounts receivable and other, net | 207,365 | — | 207,365 |
| Inventories | 97,973 | — | 97,973 |
| Prepaid expenses and other current assets | 28,648 | — | 28,648 |
| Total current assets | 527,053 | — | 527,053 |
| Property, plant, equipment and mine development | | | |
| Land and coal interests | 2,870,182 | — | 2,870,182 |
| Buildings and improvements | 439,326 | — | 439,326 |
| Machinery and equipment | 679,429 | (1,058) | 678,371 |
| Less accumulated depreciation, depletion and amortization | (828,402) | — | (828,402) |
| Property, plant, equipment and mine development, net | 3,160,535 | (1,058) | 3,159,477 |
| Notes receivable | 69,540 | — | 69,540 |
| Investments and other assets | 52,908 | — | 52,908 |
| Total assets | $ 3,810,036 | $ (1,058) | $ 3,808,978 |
| LIABILITIES AND STOCKHOLDERS’ EQUITY | | | |
| Current liabilities | | | |
| Accounts payable and accrued expenses | $ 409,284 | $ 10,322 | $ 419,606 |
| Below market sales contracts acquired | 70,917 | — | 70,917 |
| Current portion of debt | 3,329 | — | 3,329 |
| Total current liabilities | 483,530 | 10,322 | 493,852 |
| Long−term debt, less current maturities | 451,529 | — | 451,529 |
| Asset retirement obligations | 349,791 | 38,283 | 388,074 |
| Workers’ compensation obligations | 220,757 | — | 220,757 |
| Postretirement benefit obligations | 1,269,168 | — | 1,269,168 |
| Obligation to industry fund | 38,978 | — | 38,978 |
| Below market sales contracts acquired, noncurrent | 92,253 | — | 92,253 |
| Other noncurrent liabilities | 60,949 | — | 60,949 |
| Total liabilities | 2,966,955 | 48,605 | 3,015,560 |
| Stockholders’ equity | | | |
| Common stock ($0.01 par value; 300,000,000 shares authorized; 91,885,338 and 90,944,595 shares issued and outstanding at December 31, 2011 and 2010, respectively | 909 | — | 909 |
| Preferred stock ($0.01 par value; 10,000,000 shares authorized; no shares issued and outstanding at December 31, 2011 and 2010) | — | — | — |
| Series A Junior Participating Preferred Stock ($0.01 par value; 1,000,000 shares authorized; no shares issued and outstanding at December 31, 2011 and 2010) | — | — | — |
| Additional paid−in capital | 961,285 | — | 961,285 |
| Retained earnings (deficit) | 188,582 | (49,663) | 138,919 |
| Accumulated other comprehensive loss | (307,695) | — | (307,695) |
| Total stockholders' equity | 843,081 | (49,663) | 793,418 |
| Total liabilities and stockholders' equity | $ 3,810,036 | $ (1,058) | $ 3,808,978 |

CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Year Ended December 31, 2011 | | |
|---|---|---|---|
| | As Previously Reported | Adjustments (Dollars in thousands) | Restated |
| Cash Flows From Operating Activities | | | |
| Net income (loss) | $ (115,489) | $ (23,646) | $ (139,135) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | | |
| Depreciation, depletion and amortization | 186,348 | — | 186,348 |
| Amortization of deferred financing costs | 7,356 | — | 7,356 |
| Amortization of debt discount | 9,543 | — | 9,543 |
| Sales contract accretion | (55,020) | — | (55,020) |
| Impairment charge | 13,093 | — | 13,093 |
| Selenium−related asset write−offs | 5,369 | (5,369) | — |
| Loss on early payment of note receivable | 5,868 | — | 5,868 |
| Net gain on disposal or exchange of assets | (35,557) | — | (35,557) |
| Income from equity affiliates | (4,709) | — | (4,709) |
| Distributions from equity affiliates | 3,219 | — | 3,219 |
| Stock−based compensation expense | 13,779 | — | 13,779 |
| Changes in current assets and liabilities: | | | |
| Accounts receivable | (22,336) | — | (22,336) |
| Inventories | (393) | — | (393) |
| Other current assets | (1,161) | — | (1,161) |
| Accounts payable and accrued expenses | 22,125 | 14,679 | 36,804 |
| Interest on notes receivable | — | — | — |
| Asset retirement obligations | 52,042 | 251 | 52,293 |
| Workers' compensation obligations | 8,580 | — | 8,580 |
| Accrued postretirement benefit costs | 58,871 | — | 58,871 |
| Obligation to industry fund | (3,278) | — | (3,278) |
| Federal black lung collateralization | (14,990) | — | (14,990) |
| Other, net | (8,523) | 2,337 | (6,186) |
| Net cash provided by operating activities | 124,737 | (11,748) | 112,989 |
| Cash Flows From Investing Activities | | | |
| Additions to property, plant, equipment and mine development | (174,713) | 11,748 | (162,965) |
| Proceeds from notes receivable | 115,679 | — | 115,679 |
| Additions to advance mining royalties | (26,030) | — | (26,030) |
| Net cash paid in litigation settlement and asset acquisition | (14,787) | — | (14,787) |
| Proceeds from disposal or exchange of assets | 6,928 | — | 6,928 |
| Other | — | — | — |
| Net cash used in investing activities | (92,923) | 11,748 | (81,175) |
| Cash Flows From Financing Activities | | | |
| Proceeds from debt offering, net of discount | — | — | — |
| Proceeds from coal reserve financing transaction | — | — | — |
| Deferred financing costs | (1,832) | — | (1,832) |
| Long−term debt payments | (31,002) | — | (31,002) |
| Proceeds from equity offering, net of costs | — | — | — |
| Short−term debt payments | — | — | — |
| Proceeds from employee stock programs | 2,115 | — | 2,115 |
| Net cash provided by (used in) financing activities | (30,719) | — | (30,719) |
| Net increase in cash and cash equivalents | 1,095 | — | 1,095 |
| Cash and cash equivalents at beginning of period | 193,067 | — | 193,067 |
| Cash and cash equivalents at end of period | $ 194,162 | $ — | $ 194,162 |

CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Year Ended December 31, 2010 | | |
|---|---|---|---|
| | As Previously Reported | Adjustments (Dollars in thousands) | Restated |
| Cash Flows From Operating Activities | | | |
| Net income (loss) | $ (48,026) | $ (49,663) | $ (97,689) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | | |
| Depreciation, depletion and amortization | 188,074 | — | 188,074 |
| Amortization of deferred financing costs | 6,412 | — | 6,412 |
| Amortization of debt discount | 8,710 | — | 8,710 |
| Sales contract accretion | (121,475) | — | (121,475) |
| Impairment charge | 2,823 | — | 2,823 |
| Selenium−related asset write−offs | — | — | — |
| Loss on early payment of note receivable | — | — | — |
| Net gain on disposal or exchange of assets | (48,226) | — | (48,226) |
| Income from equity affiliates | (9,476) | — | (9,476) |
| Distributions from equity affiliates | 5,095 | — | 5,095 |
| Stock−based compensation expense | 11,657 | — | 11,657 |
| Changes in current assets and liabilities: | | | |
| Accounts receivable | (59) | — | (59) |
| Inventories | (16,785) | — | (16,785) |

| | | | |
|---|---|---|---|
| Other current assets | (15,172) | — | (15,172) |
| Accounts payable and accrued expenses | (24,258) | 10,322 | (13,936) |
| Interest on notes receivable | (12,652) | — | (12,652) |
| Asset retirement obligations | 38,719 | 38,283 | 77,002 |
| Workers' compensation obligations | 12,343 | — | 12,343 |
| Accrued postretirement benefit costs | 50,944 | — | 50,944 |
| Obligation to industry fund | (2,769) | — | (2,769) |
| Federal black lung collateralization | — | — | — |
| Other, net | 10,432 | — | 10,432 |
| Net cash provided by operating activities | 36,311 | (1,058) | 35,253 |
| Cash Flows From Investing Activities | | | |
| Additions to property, plant, equipment and mine development | (122,989) | 1,058 | (121,931) |
| Proceeds from notes receivable | 33,100 | — | 33,100 |
| Additions to advance mining royalties | (21,510) | — | (21,510) |
| Net cash paid in litigation settlement and asset acquisition | — | — | — |
| Proceeds from disposal or exchange of assets | 1,766 | — | 1,766 |
| Other | (300) | — | (300) |
| Net cash used in investing activities | (109,933) | 1,058 | (108,875) |
| Cash Flows From Financing Activities | | | |
| Proceeds from debt offering, net of discount | 248,198 | — | 248,198 |
| Proceeds from coal reserve financing transaction | 17,700 | — | 17,700 |
| Deferred financing costs | (20,740) | — | (20,740) |
| Long−term debt payments | (8,042) | — | (8,042) |
| Proceeds from equity offering, net of costs | — | — | — |
| Short−term debt payments | — | — | — |
| Proceeds from employee stock programs | 2,475 | — | 2,475 |
| Net cash provided by (used in) financing activities | 239,591 | — | 239,591 |
| Net increase in cash and cash equivalents | 165,969 | — | 165,969 |
| Cash and cash equivalents at beginning of period | 27,098 | — | 27,098 |
| Cash and cash equivalents at end of period | $ 193,067 | $ — | $ 193,067 |

