2007 ANNUAL REPORT

PATRIOT
COAL

Patriot Coal is a leading producer of coal in the eastern United States and a leading U.S. producer of metallurgical quality coal. In 2007, we sold 22.1 million tons of coal, including 77 percent thermal coal used for electricity generation and 23 percent metallurgical coal used for steel production. We control 1.3 billion tons of proven and probable coal reserves for use in existing and future operations. Our operations and reserve holdings are located in Central Appalachia, Northern Appalachia and the Illinois Basin.

Right Now the world's appetite for coal is greater than ever before. The fundamentals driving the coal market, in fact, are the best we have seen in more than 30 years, and prices for most U.S. coals have increased dramatically.

Right Now Patriot Coal Corporation is ready to capitalize on these opportunities. Recently spun off from our former parent, we are today an independent company with a large base of coal reserves, all located in close proximity to domestic utilities and steel producers who need coal, and transportation infrastructure for delivery to overseas customers. We also have management that is focused on our core business and able to leverage our strengths in response to the market's needs.

Right Now is the time for Patriot Coal.

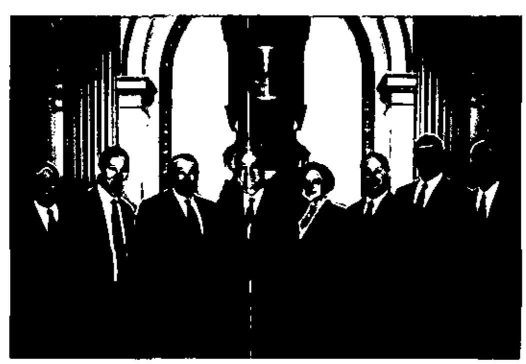
DEAR STOCKHOLDER:

We are pleased to share with you our inaugural annual report foı Patriot Coal Corporation. As president and chief executive officer, it is my pleasure to address you early in my tenure to share the excitement, confidence and optimism I feel as our company embarks on this fresh start.

On October 31, 2007, Patriot Coal, with its significant asset base and healthy balance sheet, was spun off from Peabody Energy. We are today a leading producer of coal in the eastern United States and a leading producer of metallurgical quality coal.

By Day One of our spin-off, our new management team and Board of Directors were in place and ready to work. We were fortunate to assemble a seasoned management team representing more than 140 combined years of coal experience, much of it with Patriot's assets and markets. Our Board of Directors includes respected leaders from coal and other industries with significant financial, operating and management expertise.

Together, our management and Board have established sound corporate governance practices, which we believe are critical to our success and the creation of stockholder value. Since taking control of Patriot's operations, our management team has also redirected the company's strategy to better match production with market demand, to control costs and to improve our mines' longer-term productivity.



On December 11, the Patriot management team rang The Opening Bell of the New York Stock Exchange to celebrate the initial listing of PCX.

2007 RESULTS

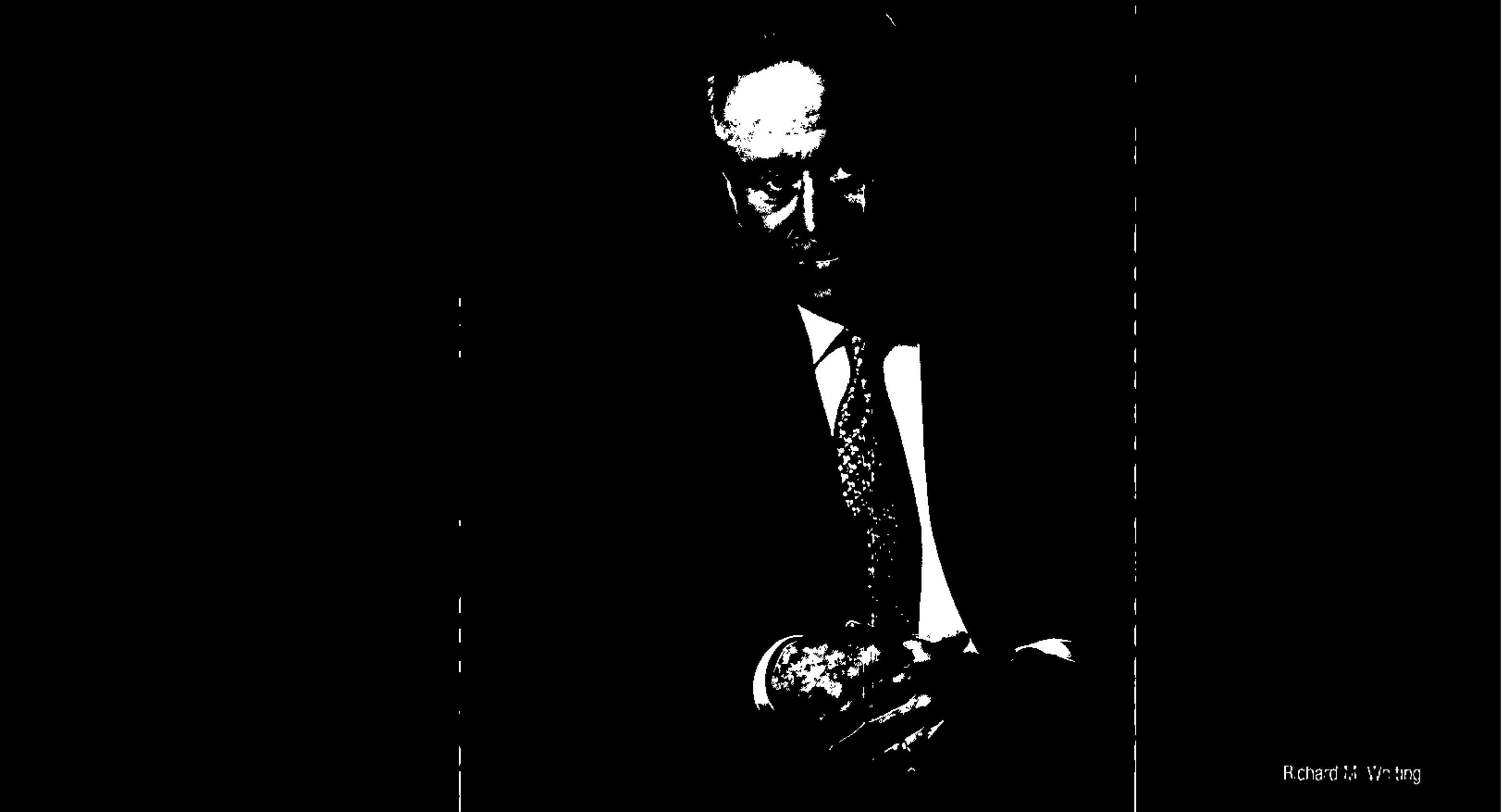
In the most fundamental sense, 2007 was a year of transition for Patriot. Geological issues early in the year created substantial pressure on our margins. Decisions of our new management team provide the platform for improved operations going forward.

For the year ended December 31, 2007, we generated $1.1 billion in revenues on sales of 22.1 million tons. On a pro forma basis, after giving effect to the spin-off and related transactions as if they had occurred on January 1, 2007, we incurred a net loss of $24.6 million, but generated $87.2 million of Adjusted EBITDA for the year. In 2007, 77 percent of our production was thermal and 23 percent was metallurgical quality coal. We ended the year substantially debt-free, with a $500 million credit facility to fund our growth activities.

Due, in part, to higher costs and lower production in some of our Central Appalachian mines – including closures of some underperforming operations early in the year – segment adjusted EBITDA declined to $4.59/ton in 2007 from $8.35/ton the previous year.

These results mask several significant bright spots from the year:

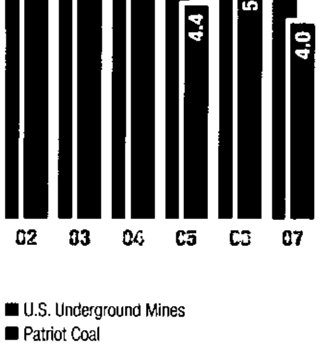
Our strong safety record continued to improve. 2007 was the best year for safety in Patriot Coal's history, including our history with Peabody, with continued progress made toward our goal of zero accidents. Over the past five years, we have reduced our safety incident rate by nearly 50 percent. Over that same timeframe, our safety incident rate has been significantly below the national average for U.S. underground mines. As a testament to our commitment, Patriot Coal teams took top honors at the National Mine Rescue Contest sponsored by the U.S. Department of Labor in November 2007.



Richard M. Whiting

IMPROVING SAFETY

(Incidents per 200,000 hours worked)



We strengthened our asset base in Appalachia. In Northern Appalachia, we bought additional Pittsburgh seam reserves contiguous to our Federal mine, extending the expected life of the mine to more than 10 years. In Central Appalachia, we increased our ownership in the Kanawha Eagle complex to 100 percent. This complex produces more than 2.0 million tons per year and serves both thermal and metallurgical markets.

Our metallurgical business is poised to grow. Increased demand for steel, particularly in international markets, led to strong pricing in the metallurgical coal market. While our sales in this market were flat due to geological conditions, we were able to bring up new met production by year's end, positioning the company to participate further in this high margin business in 2008.

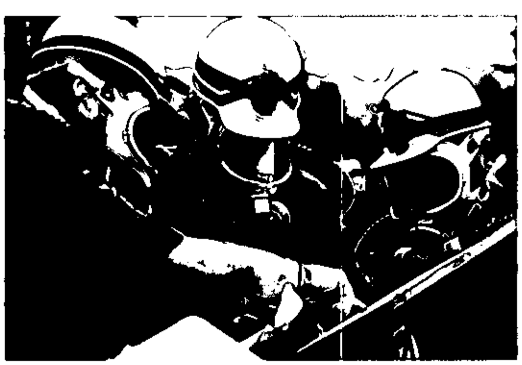
Beyond these accomplishments, our company has certain core strengths that make it an excellent vehicle for long-term value creation – strengths that made Patriot Coal an excellent candidate for a spin-off and that attracted me and the other members of our management team to this opportunity.

- ***Attractive products and reserve base*** *– Patriot Coal has a large, diversified and attractively located reserve base in three key eastern U.S. coal producing areas. Our company today controls 1.3 billion tons of proven and probable coal reserves in Central Appalachia, Northern Appalachia and the Illinois Basin. With this asset base, we are a leading producer of both metallurgical coal for steel production and the low- and high-sulfur coals used in electricity production.*
- ***Experienced, well-trained workforce*** *– Patriot Coal has a proud heritage and a track record of delivering on its promises. I attribute this largely to the quality, experience and loyalty of our employees, whose tenure averages 19 years with our company.*
- ***Strong financial starting point*** *– In the four years prior to the spin-off, Peabody made $400 million in capital investments in our operations. We began our new life well-capitalized, with a healthy balance sheet and a credit facility to help fund future growth.*

THE PLAN FOR CREATING STOCKHOLDER VALUE

Patriot Coal is indeed a company with many strengths. Now that our management team can focus exclusively on these assets and geographic areas, we have the opportunity to become an even better company, in fact, a GREAT company.

To do this, we need to think differently and act more nimbly than we could when we were part of a larger organization. By this I mean we need to be flexible in responding to market fluctuations and take better advantage of the diverse production and sourcing capabilities available to us. We need to make the best use of our total asset base, keeping a sharp focus on financial performance and stockholder value.



We have adopted three core strategies to guide us.

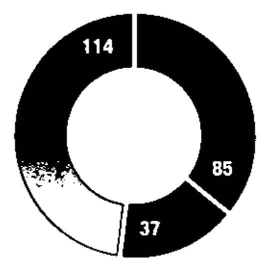
One is to maintain and enhance our operational performance. That means we must continue to improve our safety. It also means applying our engineering capabilities to achieve sustainable cost control and continuous process and productivity improvements, thereby reducing the cost per ton of our coal production. And it means being good environmental stewards of the land on which we operate.

Our second strategy is to maximize our customers' satisfaction with our products and our service. Our organization built its business on solid customer and supplier relationships; we are known for delivering on our promises and honoring our commitments. These are standards we are committed to upholding as we work to optimize profitability.

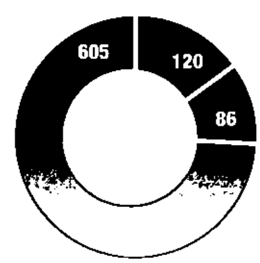
Finally, we will pursue value-enhancing growth opportunities through acquisitions and organic growth. We believe the opportunity to enlarge our footprint is especially great in the highly fragmented Central Appalachia region, where our

FRAGMENTED CENTRA APPALACHIA REGION

(Millions of tons)



(Number of mines)



- Top Five Producers
- Next Five Producers
- All Other Producers

presence is already strong. We also have the balance sheet flexibility and debt capacity to pursue attractive deals.

