Mega Company

Transaction of the Year

Patriot Coal Corporation

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When Patriot Coal exited its first bankruptcy in 2013, its future was premised on the presumption that rising coal prices would power profits through choppy waters. The company had emerged without addressing hundreds of millions of dollars in legacy employee and environmental liabilities along with long-standing operational problems. Less than 18 months later, Patriot was on the brink of seemingly inevitable liquidation – confronting a near catastrophic confluence of headwinds threatening to shutter operations and put 2,500 workers on the unemployment lines of Appalachia. Energy prices had plummeted as declining natural gas prices depressed the market. Washington regulators attempted to eliminate coal production. Two mines collapsed. The company was embroiled in reclamation-related litigation. The CEO and CFO had resigned amid the turmoil. With a cash burn rate of more than $20 million per month, Patriot had only $5 million on hand by April of 2015. Given the dire situation, a second trip through bankruptcy was considered a long-shot play, with debtor in possession financing from third parties or senior secured creditors non-existent.

Through an extraordinary effort by Alvarez & Marsal, Kirkland & Ellis, and Centerview Partners, however, Patriot Coal defied the market – and every reasonable expectation. It met a daunting timetable to engineer one of the top 10 largest Chapter 11 restructurings of 2015, developed a plan of reorganization reflecting "extensive, comprehensive negotiations," in the words of Judge Phillips, and paved the way for one of the most impressive (and unlikely) transactions of the year.

On October 26, 2015, Patriot successfully concluded its bankruptcy, establishing a new benchmark for dealing with environmental liabilities, union obligations, and post-retirement obligations while holding operations together on a shoe-string DIP – $40 million short of what was projected to be necessary to reach confirmation. Less than six months after filing, despite coal prices continuing to fall, Patriot's assets and liabilities were sold to Blackhawk Mining LLC and Virginia Conservation Legacy Fund (VCLF), in what *Bloomberg Businessweek* described as a "first-of-its-kind deal in which investors concerned about climate change [took] over mines along with hundreds of millions of dollars in liabilities." The debtors successfully reached agreements with five states to resolve a complex thicket of environmental liabilities. And even in spite of highly publicized objections from presidential candidate Hillary Clinton, a critical new agreement was reached with the union – part of a plan of reorganization that saved 2,400 of 2,500 jobs, including 600 union positions. In sum, Patriot is now a model for the many coal bankruptcies yet to come.