PATRIOT COAL CORPORATION

SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS
DECEMBER 31, 2011

| Description | Balance at Beginning of Period | Charged to Costs and Expenses | Deductions(1) | Other | Balance at End of Period |
|---|---|---|---|---|---|
| | (Dollars in thousands) | | | | |
| Year Ended December 31, 2009 | | | | | |
| Reserves deducted from asset accounts: | | | | | |
| Advance royalty recoupment reserve | $ 43,564 | $ 252 | $ — | $ 927 (2) | $ 44,743 |
| Reserve for materials and supplies | 9,943 | (11) | (19) | 2,619 (2) | 12,532 |
| Allowance for doubtful accounts | 540 | 115 | (514) | — | 141 |
| Year Ended December 31, 2010 | | | | | |
| Reserves deducted from asset accounts: | | | | | |
| Advance royalty recoupment reserve | 44,743 | 3,112 | — | — | 47,855 |
| Reserve for materials and supplies | 12,532 | (3,399) | — | — | 9,133 |
| Allowance for doubtful accounts | 141 | — | — | — | 141 |
| Year Ended December 31, 2011 | | | | | |
| Reserves deducted from asset accounts: | | | | | |
| Advance royalty recoupment reserve | 47,855 | 2,800 | (1,497) | — | 49,158 |
| Reserve for materials and supplies | 9,133 | 32 | — | — | 9,165 |
| Allowance for doubtful accounts | 141 | (3) | — | — | 138 |

(1) Reserves utilized, unless otherwise indicated.
(2) Activity reflects the final purchase accounting asset valuation entries for the Magnum acquisition, which were finalized in June 2009.

Exhibit 23.1

# Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

1. Registration Statement (Form S−8 No. 333−147043) pertaining to the Patriot Coal Corporation 2007 Long−Term Equity Incentive Plan and the Patriot Coal Corporation Employee Stock Purchase Plan,

2. Registration Statement (Form S−8 No. 333−157288) pertaining to the Patriot Coal Corporation 401(k) Retirement Plan,

3. Registration Statement (Form S−3 No. 333−165052) of Patriot Coal Corporation, and

4. Registration Statement (Form S−8 No. 333−178339) pertaining to the Patriot Coal Corporation 2007 Long−Term Equity Incentive Plan and the Patriot Coal Corporation Employee Stock Purchase Plan;

of our report dated February 22, 2012, except for Note 30, as to which the date is May 8, 2012, with respect to the consolidated financial statements and schedule of Patriot Coal Corporation and our report dated February 22, 2012, except for the effects of the material weakness described in the fifth and sixth paragraphs as to which the date is May 8, 2012, on the effectiveness of internal control over financial reporting of Patriot Coal Corporation included in this Annual Report (Form 10−K/A) of Patriot Coal Corporation for the year ended December 31, 2011.

/s/ Ernst & Young LLP

St. Louis, Missouri,
May 8, 2012

Exhibit 31.1

CERTIFICATION

I, Richard M. Whiting, certify that:

1. I have reviewed this annual report on Form 10−K/A of Patriot Coal Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a−15(e) and 15d−15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a−15(f) and 15d−15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 8, 2012

/s/ Richard M. Whiting
Richard M. Whiting
Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Mark N. Schroeder, certify that:

1. I have reviewed this annual report on Form 10−K/A of Patriot Coal Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a−15(e) and 15d−15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a−15(f) and 15d−15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 8, 2012

/s/ Mark N. Schroeder
Mark N. Schroeder
Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES−OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)

I, Richard M. Whiting, Chief Executive Officer of Patriot Coal Corporation, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes−Oxley Act of 2002, that:

(1) the Annual Report on Form 10−K/A for the year ended December 31, 2011 (the "Periodic Report") which this statement accompanies fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of Patriot Coal Corporation.

Dated: May 8, 2012

/s/ Richard M. Whiting
Richard M. Whiting
Chief Executive Officer

Exhibit 32.2

CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES−OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)

I, Mark N. Schroeder, Chief Financial Officer of Patriot Coal Corporation, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes−Oxley Act of 2002, that:

(1) the Annual Report on Form 10−K/A for the year ended December 31, 2011 (the "Periodic Report") which this statement accompanies fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of Patriot Coal Corporation.

Dated: May 8, 2012

/s/ Mark N. Schroeder
Mark N. Schroeder
Chief Financial Officer