I firmly believe we are in a much better position today to execute these strategies successfully. Our management and operations team understand the geological and operating challenges associated with underground coal mining. We also have extensive acquisition and joint venture experience in this market.

Just as importantly, we are now able to dedicate ourselves fully and exclusively to these tasks. With our operations and marketing personnel all on the same team, focused solely on these assets, we have a structure that enables us to respond quickly to changes in the market and to make the best and most effective use of our assets.

Yes, Patriot Coal has been given a fresh start and I am thrilled to be a part of it. I believe we have the Right Team, the Right Assets and the Right Plan for delivering stockholder value.

As we go to press, the fundamentals driving coal markets are the best we have seen in more than 30 years, and prices for most U.S. coals have increased dramatically. Traded thermal coal prices are up more than 80% compared to the beginning of 2007. While pricing will fluctuate over time, current market dynamics have created strong momentum as we enter 2008. Along with the rest of our management team and workforce, I am ready to prove that NOW is the Right Time for Patriot Coal to shine as an independent company.

I have confidence in our plan and in the people who will be executing it, and look forward to reporting our progress to you a year from now.

Richard M. Whiting

Richard M. Whiting
President and Chief Executive Officer

RIGHT TEAM

With entrepreneurial leadership and an experienced workforce, the Patriot Coal team hit the ground running. Building a champion-level team takes many people. It begins with a pool of dedicated workers, well-trained in the fundamentals of their trade. It takes a strong farm system that is continually identifying and honing talent to help ensure the franchise's long-term success. Finally, it requires focused, experienced leaders with a vision of where they want the team to go, and the best ways to get there.

When Patriot Coal was spun off as an independent company on October 31, 2007, it came ready-made with all three.

On our front lines is a veteran and stable workforce of over 1,700 miners. On average, Patriot Coal employees have been with our company for 19 years.

Our miners have much in common. They share our company's unyielding commitment to safety, quality and environmental stewardship – commitments we regularly reinforce, both in the field and through formal training. At our dedicated training center in West Virginia, new and existing employees use computer simulations and hands-on training to learn the latest safety, mining and equipment operation & maintenance techniques. Our training programs are also one of the important tools we use to identify and develop the next generation of leaders, helping to ensure our pipeline of talent remains filled.

Rick Whiting, Patriot Coal's president and chief executive officer, in fact, got his start in the mines of West Virginia. Schooled as a mining engineer, Mr. Whiting is a 31-year veteran of Peabody, serving as the company's chief marketing officer and chief operating officer before joining Patriot Coal.

Today he leads a management team with a proven history of success in the coal industry. All seven members of our executive management team joined us from Peabody, bringing with them that company's best practices in safety, operations, reclamation, sales and mergers & acquisitions within the global coal market. With a combined 142 years of coal industry experience, they have completed numerous value-enhancing acquisition, joint venture and divestiture transactions among them.

In addition to their considerable knowledge of underground mining, coal transportation and coal markets, our executives bring the patience and perseverance needed to lead a

company with Patriot Coal's particular asset base. We believe this experience enhances our ability to anticipate shifts in the U.S. and world coal markets, and to adjust to those shifts in ways that create value for our stockholders.

In addition to Mr. Whiting, the executive team includes:

Chairman of the Board and executive advisor **Irl Engelhardt** joined Patriot after stepping down as Peabody's longtime chairman. Mr. Engelhardt has worked in the coal industry since 1979, including 15 years as Peabody's CEO. Under Mr. Engelhardt's leadership, Peabody launched its initial public offering, began its international expansion and achieved strong growth in revenues and returns. Mr. Engelhardt has also served in a number of leadership positions in coal industry associations over the years.

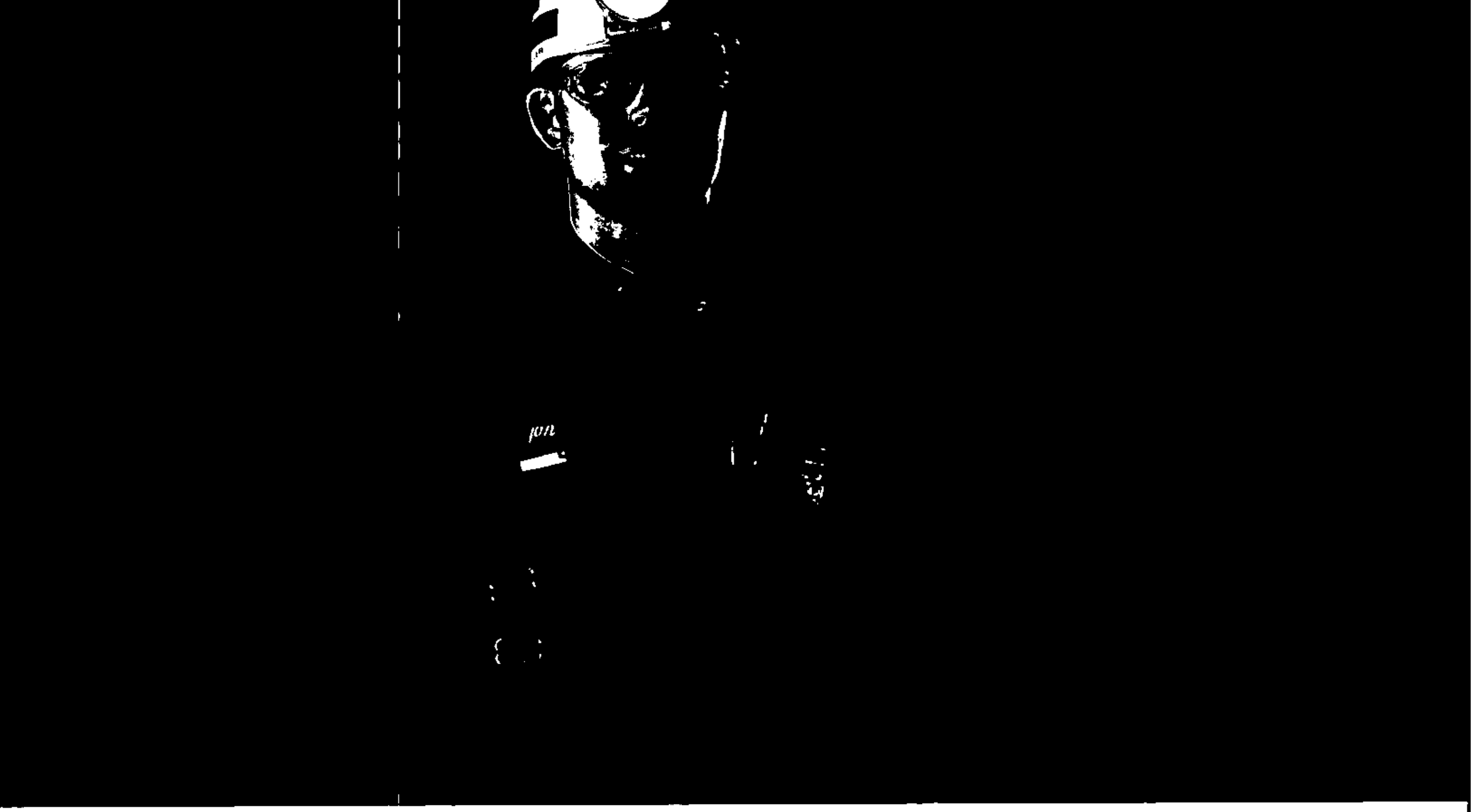
Mark Schroeder, Patriot Coal's chief financial officer, spent the year prior to the spin-off as president of Peabody China. Since joining Peabody in 2000, the 27-year business veteran has held executive positions in corporate finance, business development and materials management, including serving as controller during the initial public offering of Peabody.

Chief operating officer **Jiri Nemec** is a 20-year Peabody veteran who devoted the past seven years of his career to leading that company's eastern U.S. coal operations. He served most recently as group vice president for Peabody's Eastern U.S. Operations, following earlier executive positions in its Appalachian and Midwest Operations.

Chuck Ebetino, head of corporate development, led business & resource development and market development for Peabody. Prior to joining Peabody, he spent 25 years with American Electric Power, serving as president & chief operating officer of the mining subsidiaries and as its head of fuel supply.

Rounding out Patriot's senior management team are three other accomplished Peabody veterans: general counsel & secretary **Joe Bean**, chief marketing officer **Mike Altrudo,** and **Sara Wade,** who is heading human resources.

Along with a strong foundation in the coal industry, our leaders and workforce have a good track record of cooperation. Together, we believe we have the knowledge, talent and fortitude to build and sustain a champion-level team.



Our large reserve base, diversified products and focused expertise hold the key to value creation. Patriot Coal is a leading producer of coal in the eastern United States and a leading U.S. producer of metallurgical quality coal. Our production and reserve base is concentrated in the Appalachian and Illinois basins, the eastern U.S.'s largest coal-producing regions. That places us in close proximity to more than 70% of the U.S. coal-fueled electricity generating plants and the majority of U.S. steel producers – the two primary customers for our products.

Our operational assets currently include ten company-owned mines and numerous contractor-operated mines, all served by eight coal preparation facilities in West Virginia and Kentucky. Specifically:

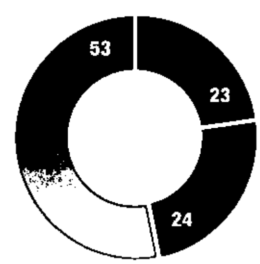
Central Appalachia – Coal products from this important region in southern West Virginia generated approximately 60 percent of Patriot Coal's 2007 sales, including all of the metallurgical coal we sold. We currently have approximately 527 million tons of reserves in Central Appalachia, many of which are contiguous to or near other small- and medium-sized coal operations that are prime targets for consolidation. Given our long history here, our focus on the eastern U.S. and our ready access to capital, we believe we are well-positioned to pursue value-enhancing acquisitions, joint ventures and reserve transactions in this highly fragmented region.

Northern Appalachia – Approximately 4.1 million tons, or 16 percent of Patriot Coal's 2007 sales, were produced by our large company-operated mine in northern West Virginia. With 59 million tons of high heat content coal in reserve here, this region is anticipated to experience increased demand as more utilities complete scrubber installations.

Illinois Basin – In western Kentucky, we have four company-operated mines, serviced by three preparation plants. These mines produced approximately 24 percent of our company's 2007 sales. With more coal-fueled generating plants with scrubbers coming online, these properties promise to be even more important to our company's future; more than 50% of the existing reserves controlled by Patriot Coal, or some 676 million tons of coal, are located in the Illinois Basin.

PRODUCT MIX

(Percent)



- Metallurgical
- Low Sulfur Thermal
- High Sulfur Thermal

In all, we have approximately 1.3 billion tons of proven and probable coal reserves in our control, making us one of the largest reserve holders in Appalachia and a major reserve holder in the Illinois Basin. A large and attractively located coal reserve base, however, is only as valuable as our ability to deliver the products our customers desire – safely, efficiently and at a competitive cost.

In addition to these physical assets, Patriot Coal benefits from the diverse production and sourcing capabilities needed to produce a wide range of thermal and metallurgical products, and the focused engineering resources to drive sustainable cost control and continuous improvement in all phases of their production. Our products today include premium metallurgical coal, and medium- and high-Btu thermal coal – with low, medium and high sulfur content – allowing us to address a wide spectrum of customer needs. In support of continuous productivity and safety improvements, more than $450 million has been invested in our equipment, technology and training facilities over the past six years.

Once produced, we have the ability to ship our products to electric utilities and industrial users by rail, barge or truck. Our diverse sourcing, blending and transportation options allow us to offer our customers multiple competitive alternatives.

But we have room for improvement in all of these areas. With our management's focus as an eastern U.S. coal producer, we will concentrate now on unlocking the unrealized value in these assets and capitalizing on the upside potential we believe they hold.

RIGHT TIME

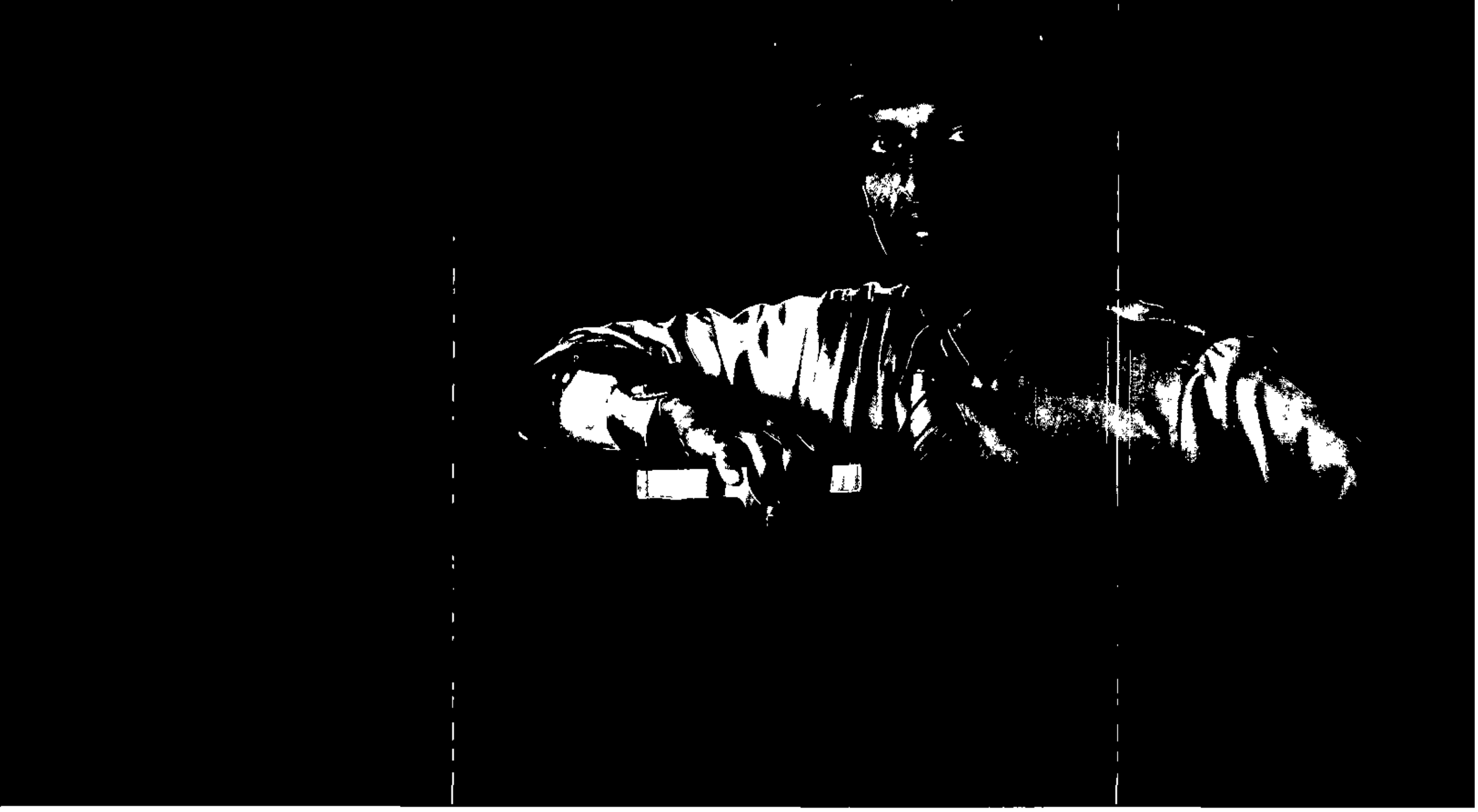
Demand for coal is growing, and we are well-positioned to grow along with it. Patriot Coal's spin-off as a stand-alone company, arguably, could not have come at a better time. Coal is a low-cost domestic energy product at a time when oil and natural gas supplies are growing scarcer and more expensive. Coal is a low-cost source of energy in an energy hungry world. And that's what makes it today the fastest growing fuel in the world.

Higher demand, coupled with constrained supply and infrastructure, has helped produce strong market conditions that are expected to continue. Given our substantial reserves and long mine lives, we believe that we are well-positioned to participate in future market growth.

Metallurgical coal – Metallurgical coal continues to command a premium price to thermal coal, due primarily to high steel demand and a limited supply of the coal reserves and production needed to produce steelmaking coal. Patriot Coal sold 5.0 million tons of metallurgical coal in 2007, or 23% of our total sales volume, to steel mills and independent coke producers. That makes us one of the top five U.S. coal suppliers to the steel industry at a time of surging prices. Approximately 35% of our metallurgical coal volume was sold to international customers, primarily in Europe and Brazil.

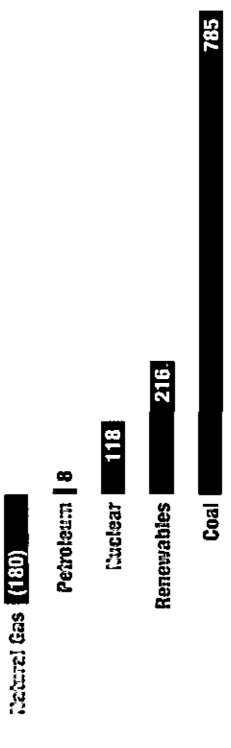
We currently have more than 10 years in reserve life at our three largest metallurgical coal mines. The time is now right to optimize our production of this coal and participate in high-margin steel markets. While keeping a strong foothold in the U.S., our intention is to diversify our market penetration by expanding further into South America and other international markets where fast-growing economies are driving steep demand.

Thermal coal – Coal has consistently fueled 50% or more of the electricity generated in the U.S. As demand



COAL DEMAND

U.S. Electricity Generation Growth Through 2030
(Billions of kilowatt-hours)

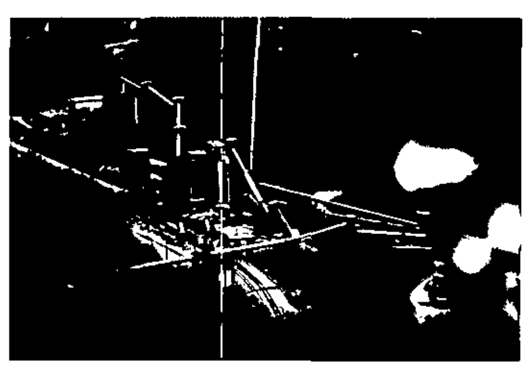


for electricity has grown, so too has demand for coal. Between 1990 and 2006, in fact, coal consumption in the U.S. increased 23% to 1.1 billion tons. The Energy Information Administration projects U.S. utilities will increase consumption by an additional 39% by 2030. Globally, coal consumption increased 30% in the past five years alone, and it is projected to increase another 1.1 billion tons over the next 10 years.

Patriot Coal remains a reliable, customer-oriented supplier to this market. In 2007, we sold 17.1 million tons of thermal coal domestically, or 77% of the company's production. We have the ability to bring on additional production as pricing in this market strengthens. In the longer-term, we expect to expand our business in higher sulfur coal markets as more utilities install scrubbers in response to increasingly stringent emission standards.

Because markets fluctuate, Patriot Coal cannot rely on today's strong pricing alone to create stockholder value. We recognize the need to be a low-cost producer to excel during all market cycles of both thermal and metallurgical coal. In addition to productivity-enhancing and cost-control efforts, we are capitalizing on the current strong market by pursuing multi-year coal supply agreements. Longer term, we intend to work with suppliers and equipment manufacturers in developing new technologies for extracting and processing coal at the lowest possible cost.

Over time, new coal-to-gas and coal-to-liquid conversion projects are forecast to create additional coal demand. While large-scale use of these newer technologies is still a number of years away, their eventual impact on coal demand could be substantial.



As a Stakeholder, you have a vested interest in Patriot Coal's future. We believe that future is very bright. Global coal markets are strong. We understand the markets' needs and have the asset base to meet them. Even more importantly, we know our potential and have a strategic plan for realizing it.

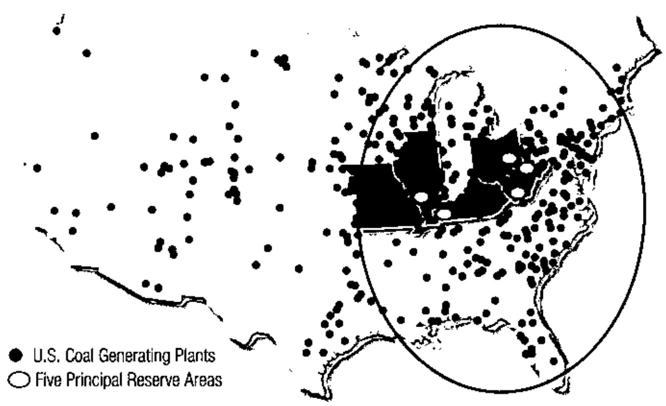
Whether you are a stockholder, an employee, a customer, a supplier or a member of a community in which we operate, we are ready to prove that *Right Now* is a great time to be part of Patriot Coal.

Now is the time to leverage our strengths in pursuit of profitable growth. Patriot Coal has adopted a multi-pronged approach to growing the value of our company, while maintaining a strong balance sheet.

We intend, first, to tightly manage our operations for safety, cost and revenue optimization. More simply, we plan to: "Mine it right. Sell it right." If we work safely, using efficient mining processes designed around sustainable cost control, we can expect to produce the superior operating results we desire. If we contract, source and transport our products appropriately and deliver the service our customers expect, we can expect to maximize our revenues, margins and returns to the level our stockholders deserve.

Second, we intend to continually fine-tune our portfolio, rebalancing our product mix and adjusting our capacity in keeping with market circumstances. Now that we have the opportunity to focus solely on our unique asset base, we

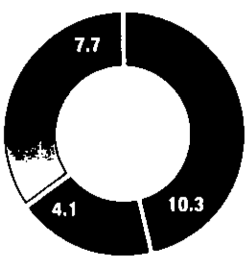
MAJOR EASTERN U.S. PRODUCER AND MARKETER



RIGHT NOW

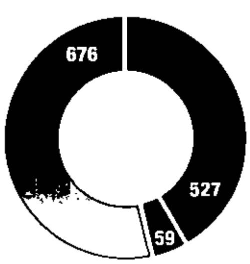
2007 TONS SOLD

(In millions)



CURRENT RESERVES

(In millions)



- Central Appalachia
- Northern Appalachia
- Illinois Basin

must demonstrate our management capabilities – regularly adjusting production levels to balance inventories, cost and near-term demand.

Third, we will pursue targeted growth opportunities that help us meet our strategic objectives. We are committed to growing, both through synergistic, accretive acquisitions and by leveraging our existing reserve base, infrastructure and mining capabilities. Our balance sheet flexibility and debt capacity enable us to pursue attractive opportunities.

There is indeed no time like the present. Now is the time to begin demonstrating our expertise within our geographic markets, our knowledge of our business and the effectiveness of our operations. Now is the time for Patriot Coal.

RIGHT TEAM

- Successful management & operating team
- Experienced Board of Directors

RIGHT ASSETS

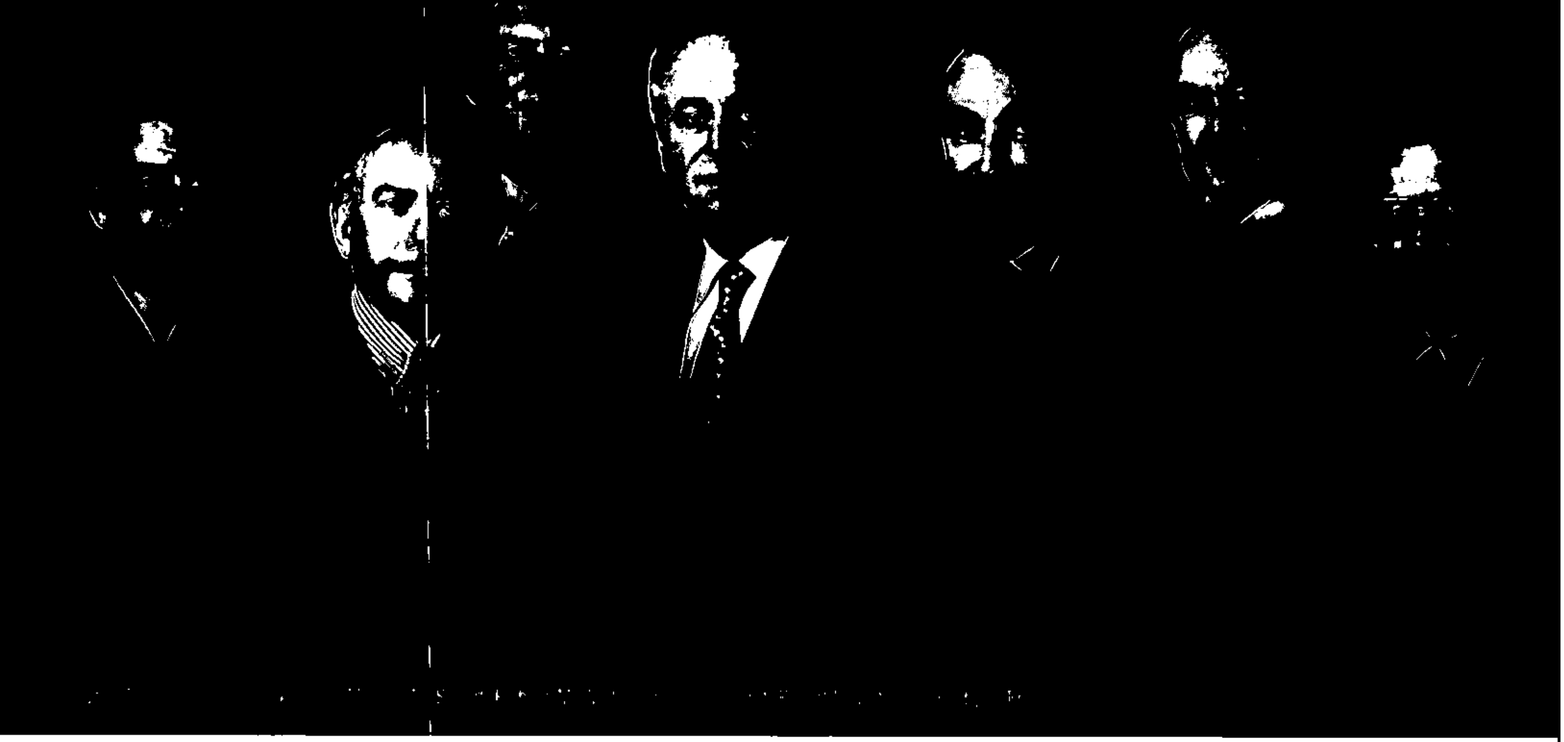
- Large & attractively located reserve base
- Leading U.S. producer of high-quality metallurgical coal
- Diversified product line, customer base & transportation capabilities

RIGHT TIME

- Strong fundamentals in all key markets
- Significant unpriced coal portfolio
- Fragmented Central Appalachia market creates M&A opportunities

RIGHT PLAN

- Tightly managed operations with emphasis on safety, cost & revenue optimization
- Aggressive focus on financial performance & stockholder value
- Targeted organic & acquisition growth strategy



BOARD OF DIRECTORS

Irl F. Engelhardt, Chairman of the Board of Patriot Coal Corporation, former Chairman, Chief Executive Officer and President of Peabody Energy and former Co-Chief Executive Officer of The Energy Group, Chairman of The Federal Reserve Bank of St. Louis

J. Joe Adorjan, Chairman of Adven Capital and Partner of Stonington Partners, Inc., former Vice Chairman of Emerson Electric, former Chief Executive Officer of ESCO Electronics and former CEO of Borg-Warner Security

Bobby R. Brown, former Chairman and Chief Executive Officer of CONSOL, former Director of Peabody Energy and former Senior Vice President of Conoco

John E. Lushefski, former Chief Financial Officer of Millennium Chemicals and Hanson Industries and former Chief Financial Officer of Peabody Holding

Michael M. Scharf, Senior Vice President and Chief Financial Officer of Bunge North America and former Chief Financial Officer of Peabody Holding

Robert O. Viets, former Chief Executive Officer and Director of CILCORP, an Illinois provider of electric and gas services

Richard M. Whiting, President and Chief Executive Officer of Patriot Coal Corporation, former Executive Vice President and Chief Marketing Officer and former President and Chief Operating Officer of Peabody Energy

AUDIT COMMITTEE

Robert O. Viets, Chairman

John E. Lushefski

Michael M. Scharf

COMPENSATION COMMITTEE

John E. Lushefski, Chairman

J. Joe Adorjan

Bobby R. Brown

NOMINATING & GOVERNANCE COMMITTEE

Michael M. Scharf, Chairman

J. Joe Adorjan

Robert O. Viets

EXECUTIVE MANAGEMENT

Richard M. Whiting, President & Chief Executive Officer

Mark N. Schroeder, Senior Vice President & Chief Financial Officer

Jiri Nemec, Senior Vice President & Chief Operating Officer

Charles A. "Chuck" Ebetino, Jr., Senior Vice President of Corporate Development

Joseph W. Bean, Senior Vice President, General Counsel & Corporate Secretary

Michael V. Altrudo, Senior Vice President & Chief Marketing Officer

Sara E. Wade, Senior Vice President of Human Resources

MISSION STATEMENT

Patriot is a leading coal producer committed to operational and environmental excellence, customer satisfaction and long-term value creation.

Our core values are to:

Make safety our highest priority and the cornerstone of the relationship with our employees;

Promote a high-performing organization by hiring and retaining the most qualified people and maximizing their opportunities through personal growth and development;

Engineer, build and manage our operations to enhance productivity and ensure a competitive cost structure;

Be a steward of the environment and a good neighbor in the communities where we operate;

Provide creative solutions for our customers through utilization of our diverse sourcing capabilities and innovative contracting techniques;

Honor our commitments and conduct our business with trust, respect and integrity toward customers, suppliers, employees and regulatory agencies; and

Enhance shareholder value through sound decision-making and growth from development of existing resources and strategic acquisitions.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

Prior to October 31, 2007, we were a subsidiary of Peabody. Effective October 31, 2007, Patriot spun off from Peabody through the distribution of all of our common stock to the stockholders of Peabody as a dividend. We entered into a Separation Agreement with Peabody containing the key provisions relating to the separation of our business from Peabody. The Separation Agreement identifies the assets transferred, liabilities assumed and contracts to be assigned to us.

We are a leading producer of coal in the eastern United States, with operations and coal reserves in Appalachia and the Illinois Basin, our operating segments. We are also a leading U.S. producer of metallurgical quality coal. Our principal business is the mining, preparation and sale of steam coal, sold primarily to electric utilities, as well as the mining of metallurgical coal, sold to coke producers for use in the steelmaking process. In 2007, we sold 22.1 million tons of coal, of which 77% was sold to domestic electric utilities and 23% was sold to domestic and global steel producers. In 2006, we sold 24.3 million tons of coal, of which 77% was sold to domestic electric utilities and 23% was sold to domestic and global steel producers. We typically sell coal to utility and steel-making customers under contracts with terms of one year or more. Approximately 83% and 85% of our sales were under such contracts during 2007 and 2006, respectively.

Our operations consist of ten company-operated mines and numerous contractor-operated mines, serviced by eight coal preparation facilities, with one in northern West Virginia, four in southern West Virginia and three in western Kentucky. The Appalachia and Illinois Basin segments consist of our operations in West Virginia and Kentucky, respectively. We ship coal to electric utilities, industrial users and metallurgical coal customers via third-party loading facilities and multiple rail and river transportation routes.

BASIS OF PREPARATION

The information discussed below primarily relates to our historical results and may not necessarily reflect what our financial position, results of operations and cash flows will be in the future or would have been as a stand-alone company during the periods presented. Our capital structure changed significantly at the date of our spin-off from Peabody. On October 31, 2007, Patriot received a net contribution from Peabody of $781.3 million, which reflected the following:

- retention by Peabody of certain retiree healthcare liabilities of $615.8 million;
- the forgiveness of the outstanding intercompany payables to Peabody on October 31, 2007 of $81.5 million;
- the retention by Patriot of trade accounts receivable at October 31, 2007, previously recorded through intercompany receivables, of $68.6 million;
- a $30.0 million cash contribution;
- the retention by Peabody of assets and asset retirement obligations related to certain Midwest mining operations of a net $8.1 million;
- less the transfer of intangible assets of $22.7 million related to purchased contract rights for a supply contract retained by Peabody.

At spin-off, we entered into certain on-going operational agreements with Peabody to increase the price paid to us under a major existing coal sales agreement to be more reflective of the then current market pricing for similar quality coal. We encourage you to read our Unaudited Pro Forma Consolidated Financial Data provided within this Management's Discussion and Analysis of Financial Condition and Results of Operations to better understand how our results have been impacted by the separation from Peabody and the various separation agreements that were effective with the spin-off transaction. The consolidated financial statements presented below include allocations of Peabody expenses, assets and liabilities through the date of the spin-off, including the following items:

Selling and Administrative Expenses

For the periods prior to spin-off, our historical selling and administrative expenses were based on an allocation of Peabody general corporate expenses to all of its mining operations, both foreign and domestic, based on principal activity, headcount, tons sold or revenues as appropriate. The allocated expenses generally reflect service costs for marketing and sales, general accounting, legal, finance and treasury, public relations, human resources, environmental, engineering and internal audit. The variance in our historical selling and administrative expenses relates to fluctuations in Peabody's overall selling and administrative expenses. These allocated expenses are not necessarily indicative of the costs we would have incurred as a stand-alone company.

Interest Expense

For the periods prior to the spin-off, our historical interest expense primarily related to fees for letters of credit and surety bonds used to guarantee our reclamation, workers' compensation, retiree healthcare and lease obligations as well as interest expense related to intercompany notes with Peabody. Our capital structure changed following our spin-off from Peabody, and effective October 31, 2007, we entered into a four-year revolving credit facility. See Liquidity and Capital Resources – Credit Facility for information about our new facility. The intercompany notes totaling $62.0 million with Peabody were forgiven at spin-off.

Income Tax Provision

Income taxes are accounted for using a balance sheet approach in accordance with SFAS No. 109, "Accounting for Income Taxes" (SFAS No. 109). We account for deferred income taxes 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, we consider projected realization of tax benefits based on expected levels of future taxable income, available tax planning strategies and the overall deferred tax position.

SFAS No. 109 specifies that the amount of current and deferred tax expense for an income tax return group are to be allocated among the members of that group when those members issue separate financial statements. For purposes of the consolidated financial statements, our income tax expense has been recorded as if we filed a consolidated tax return separate from Peabody, notwithstanding that a majority of the operations were historically included in the U.S. consolidated income tax return filed by Peabody. Our valuation allowance was also determined on the separate tax return basis. Additionally, our tax attributes (i.e. net operating losses and Alternative Minimum Tax credits) have been determined based on U.S. consolidated tax rules describing the apportionment of these items upon departure (i.e. spin-off) from the Peabody consolidated group.

Peabody was managing its tax position for the benefit of its entire portfolio of businesses. Peabody's tax strategies are not necessarily reflective of the tax strategies that we would have followed or will follow as a stand-alone company, nor were they necessarily strategies that optimized our stand-alone position. As a result, our effective tax rate as a stand-alone entity may differ significantly from those prevailing in historical periods.

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 net interest expense, income taxes, minority interests, asset retirement obligation expense and depreciation, depletion and amortization. Segment Adjusted EBITDA is used by management primarily as a measure of our segments' operating performance. Because Segment Adjusted EBITDA is not calculated identically by all companies, our calculation may not be comparable to similarly titled measures of other companies. Segment Adjusted EBITDA is reconciled to its most comparable measure under generally accepted accounting principles in Item 6. Selected Consolidated Financial Data in our Annual Report on Form 10-K. Segment Adjusted EBITDA excludes selling, general and administrative expenses, past mining obligation expense and gain on disposal of assets and is reconciled to its most comparable measure below under Net Income (Loss).

Geologic Conditions

Our results are impacted by geologic conditions as they relate to coal mining, and these conditions refer to the physical nature of the coal seam and surrounding strata and its effect 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. The term "adverse geologic conditions" is used in general to refer to these and similar situations where the geologic setting can negatively affect the normal mining process. Adverse geological conditions would be markedly different from those that would be considered typical geological conditions for a given mine. Since over 90% of our production is sourced from underground operations, geologic conditions are a major factor in our results of operations.

YEAR ENDED DECEMBER 31, 2007 COMPARED TO YEAR ENDED DECEMBER 31, 2006

Summary

Revenues were $1,073.4 million and Segment Adjusted EBITDA was $101.7 million for the year ended December 31, 2007, both lower than the prior year primarily driven by lower sales volumes due to production shortfalls. Production shortfalls resulted from a delayed longwall move at one of our mines and increased levels of adverse geologic conditions including excessive groundwater from heavy spring rains, roof falls and roof partings. Net loss was $106.9 million in 2007 compared to $13.5 million in the prior year. The increased net loss was mainly driven by the lower sales volumes and higher operating costs.

Tons Sold and Revenues

	Year Ended December 31,		Increase (Decrease)	
(Dollars and tons in thousands, except per ton amounts)	**2007**	2006	Tons / $	%
Appalachia	**14,432**	15,292	(860)	(5.6)%
Illinois Basin	**7,711**	8,998	(1,287)	(14.3)%
Total Tons Sold	**22,143**	24,290	(2,147)	(8.8)%
Appalachia	**$ 821,116**	$ 890,198	$(69,082)	(7.8)%
Illinois Basin	**252,246**	257,721	(5,475)	(2.1)%
Total Revenues	**$1,073,362**	$1,147,919	$(74,557)	(6.5)%
Average sales price per ton sold:				
Appalachia	**$ 56.89**	$ 58.21	$ (1.32)	(2.3)%
Illinois Basin	**32.71**	28.64	4.07	14.2 %

The decrease in the Appalachia revenue for the year ended December 31, 2007 compared to the prior year reflected lower sales volumes driven by adverse geologic conditions, a delayed longwall move at one of our mines, and the loss of a coal supplier in late 2006, partially offset by additional volumes from the Black Stallion contract mine, which began production in the third quarter of 2006. Adverse geologic conditions included roof falls and partings that reduced saleable coal yields.

The decrease in the Illinois Basin revenue for the year ended December 31, 2007 compared to the prior year reflected reduced sales volumes associated mainly with the closure of the Big Run mine, partially offset by higher pricing principally resulting from a price increase on a long-term contract under the market price adjustment provision of the contract.

Segment Adjusted EBITDA

(Dollars in thousands)	Year Ended December 31, 2007	2006	Increase (Decrease) $	%
Appalachia	**$ 89,850**	$204,827	$(114,977)	(56.1)%
Illinois Basin	**11,862**	(1,900)	13,762	n/a
Segment Adjusted EBITDA	**$101,712**	$202,927	$(101,215)	(49.9)%

Segment Adjusted EBITDA for Appalachia decreased in 2007 from the prior year primarily due to lower sales volume as described above and higher operating costs primarily due to additional materials and supplies required for the delayed longwall move at one of our mines, roof control, equipment repair and maintenance, as well as higher labor expenses related to a labor agreement that became effective on January 1, 2007, partially offset by lower revenue-based taxes and royalties.

Segment Adjusted EBITDA for the Illinois Basin increased in 2007 from the prior year primarily due to the higher average sales price as discussed above. Operating costs decreased in 2007 compared to the prior year primarily due to the closure of the Big Run mine, partially offset by higher costs related to preparation plant maintenance and additional equipment requirements at one of our mines associated with roof falls and excessive water.

Net Income (Loss)

(Dollars in thousands)	Year Ended December 31, 2007	2006	Increase (Decrease) to Income $	%
Segment Adjusted EBITDA	**$ 101,712**	$ 202,927	$(101,215)	(49.9)%
Corporate and Other:				
Past mining obligation expense	**(137,602)**	(106,880)	(30,722)	(28.7)%
Net gain on disposal of assets	**81,458**	78,631	2,827	3.6 %
Selling and administrative expenses	**(45,137)**	(47,909)	2,772	5.8 %
Total corporate and other	**(101,281)**	(76,158)	(25,123)	(33.0)%
Depreciation, depletion and amortization	**(85,640)**	(86,458)	818	0.9 %
Asset retirement obligation expense	**(20,144)**	(24,282)	4,138	17.0 %
Interest expense:				
Peabody	**(4,969)**	(5,778)	809	14.0 %
Third-Party	**(3,368)**	(5,641)	2,273	40.3 %
Interest income	**11,543**	1,417	10,126	n/a
Income (loss) before income taxes and minority interest	**(102,147)**	6,027	(108,174)	n/a
Income tax provision	**–**	(8,350)	8,350	n/a
Minority interests	**(4,721)**	(11,169)	6,448	57.7 %
Net income (loss)	**(106,868)**	(13,492)	(93,376)	n/a
Effect of minority purchase arrangement	**(15,667)**	–	(15,667)	n/a
Net income (loss) attributable to common stockholders	**$(122,535)**	$ (13,492)	$(109,043)	n/a

Past Mining Obligation Expense

Past mining obligation expenses were higher in 2007 than the prior year primarily due to higher retiree healthcare costs resulting from higher amortization of actuarial loss and increased funding for multi-employer healthcare and pension plans in accordance with provisions of 2006 legislation and the 2007 National Bituminous Coal Wage agreement (effective January 1, 2007). Our 2007 and 2006 operating costs included approximately $51.9 million and $46.1 million, respectively, for certain retiree healthcare obligation expenses that would have been assumed by Peabody had the proposed spin-off occurred at the beginning of each period.

Net Gain on Disposal of Assets

Net gain on disposal of assets was $2.8 million higher for 2007. The net gain for the 2007 period was attributable principally to the sale of 88 million tons of coal reserves, and surface land in Kentucky and the Big Run Mine for $26.5 million in cash and $69.4 million in notes receivable which resulted in a gain of $78.5 million. The net gain for the 2006 period was primarily attributable to the sale of coal reserves and surface land located in Kentucky and West Virginia for proceeds of $84.9 million, including cash of $31.8 million and notes receivable of $53.1 million which resulted in a gain of $66.6 million. Property sales in 2007 and 2006 are not indicative of the level we would expect on an ongoing basis.

Selling and Administrative Expenses

For the period prior to the spin-off, our historical selling and administrative expenses are based on an allocation of Peabody general corporate expenses to all of its mining operations, both foreign and domestic. The decrease of $2.8 million in 2007 compared to 2006 reflected changes in Peabody's allocable selling and administrative expenses as well as changes to the allocation base. These allocated expenses are not necessarily indicative of the costs we would incur as a stand-alone company.

Depreciation, Depletion and Amortization

Depreciation, depletion and amortization for 2007 decreased slightly compared to 2006 primarily due to the closure of the Big Run mine.

Asset Retirement Obligation Expense

Asset retirement obligation expense decreased in 2007 compared to the prior year primarily due to accelerated reclamation work at closed mines in 2006 with less activity in 2007.

Interest Expense (Income)

Third party interest expense decreased in 2007 as KE Ventures, LLC repaid $23.8 million in bank loans in the second half of 2006 and replaced the bank debt with a Peabody note which was subsequently forgiven at spin-off.

Interest income increased in 2007 compared to the prior year due to additional interest income on notes receivable that resulted from the sale of Kentucky coal reserves in the second half of 2006 and the first half of 2007.

Income Tax Provision

In 2006, we incurred $8.4 million of tax obligation for federal taxes from the disposal of assets and the preference limitation on percentage depletion. Patriot was included in Peabody's consolidated group during 2006 and the consolidated group had sufficient net operating losses available to offset the taxable income of Patriot, so this tax obligation did not require Patriot to make cash payments.

Minority Interests

We acquired an effective controlling interest in KE Ventures, LLC during the first quarter of 2006, and began consolidating KE Ventures, LLC in our results in 2006. The portion of earnings that represents the interests of the minority owners is deducted from our income (loss) before income taxes and minority interests to determine net income (loss). The minority interest recorded in 2007 and 2006 represented the share of KE Ventures, LLC earnings in which the minority holders were entitled to participate. We acquired the remaining minority interest in KE Ventures, LLC in 2007.

Effect of Minority Purchase Arrangement

Upon the spin-off from Peabody, the minority interest holders of KE Ventures, LLC held an option that could require Patriot to purchase the remaining 18.5% of KE Ventures, LLC upon a change in control. The minority owners of KE Ventures, LLC exercised this option in 2007, and the Company acquired the remaining minority interest in KE Ventures, LLC on November 30, 2007 for $33.0 million. Because the option requiring Patriot to purchase KE Ventures, LLC is considered a mandatorily redeemable instrument outside of the Company's control, amounts paid to the minority interest holders in excess of carrying value of the minority interests in KE Ventures, LLC, or $15.7 million, is reflected as an increase in net loss attributable to common stockholders. Because this obligation was fully redeemed as of December 31, 2007, adjustments to net income attributable to common shareholders will not be required in future periods.

Unaudited Pro Forma Consolidated Financial Data

The unaudited pro forma consolidated statement of operations presented below has been derived from our audited historical consolidated financial statements for the year ended December 31, 2007. This unaudited pro forma consolidated financial information should be read in conjunction with Results of Operations and the consolidated financial statements and notes related to those consolidated financial statements included elsewhere in this report.

The unaudited pro forma consolidated statement of operations for the year ended December 31, 2007 reflects adjustments to our historical financial statements to present our results as if the spin-off occurred on January 1, 2007. These adjustments include, among other things, an increase to revenue (and related royalties and taxes) from repricing of a coal supply agreement and a reduction to our costs associated with the assumption by Peabody of certain of our retiree healthcare liabilities estimated at a present value of $603.4 million as of December 31, 2007.

The pro forma adjustments are based on assumptions that management believes are reasonable. The unaudited pro forma consolidated financial information is for illustrative and informational purposes only and is not intended to represent or be indicative of what our results of operations or financial position would have been had the separation and distribution and the related transactions occurred on the dates indicated. The unaudited pro forma consolidated financial information also should not be considered representative of our future results of operations or financial position.

Unaudited Pro Forma Consolidated Statement of Operations

	Twelve Months Ended December 31, 2007		
(Dollars in thousands)	Historical	Adjustments	Pro Forma
Revenues			
Sales	$1,069,316	$ 22,850 [a]	$1,092,166
Other revenues	4,046	–	4,046
Total revenues	1,073,362	22,850	1,096,212
Costs and expenses			
Operating costs and expenses	1,109,315	(51,875) [b] (1,125) [c] 2,285 [a]	1,058,600
Depreciation, depletion and amortization	85,640	(1,717) [d]	83,923
Asset retirement obligation expense	20,144	–	20,144
Selling and administrative expenses	45,137	(13,237) [e]	31,900
Other operating income:			
Net gain on disposal of assets	(81,458)	–	(81,458)
Income from equity affiliates	(63)	–	(63)
Operating profit (loss)	(105,353)	88,519	(16,834)
Interest expense	3,368	5,267 [f]	8,635
Interest expense related to Peabody	4,969	(4,969) [g]	–
Interest income	(11,543)	–	(11,543)
Income (loss) before income taxes and minority interests	(102,147)	88,221	(13,926)
Income tax provision	–	5,967 [h]	5,967
Minority interests	4,721	–	4,721
Net income (loss)	(106,868)	82,254	(24,614)
Effect of minority purchase arrangement	(15,667)	–	(15,667)
Net income (loss) attributable to common stockholders	$ (122,535)	$82,254	$ (40,281)

Notes to Unaudited Pro Forma Consolidated Statement of Operations

(a) Reflects an increase to revenues (and related royalties and taxes) related to the repricing of a coal supply agreement to increase the price paid to Patriot to be more reflective of the then current market pricing for similar quality coal at the time of the spin-off.

(b) Reflects a decrease to operating costs and expenses for the impact of Peabody's agreement to assume certain of Patriot's retiree healthcare liabilities in the aggregate amount of $603.4 million as of December 31, 2007.

(c) Reflects reversal of historical expense related to pension benefit obligations that were not assumed by Patriot.

(d) Reflects the non-cash transfer to Peabody of an intangible asset related to a purchased contract right recorded on Patriot's historical financial statements in Investments and Other Assets and historically sourced from Patriot mining operations. As part of the spin-off, Peabody retained the coal supply contract with the ultimate customer.

(e) Reflects adjustment for estimated selling and administrative costs for Patriot's stand-alone management and administrative structure and functions. Prior to the spin-off, these services were provided by Peabody under various agreements between Peabody and its subsidiaries, and the historical amount was the result of an allocation of Peabody's overall selling and administrative costs. The allocation of these Peabody costs was not deemed reasonable for Patriot on a stand-alone basis and a pro forma amount was estimated based on a detailed build-up of expected support costs by function for the Patriot operations as a stand alone business. The costs allocated to Patriot by Peabody were higher than Patriot's pro forma estimate because the Peabody allocation reflected higher costs compared to Patriot's stand-alone estimate for areas such as government relations, information systems development, office space, executive incentive compensation and support departments such as accounting, law, engineering and human resources. In addition, the Peabody allocation included costs for major strategy and growth initiatives, most of which did not directly impact the Patriot operations.

(f) Reflects higher costs for surety bonds and letters of credit based on anticipated rates for these instruments and on Patriot's requirements to secure financial obligations for reclamation, workers' compensation and post retirement benefits. The historical financial statements reflect an allocation of Peabody's fees related to these guarantees.

(g) Reflects the reversal of the interest expense related to the intercompany note payable to Peabody.

(h) Reflects tax impact of pro forma adjustments based on the statutory rate adjusted for tax accounting as follows:

Expected tax statutory	$ 30,877
State income tax	2,719
Percentage depletion	(11,845)
Valuation allowance	(15,784)
Pro forma tax impact	$ 5,967

YEAR ENDED DECEMBER 31, 2006 COMPARED TO YEAR ENDED DECEMBER 31, 2005

Summary

Our revenues increased in 2006 compared to the prior year primarily driven by increases to average per ton sales prices. In 2005 and early 2006, strong demand for coal was driven by the growing economy, low customer stockpiles, capacity constraints of nuclear generation and high costs for competing fuels used for electricity generation. Additionally, metallurgical coal was sold at a significant premium to steam coal due to global steel production growth during these periods. Later in 2006, steam and metallurgical coal prices decreased from these highs but still remained above historic levels.

While revenues grew in 2006, our Segment Adjusted EBITDA was unfavorably impacted by higher costs from adverse geologic conditions and equipment failures at our mines as well as higher contract miner costs.

The decrease of $25.8 million in Segment Adjusted EBITDA in 2006 compared to 2005 was the result of cost increases due to higher sales-related production taxes and royalties and higher production costs associated with adverse geologic conditions at two mines, partially offset by higher sales prices and volumes.

Tons Sold and Revenues

	Year Ended December 31,		Increase (Decrease) 2006 from 2005	
(Dollars and tons in thousands, except per ton amounts)	2006	2005	Tons / $	%
Appalachia	15,292	14,066	1,226	8.7 %
Illinois Basin	8,998	9,719	(721)	(7.4)%
Total Tons Sold	24,290	23,785	505	2.1 %
Appalachia	$ 890,198	$742,753	$147,445	19.9 %
Illinois Basin	257,721	235,524	22,197	9.4 %
Total Revenues	$1,147,919	$978,277	$169,642	17.3 %
Average sales price per ton sold:				
Appalachia	$ 58.21	$ 52.80	$ 5.41	10.2 %
Illinois Basin	28.64	24.23	4.41	18.2 %

In 2006, the increase in total revenues over 2005 resulted primarily from demand-driven increases in sales prices for metallurgical and steam coal and an increase in sales volumes. In 2006, sales in Appalachia increased over the prior year as average per ton sales prices increased $5.41, driven by increases in demand and improved sulfur premiums for our produced coal. Sales volumes increased due to the addition of KE Ventures, LLC activity, which was combined in 2006 due to the increase in our ownership interest. Sales of KE Ventures, LLC added $135.4 million of revenues in 2006. Partially offsetting this increase was lower production at one of our metallurgical coal mines and at contract miner operations, as both experienced adverse geologic conditions and equipment failures. Sales in the Illinois Basin increased $22.2 million in 2006 compared to 2005 primarily from the demand-driven increases in sales prices, partially offset by lower volumes due to production shortfalls caused by equipment maintenance downtime and lack of barge availability towards the end of 2006. Other revenues not related to coal sales, primarily including coal royalty income, in Appalachia decreased $12.0 million compared to 2005, primarily due to a gain from a customer contract buyout in 2005.

Segment Adjusted EBITDA

	Year Ended December 31,		Increase (Decrease) to Segment Adjusted EBITDA 2006 from 2005	
(Dollars in thousands)	2006	2005	$	%
Appalachia	$204,827	$227,100	$(22,273)	(9.8)%
Illinois Basin	(1,900)	1,645	(3,545)	(215.5)%
Segment Adjusted EBITDA	$202,927	$228,745	$(25,818)	(11.3)%

In 2006, Segment Adjusted EBITDA decreased $22.3 million in the Appalachia segment and $3.5 million in the Illinois Basin segment compared to the prior year. In the Appalachia segment, the increase in sales discussed above was offset by an increase of $169.7 million in net operating costs. This increase for 2006 compared to 2005 included $98.3 million from the consolidation of KE Ventures, LLC, which was not consolidated in our 2005 results. In 2005, we owned a 49% interest in KE Ventures, LLC and reported our $16.9 million interest in the joint venture's net income in "Income from equity affiliates."

We pay various taxes and royalties that are indexed to our sales. The increase in sales during 2006 discussed above resulted in an increase in sales-related taxes and royalties of $35.0 million. Operating costs increased $28.5 million in 2006 due to production issues at one of our metallurgical coal mines as discussed previously. In the Illinois Basin, operating costs increased $25.7 million in 2006 compared to 2005, primarily due to higher labor costs from increased workforce headcount and wage rates. Both segments were negatively impacted by higher roof control costs in 2006 due to an increase in the use and cost of roof bolts.

Net Income (Loss)

	Year Ended December 31,		Increase (Decrease) to Net Income (Loss) 2006 from 2005	
(Dollars in thousands)	2006	2005	$	%
Segment Adjusted EBITDA	$ 202,927	$ 228,745	$(25,818)	(11.3)%
Corporate and Other:				
Past mining obligation expense	(106,880)	(104,053)	(2,827)	(2.7)%
Net gain on disposal or exchange of assets	78,631	57,042	21,589	37.8 %
Selling and administrative expenses	(47,909)	(57,123)	9,214	16.1 %
Total Corporate and Other	(76,158)	(104,134)	27,976	26.9 %
Depreciation, depletion and amortization	(86,458)	(65,972)	(20,486)	(31.1)%
Asset retirement obligation expense	(24,282)	(15,572)	(8,710)	(55.9)%
Interest expense:				
Peabody	(5,778)	(4,960)	(818)	(16.5)%
Third-Party	(5,641)	(4,873)	(768)	(15.8)%
Interest income	1,417	1,553	(136)	(8.8)%
Income before income taxes and minority interests	6,027	34,787	(28,760)	n/a
Income tax provision	(8,350)	–	(8,350)	n/a
Minority interests	(11,169)	–	(11,169)	n/a
Net income (loss)	$ (13,492)	$ 34,787	$(48,279)	n/a

In 2006, our net loss was $13.5 million, a decrease of $48.3 million compared to net income of $34.8 million in 2005. The decrease in net income in 2006 exceeded the decrease in Segment Adjusted EBITDA due to higher depreciation, depletion and amortization expense reflecting the acquisition of an additional interest in KE Ventures, LLC during the first quarter of 2006.

Past Mining Obligation Expense

Our 2006 operating costs included approximately $46 million for certain retiree healthcare obligations that would have been assumed by Peabody had the proposed spin-off structure been in place at the beginning of 2006.

Net Gain on Disposal or Exchange of Assets

In 2006, net gain on disposal of assets included sales of coal reserves and surface land located in Kentucky and West Virginia with a combined gain of $66.6 million. In 2005, net gain on disposal or exchange of assets included a $37.4 million net gain from an exchange of coal reserves as part of a dispute settlement with a third-party supplier and a $6.2 million net gain on an asset exchange from which we received Illinois Basin coal reserves.

Selling and Administrative Expenses

Our historical selling and administrative expenses are based on an allocation of Peabody general corporate expenses to all of its mining operations, both foreign and domestic, based on activity-based analysis, headcount, tons sold or revenues, as appropriate. In 2006, the decrease of $9.2 million compared to 2005 primarily related to the expansion of Peabody's allocation base as other mining operations within Peabody grew, thus reducing our proportional share of the general corporate expenses. These allocated expenses are not necessarily indicative of the costs we would incur as a stand-alone company.

Depreciation, Depletion and Amortization

The increase in 2006 of $20.5 million compared to 2005 was primarily due to the consolidation of KE Ventures, LLC in 2006 and higher amortization of royalty rights.

Asset Retirement Obligation Expense

The increase of $8.7 million in 2006 compared to 2005 related to accelerated reclamation work at closed mines and reclamation plan revisions for certain operating mines.

Interest Expense

Third-party interest expense primarily consists of fees related to providing surety bonds or letters of credit to guarantee workers' compensation, reclamation, post-employment benefit and lease obligations. Our capital structure changed following our spin-off from Peabody.

Income Tax Provision

In 2006, the Company incurred $8.4 million of tax obligation for federal taxes from the disposal of assets and the preference limitation on percentage depletion. Patriot was included in Peabody's consolidated group during 2006 and the consolidated group had sufficient net operating losses available to offset the taxable income of Patriot, so this tax obligation did not require Patriot to make cash payments.

Minority Interests

We acquired an effective controlling interest in KE Ventures, LLC during the first quarter of 2006, and began consolidating KE Ventures, LLC in our results in 2006. The portion of earnings that represent the interests of the minority owners is deducted from our income (loss) before income taxes and minority interests to determine net income (loss). The minority interest recorded in 2006 represents the share of KE Ventures, LLC earnings in which the minority holders were entitled to participate. Our proportional share of KE Ventures, LLC earnings was included in income from equity affiliates during 2005, therefore no minority interest was recorded for KE Ventures, LLC.

OUTLOOK

As discussed more fully under Item 1A. Risk Factors in our Annual Report on Form 10-K, our results of operations in the near-term could be negatively impacted by poor weather conditions, by unforeseen adverse geologic conditions or equipment problems at mining locations, by the unavailability of transportation for coal shipments and by the inability of contract miners to fulfill delivery terms of their contracts. On a long-term basis, our results of operations could be impacted by our ability to secure or acquire high-quality coal reserves; find replacement buyers for coal under contracts with comparable terms to existing contracts; and 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. If upward pressure on costs exceeds our ability to realize sales increases, or if we experience unanticipated operating or transportation difficulties, our operating margins would be negatively impacted. We are experiencing increases in operating costs related to steel-related products (including roof control), replacement parts, belting products, contract mining and healthcare, and have taken measures to attempt to mitigate the increases in these costs. Management plans to aggressively control costs and operating performance to mitigate external cost pressures and geologic conditions.

Our fourth quarter 2007 results were negatively impacted by the delayed longwall move at our Federal mine. The longwall began operations in late 2007, but has experienced two roof falls during the first quarter of 2008. It is our best estimate that longwall production will be curtailed at Federal during March as we take a conservative approach to remedying the situation and ensuring the safety of our employees. We believe the condition is temporary and that Federal will resume its normal production rate in the second quarter. The lower production at the Federal mine will impact first quarter 2008 earnings.

Our operating results are also impacted by market conditions. Global coal markets continue to grow, driven by increased demand from the growing economies of China and India where coal is either the primary domestic source of fuel or the lowest-cost imported fuel for electricity generation. We do not currently sell coal into China, but Chinese demand is important in determining worldwide coal prices. The Chinese government announced the closure of small mines that account for 100 million tons of production and these mine closures are expected to result in increased net coal imports for China. Railcar shortages, production problems and severe weather in Russia reduced exports by approximately 5 million tons in 2007. South Africa is cutting electricity supplies to the export mining industry as a result of low domestic coal inventories. On a nearer term basis, extreme flooding in Queensland in early 2008 is expected to significantly reduce Australia's coal export shipments. Metallurgical coal continues to sell at a significant premium to steam coal and we expect to participate in the strong global market for metallurgical coal through production and sales of metallurgical coal from our operations. Overall production in Appalachia in 2007 declined 3.5% compared to 2006. We expect prices for our products, predominantly sold in the U.S., to improve as worldwide demand for coal continues to grow.

Central Appalachia spot prices for metallurgical coal and traded thermal coal prices have increased $60 per ton and $30 per ton, respectively, since the beginning of 2008. We believe strong coal markets will continue worldwide, as long as growth continues in the U.S., Asia and other industrialized economies that are increasing coal demand for electricity generation and steelmaking. The Energy Information Administration of the Department of Energy projects new U.S. coal-fueled generation to increase 147 million tons over the next ten years and over 400 million tons through 2030. Global coal use was up 1.6 billion tons, or 30%, in the last five years and is projected to increase another 1.1 billion tons over the next ten years.

We are targeting 2008 sales volume of 23 to 25 million tons, including 6.5 to 7.5 million tons of metallurgical coal. As of December 31, 2007, our total unpriced planned production for 2008 was 0.5 to 1.0 million tons each of expected met and thermal volumes, for 2009 was 5.5 to 6.5 million tons each of met and thermal volumes and for 2010 was 7.5 to 8.5 million tons of met and 9.0 to 10.0 million tons of thermal volumes. The guidance provided under the caption Outlook should be read in conjunction with the sections entitled Cautionary Notice Regarding Forward Looking Statements and Item 1A. Risk Factors, both in our Annual Report on Form 10-K. 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 some of the risks and uncertainties that affect our business, see Item 1A. Risk Factors in our Annual Report on Form 10-K.

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 14 and 16 to our consolidated financial statements. Expense for the year ended December 31, 2007 for these liabilities totaled $127.9 million, while payments were $100.5 million.

Our postretirement benefit 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. Our 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 healthcare plans. Below we have provided two separate sensitivity analyses, to demonstrate the significance of these assumptions in relation to reported amounts.

(Dollars in thousands)	+1.0%	-1.0%
Healthcare cost trend rate:		
Effect on total service and interest cost components	$ 8,163	$ (7,494)
Effect on (gain)/loss amortization component	15,102	(13,860)
Effect on total postretirement benefit obligation	66,450	(60,983)

(Dollars in thousands)	+0.5%	-0.5%
Discount rate:		
Effect on total service and interest cost components	$ 1,583	$ (1,990)
Effect on (gain)/loss amortization component	(6,656)	7,025
Effect on total postretirement benefit obligation	(28,934)	31,758

Asset Retirement Obligations

Our asset retirement 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. Asset retirement 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. Asset retirement obligation expense for the year ended December 31, 2007, was $20.1 million, and payments totaled $15.9 million. See detailed information regarding our asset retirement obligations in Note 13 to our consolidated financial statements.

Income Taxes

We account for income taxes in accordance with SFAS No. 109, which requires that deferred tax assets and liabilities be recognized using enacted tax rates for the effect of temporary differences between the book and tax bases of recorded assets and liabilities. SFAS No. 109 also requires that deferred tax assets be reduced by a valuation allowance if it is "more likely than not" that some portion or all of the 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.

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109" (FIN No. 48). This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN No. 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. We adopted the provisions of FIN No. 48 on January 1, 2007, with no impact to retained earnings. See Newly Adopted Accounting Pronouncements for additional information.

Revenue Recognition

In general, we recognize revenues when they are realizable and earned. We generated substantially all of our revenue in 2007 from the sale of coal to our customers. Revenue from coal sales is 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 asset sales 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, and 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.

Share-Based Compensation

We have an equity incentive plan for employees and 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 recognize share-based compensation expense in accordance with SFAS No. 123(R), "Share-Based Payment". We utilize 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, the associated volatility, and a risk-free 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. There were no impairment losses recorded during the periods covered by the consolidated financial statements.

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 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 used in operating activities was $79.7 million for the year ended December 31, 2007, an increase of $59.0 million compared to the prior year. This increase in net cash used primarily related to cash operating losses and working capital changes. On a pro forma basis, our 2007 cash flows from operating activities would have been approximately $72 million higher due to Peabody's assumption of certain retiree healthcare liabilities and higher revenues due to Peabody's agreement to increase the price paid to us under a major existing coal sales agreement to be more reflective of the then current market pricing for similar quality coal.

Net cash provided by investing activities was $54.7 million for the year ended December 31, 2007, an increase of $52.7 million compared to the prior year. The increase in cash provided reflected lower capital expenditures of $24.6 million, and an increase to net transactions with Peabody of $47.9 million, partially offset by lower cash proceeds from disposals of assets of $18.7 million. Additionally, the $47.7 million cost to acquire the remaining 26.1% ownership in KE Ventures, LLC was slightly higher than the $44.5 million used to purchase a 24.9% interest in 2006.

Net cash provided by financing activities was $30.6 million for the year ended December 31, 2007, an increase of $11.9 million compared to the prior year. In 2007, we repaid $8.4 million of KE Ventures, LLC debt in conjunction with the acquisition of the remaining ownership described above. Also in 2007, we paid $4.7 million in origination fees for our credit facility, which will be amortized over the term of the facility. In 2006, we repaid KE Ventures, LLC's outstanding bank debt of $23.8 million.

Promissory Notes

Our total historical indebtedness consisted of the following:

	December 31,	
(Dollars in thousands)	**2007**	2006
Promissory Notes	**$12,365**	$12,365
Notes Payable	**–**	8,357
Total	**$12,365**	$20,722

The promissory notes were issued in conjunction with an exchange transaction involving the acquisition of Illinois Basin coal reserves. Annual installments of $1.7 million on the notes for principal and interest are payable beginning in January 2008 and running through January 2017. At December 31, 2007, the balance on the notes was $12.4 million, $0.9 million of which was a current liability.

Credit Facility

Effective October 31, 2007, we entered into a $500 million, four-year revolving credit facility, which includes a $50 million swingline sub-facility and a letter of credit sub-facility. This facility is available for our working capital requirements, capital expenditures and other corporate purposes. Our credit facility was utilized to replace certain Peabody letters of credit and surety bonds that were in place with respect to Patriot obligations. Patriot issued $253.5 million in letters of credit against the credit facility in connection with the spin-off. As of December 31, 2007 the balance of outstanding letters of credit issued against the credit facility remained at $253.5 million. At December 31, 2007, there was no outstanding debt balance on the facility. Availability under the credit facility as of December 31, 2007 was $246.5 million.

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 and coal reserves and related fixtures and accounts receivable. The credit facility contains certain customary covenants, including financial covenants limiting our total indebtedness (maximum leverage ratio of 2.75) and requiring minimum EBITDA coverage of interest expense (minimum interest coverage ratio of 4.0), as well as certain limitations on, among other things, additional debt, liens, investments, acquisitions and capital expenditures, future dividends and asset sales. The credit facility calls for quarterly reporting of compliance with financial covenants, beginning with the period ended March 31, 2008. The rolling four quarters compliance calculation contains a phase-in provision for 2008. The terms of the credit facility also contain certain customary events of default, which will give the lender 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.

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, 2007			
(Dollars in thousands)	Within 1 Year	2–3 Years	4–5 Years	After 5 Years
Long-term debt obligations (principal and interest)	$ 1,700	$ 3,400	$ 3,400	$ 8,500
Operating lease obligations	24,117	41,958	22,349	6,500
Unconditional purchase obligations(1)	6,306	–	–	–
Coal reserve lease and royalty obligations	12,059	17,513	9,380	6,676
Other long-term liabilities(2)	50,618	111,686	128,374	614,942
Total contractual cash obligations	$94,800	$174,557	$163,503	$636,618

(1) We have purchase agreements with approved vendors for most types of operating expenses. However, our specific open purchase orders (which have not been recognized as a liability) under these purchase agreements, combined with any other open purchase orders, are not material. The commitments in the table above relate to significant capital purchases.

(2) Represents long-term liabilities relating to our postretirement benefit plans, work-related injuries and illnesses and mine reclamation and end-of-mine closure costs.

As of December 31, 2007, we had $6.3 million of purchase obligations for capital expenditures. Total capital expenditures for 2008 are expected to range from $65 million to $80 million and relate to replacement, improvement, or expansion of existing mines as well as the development of the Black Oak metallurgical mine at the Rocklick Complex. Approximately $18 million of the expenditures relate to safety equipment that will be utilized to comply with recently issued federal and state regulations.

OFF-BALANCE SHEET ARRANGEMENTS

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.

Patriot has 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, 2007:

(Dollars in thousands)	Reclamation Obligations	Lease Obligations	Workers' Compensation Obligations	Other[1]	Total
Surety bonds	$ 84,109	$ –	$ 12,961	$12,030	$109,100
Letters of credit	61,883	16,949	170,844	3,871	253,547
	$145,992	$16,949	$183,805	$15,901	$362,647

(1) Includes collateral for surety companies and bank guarantees, road maintenance and performance guarantees.

Additionally, as of December 31, 2007, Peabody continued to guarantee certain bonds (self bonding) related to Patriot liabilities that have not yet been replaced by our surety bonds. As of December 31, 2007, Peabody self bonding related to Patriot liabilities aggregated $22.8 million, of which $19.9 million was for post-mining reclamation and $2.9 million was for other obligations. We expect to replace these Peabody self bonds in 2008.

Based on our estimate of the replacement of Peabody self bonds and an overall increase to our fee structure as compared to Peabody for these security instruments, we expect that annual costs for our security requirements will be higher than the amounts included in our historical financial statements. We are initially estimating an increase in annual costs of approximately $6 million over the amounts in our historical financial statements.

In relation to an exchange transaction involving the acquisition of the Illinois Basin coal reserves discussed in Note 4 to our consolidated financial statements, 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 $0.4 million as of December 31, 2007. Our obligation under the guarantee extends to September 2015.

Peabody assumed certain of the Company's retiree healthcare liabilities in the aggregate amount of $603.4 million as of December 31, 2007. 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 Act for which the Company is secondarily liable, and obligations for certain active, vested employees of the Company.

NEWLY ADOPTED ACCOUNTING PRONOUNCEMENTS

Financial Interpretation No. 48

In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109" (FIN No. 48). This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN No. 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

We adopted the provisions of FIN No. 48 on January 1, 2007, with no impact to retained earnings. At adoption and at December 31, 2007, the unrecognized tax benefits in our consolidated financial statements were immaterial, and if recognized, would not currently affect the Company's effective tax rate as any recognition would be offset by valuation allowance. We do not expect any significant increases or decreases to our unrecognized tax benefits within 12 months of December 31, 2007.

Due to the immaterial nature of our unrecognized tax benefits and the existence of net operating loss 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 our net operating loss 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.

As we have not yet filed any income tax returns as a stand alone consolidated group, we have no income tax years currently subject to audit by any tax jurisdiction. Patriot and our subsidiaries were included in consolidated Peabody income tax returns prior to November 1, 2007 and Peabody retained all liability related to these returns.

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 (the Company) as of December 31, 2007 and 2006, and the related consolidated statements of operations, changes in stockholders' equity (deficit), and cash flows for each of the three years in the period ended December 31, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of KE Ventures (an LLC in which the Company had a 73.9% ownership interest for 2006 and 49% for 2005) for the years ended December 31, 2006 and 2005. KE Ventures, LLC was a consolidated entity as of December 31, 2006 and for the year ended December 31, 2006. KE Ventures, LLC's total assets were $85 million as of December 31, 2006, and total revenues were $103.8 million for the year ended December 31, 2006. KE Ventures, LLC was an investee for the year ended December 31, 2005. In the consolidated financial statements, the Company's equity in net income of KE Ventures, LLC was stated at $16.9 million for the year ended December 31, 2005. KE Ventures, LLC's statements as of December 31, 2006, and for the two years in the period ended December 31, 2006, were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for KE Ventures, LLC, is based solely on the reports of other auditors.

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. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Patriot Coal Corporation at December 31, 2007 and 2006, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles.

As discussed in Notes 14 and 16 to the consolidated financial statements, on December 31, 2006, the Company changed its method of accounting for post retirement and post employment benefits.

Ernst + Young LLP

St. Louis, Missouri

February 29, 2008

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Members of
KE Ventures, LLC

In our opinion, the consolidated balance sheets and the related consolidated statements of operations, of members' capital and of cash flows (not presented herein) present fairly, in all material respects, the financial position of KE Ventures, LLC (the "Company") and its subsidiaries at December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audits of these statements 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Charlotte, North Carolina

February 19, 2007

CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands, except share and per share data)	Year Ended December 31, 2007	2006	2005
Revenues			
Sales	**$1,069,316**	$1,142,521	$960,901
Other revenues	**4,046**	5,398	17,376
Total revenues	**1,073,362**	1,147,919	978,277
Costs and expenses			
Operating costs and expenses	**1,109,315**	1,051,932	869,163
Depreciation, depletion and amortization	**85,640**	86,458	65,972
Asset retirement obligation expense	**20,144**	24,282	15,572
Selling and administrative expenses	**45,137**	47,909	57,123
Other operating income:			
Net gain on disposal or exchange of assets	**(81,458)**	(78,631)	(57,042)
Income from equity affiliates	**(63)**	(60)	(15,578)
Operating profit (loss)	**(105,353)**	16,029	43,067
Interest expense	**8,337**	11,419	9,833
Interest income	**(11,543)**	(1,417)	(1,553)
Income (loss) before income taxes and minority interests	**(102,147)**	6,027	34,787
Income tax provision	**–**	8,350	–
Minority interests	**4,721**	11,169	–
Net income (loss)	**(106,868)**	(13,492)	34,787
Effect of minority purchase arrangement	**(15,667)**	–	–
Net income (loss) attributable to common stockholders	**$ (122,535)**	$ (13,492)	$ 34,787
Weighted average shares outstanding, basic and diluted	**26,570,940**	n/a	n/a
Earnings per share, basic and diluted:			
Net loss	**$ (4.02)**	n/a	n/a
Effect of minority purchase arrangement	**(0.59)**	n/a	n/a
Net loss attributable to common stockholders	**$ (4.61)**	n/a	n/a

See accompanying notes to the consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

	December 31,	
(Dollars in thousands, except share data)	**2007**	2006
Assets		
Current assets		
Cash and cash equivalents	**$ 5,983**	$ 398
Accounts receivable and other, net of allowance for doubtful accounts of $251 and $252 as of December 31, 2007 and 2006, respectively	**125,985**	31,583
Net receivable from former affiliates	**–**	141,021
Inventories	**31,037**	34,692
Prepaid expenses and other current assets	**6,214**	7,004
Total current assets	**169,219**	214,698
Property, plant, equipment and mine development		
Land and coal interests	**689,338**	628,569
Buildings and improvements	**282,703**	270,990
Machinery and equipment	**330,338**	377,693
Less accumulated depreciation, depletion and amortization	**(426,090)**	(434,565)
Property, plant, equipment and mine development, net	**876,289**	842,687
Notes receivable	**126,381**	52,975
Investments and other assets	**27,948**	67,821
Total assets	**$1,199,837**	$1,178,181
Liabilities and Stockholders' Equity (Deficit)		
Current liabilities		
Current maturities of long-term debt	**$ 927**	$ –
Trade accounts payable	**66,811**	53,573
Accrued expenses	**116,781**	162,871
Total current liabilities	**184,519**	216,444
Long-term debt	**11,438**	20,722
Note payable to former affiliate	**–**	62,000
Asset retirement obligations	**134,364**	139,703
Workers' compensation obligations	**192,730**	207,860
Accrued postretirement benefit costs	**527,315**	1,139,017
Obligation to industry fund	**31,064**	25,626
Other noncurrent liabilities	**36,091**	40,483
Total liabilities	**1,117,521**	1,851,855
Minority interests	**–**	16,153
Stockholders' equity (deficit):		
Common stock ($0.01 par value; 100,000,000 shares authorized; 26,758,768 shares issued and outstanding at December 31, 2007)	**268**	–
Additional paid-in capital	**189,451**	–
Retained earnings (deficit)	**(33,363)**	–
Accumulated other comprehensive loss	**(74,040)**	(322,121)
Former Parent's equity (deficit)	**–**	(367,706)
Total stockholders' equity (deficit)	**82,316**	(689,827)
Total liabilities and stockholders' equity (deficit)	**$1,199,837**	$1,178,181

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
(Dollars in thousands)	**2007**	2006	2005
Cash Flows From Operating Activities			
Net income (loss)	**$(106,868)**	$(13,492)	$ 34,787
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation, depletion and amortization	**85,640**	86,458	65,972
Net gain on disposal or exchange of assets	**(81,458)**	(78,631)	(57,042)
Stock-based compensation expense	**1,299**	–	–
Income from equity affiliates	**(63)**	(60)	(15,578)
Dividends received from equity investments	**–**	9,935	7,552
Minority interest	**4,721**	11,169	–
Changes in current assets and liabilities, net of acquisitions:			
Accounts receivable	**(19,058)**	2,043	4,844
Inventories	**3,655**	(7,998)	(4,497)
Other current assets	**790**	(3,769)	1,247
Accounts payable and accrued expenses	**10,828**	(10,932)	(6,596)
Interest on notes receivable	**(10,013)**	(876)	–
Asset retirement obligations	**4,473**	3,006	(13,465)
Workers' compensation obligations	**6,654**	(3,163)	3,011
Accrued postretirement benefit costs	**22,264**	4,677	11,273
Obligation to industry fund	**7,286**	(2,253)	(3,033)
Other, net	**(9,849)**	(16,855)	(10,652)
Net cash provided by (used in) operating activities	**(79,699)**	(20,741)	17,823
Cash Flows From Investing Activities			
Additions to property, plant, equipment and mine development	**(55,594)**	(80,224)	(75,151)
Acquisitions, net	**(47,733)**	(44,538)	–
Additions to advance mining royalties	**(3,964)**	(6,065)	(6,094)
Proceeds from disposal of assets, net of notes receivable	**29,426**	48,168	13,496
Net change in receivables from/payables to former affiliates	**132,586**	84,652	38,220
Net cash provided by (used in) investing activities	**54,721**	1,993	(29,529)
Cash Flows From Financing Activities			
Contribution from former Parent	**43,647**	44,538	–
Long-term debt payments	**(8,358)**	(23,792)	–
Issuance of notes payable	**–**	–	11,459
Credit facility origination fees	**(4,726)**	–	–
Distribution to minority interests	**–**	(2,119)	–
Net cash provided by financing activities	**30,563**	18,627	11,459
Net increase (decrease) in cash and cash equivalents	**5,585**	(121)	(247)
Cash and cash equivalents at beginning of year	**398**	519	766
Cash and cash equivalents at end of year	**$ 5,983**	$ 398	$ 519

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)

(Dollars in thousands)	Common Stock	Additional Paid-in Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Loss	Former Parent's Equity	Total
December 31, 2004	$ –	$ –	$ –	$ –	$(1,200,284)	$(1,200,284)
Net income	–	–	–	–	34,787	34,787
Dividend from subsidiary of former Parent	–	–	–	–	766,745	766,745
December 31, 2005	–	–	–	–	(398,752)	(398,752)
Net loss	–	–	–	–	(13,492)	(13,492)
SFAS No. 158 adoption impact of postretirement plans and workers' compensation obligations (net of taxes of $0):						
Accumulated actuarial loss	–	–	–	(318,614)	–	(318,614)
Prior service cost	–	–	–	(3,507)	–	(3,507)
Contribution from former Parent	–	–	–	–	44,538	44,538
December 31, 2006	–	–	–	**(322,121)**	**(367,706)**	**(689,827)**
Net loss	–	–	**(33,363)**	–	**(73,505)**	**(106,868)**
Postretirement plans and workers' compensation obligations (net of taxes of $0):						
Changes in accumulated actuarial loss	–	–	–	**70,278**	–	**70,278**
Changes in prior service cost	–	–	–	**12,469**	–	**12,469**
Total comprehensive loss						**(24,121)**
Contributions from former Parent	–	–	–	–	**13,647**	**13,647**
Consummation of spin-off transaction on October 31, 2007	**266**	**188,152**	–	**165,334**	**427,564**	**781,316**
Stock based compensation	–	**1,299**	–	–	–	**1,299**
Stock grants to employees	**2**	–	–	–	–	**2**
December 31, 2007	**$268**	**$189,451**	**$(33,363)**	**$ (74,040)**	**$ –**	**$ 82,316**

See accompanying notes to the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) CONSUMMATION OF SPIN-OFF TRANSACTION AND BASIS OF PRESENTATION

Consummation of Spin-off Transaction

On October 31, 2007, Patriot Coal Corporation (Patriot) was spun-off from Peabody Energy Corporation (Peabody). Patriot includes coal assets in Appalachia and the Illinois Basin and operations in West Virginia and Kentucky. The spin-off was accomplished through a dividend of all outstanding shares of Patriot, resulting in Patriot becoming a separate, publicly-traded company traded on the New York Stock Exchange (symbol PCX). Distribution of the Patriot stock to Peabody's stockholders occurred on October 31, 2007, at a ratio of one share of Patriot stock for every 10 shares of Peabody stock. The distribution on October 31, 2007 also included a net contribution from Peabody of $781.3 million, which reflected the following:

- retention by Peabody of certain retiree healthcare liabilities of $615.8 million;
- the forgiveness of the outstanding intercompany payables to Peabody on October 31, 2007 of $81.5 million;
- the retention by Patriot of trade accounts receivable at October 31, 2007, previously recorded through intercompany receivables, of $68.6 million;
- a $30.0 million cash contribution;
- the retention by Peabody of assets and asset retirement obligations related to certain Midwest mining operations of a net $8.1 million;
- less the transfer of intangible assets of $22.7 million related to purchased contract rights for a supply contract retained by Peabody.

Basis of Presentation

Effective October 31, 2007, Patriot was spun-off from Peabody and became a separate, publicly-traded company. All significant transactions, profits and balances have been eliminated between Patriot and its subsidiaries.

The information discussed below primarily relates to Patriot's historical results and may not necessarily reflect what its financial position, results of operations and cash flows will be in the future or would have been as a stand-alone company. Upon the completion of the spin-off, Patriot's capital structure was changed significantly. At the spin-off date Patriot entered into various operational agreements with Peabody, including certain on-going agreements that enhance both the financial position and cash flows of Patriot. Such agreements include the assumption by Peabody of certain retiree healthcare liabilities and the repricing of a major coal supply agreement to be more reflective of the then current market pricing for similar quality coal.

Patriot operates in two domestic coal segments; Appalachia and the Illinois Basin (see Note 20).

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Patriot is engaged in the mining of thermal coal for sale primarily to electric utilities and metallurgical coal for sale to steel mills and independent coke producers. Patriot's mining operations are located in the eastern United States, primarily in Appalachia and the Illinois Basin.

Sales

Patriot's revenue from coal sales is realized and earned when risk of loss passes to the customer. Coal sales are made to customers under the terms of supply agreements, most of which are long-term (greater than one year). Under the typical terms of these coal supply agreements, title and risk of loss transfer to the customer at the mine, where coal is loaded onto the rail, barge, truck 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, Patriot holds inventories at port facilities where title and risk of loss do not transfer until the coal is loaded to the ocean-going vessel. The Company incurs 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 royalties related to coal lease agreements and farm income. 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.

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. Interest costs applicable to major asset additions are capitalized during the construction period, including $0.5 million, $0.3 million and $0.1 million for the years ended December 31, 2007, 2006 and 2005, respectively.

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 in the case of acquired businesses. Coal reserves are included in "Land and coal interests". As of December 31, 2007 and 2006, the net book value of coal reserves totaled $545.5 million and $436.2 million, respectively. These amounts included $287.6 million and $302.6 million at December 31, 2007 and 2006, respectively, attributable to properties where the Company was not currently engaged in mining operations or leasing to third parties and, therefore, the coal reserves are not currently being depleted. Included in the book value of coal reserves are mineral rights for leased coal interests including advance royalties, and the net book value of these mineral rights was $380.1 million and $272.8 million at December 31, 2007 and 2006, respectively. The remaining net book value of the coal reserves of $165.4 million and $163.4 million at December 31, 2007 and 2006, respectively, relates 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
Building and improvements	10 to 20
Machinery and equipment	1 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 1 to 22 years. The charge against earnings for depreciation of property, plant, equipment and mine development was $60.3 million, $65.1 million and $46.6 million for the years ended December 31, 2007, 2006 and 2005, respectively.

Intangible Assets

On a gross basis, intangible assets consisting of royalty rights totaled $21.2 million at December 31, 2007 and 2006, with accumulated amortization at December 31, 2007 and 2006 of $4.1 million and $1.4 million, respectively. In addition to these royalty rights, Patriot had gross purchased contract rights of $58.9 million with accumulated amortization of $34.5 million that were included in the December 31, 2006 intangible assets balance. In connection with the spin-off, all purchased contract rights remained with Peabody except for $6.2 million gross purchased contract rights, associated with the KE Ventures, LLC acquisition (see Note 6), with accumulated amortization of $2.0 million. The charge against earnings for amortization of these intangibles was $6.5 million, $4.0 million and $4.2 million for the years ended December 31, 2007, 2006 and 2005, respectively. These intangibles are included in "Investments and other assets" and are amortized on a per-ton basis. Intangibles are also subject to evaluation for potential impairment if an event occurs or a change in circumstances indicates the carrying amount may not be recoverable.

Joint Ventures

The Company applies the equity method to investments in joint ventures when it has the ability to exercise significant influence over the operating and financial policies of the joint venture. Investments accounted for under the equity method are initially recorded at cost, and any difference between the cost of the Company's investment and the underlying equity in the net assets of the joint venture at the investment date is amortized over the lives of the related assets that gave rise to the difference. The Company's pro rata share of earnings from joint ventures and basis difference amortization are reported in the consolidated statement of operations in "Income from equity affiliates." The book values of the Company's equity method investments as of December 31, 2007 and 2006 were $0.7 million and $0.6 million, respectively, and are reported in "Investments and other assets" in the consolidated balance sheets. In 2005, the Company's investment in joint ventures consisted primarily of one significant subsidiary, KE Ventures, LLC. In 2006, KE Ventures, LLC became a consolidated subsidiary.

Asset Retirement Obligations

Statement of Financial Accounting Standards (SFAS) No. 143, "Accounting for Asset Retirement Obligations" (SFAS No. 143) addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The Company's asset retirement obligations (ARO) 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.

ARO 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 rate. Patriot records an ARO 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 ARO asset is amortized on the units-of-production method over its expected life and the ARO liability is accreted to the projected spending date. 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 rate. The Company also recognizes an obligation 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.

Environmental Liabilities

Included in "Other noncurrent liabilities" are accruals for other environmental matters that are recorded in operating expenses when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated. Accrued liabilities are exclusive of claims against third parties and are not discounted. In general, costs related to environmental remediation are charged to expense.

Income Taxes

Income taxes are accounted for using a balance sheet approach in accordance with SFAS No. 109, "Accounting for Income Taxes" (SFAS No. 109). 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.

SFAS No. 109 specifies that the amount of current and deferred tax expense for an income tax return group shall be allocated among the members of that group when those members issue separate financial statements. For purposes of the financial statements, Patriot's income tax expense has been recorded as if it filed a consolidated tax return separate from Peabody, notwithstanding that a majority of the operations were historically included in the U.S. consolidated income tax return filed by Peabody. Patriot's valuation allowance was also determined on the separate tax return basis. Additionally, Patriot's tax attributes (i.e. net operating losses and AMT credits) have been determined based on U.S. consolidated tax rules describing the apportionment of these items upon departure (i.e. spin-off) from the Peabody consolidated group.

Peabody was managing its tax position for the benefit of its entire portfolio of businesses. Peabody's tax strategies were not necessarily reflective of the tax strategies that Patriot would have followed or will follow as a stand-alone company, nor were they necessarily strategies that optimized the Company's stand-alone position. As a result, Patriot's effective tax rate as a stand-alone entity may differ significantly from those prevailing in historical periods.

Postretirement Healthcare Benefits

Postretirement benefits other than pensions are accounted for in accordance with SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions" (SFAS No. 106), which requires the costs of benefits to be provided to be accrued over the employees' period of active service. These costs are determined on an actuarial basis. As a result of the adoption of SFAS No. 158 on December 31, 2006, the consolidated balance sheets as of December 31, 2007 and 2006 fully reflect the funded status of postretirement benefits.

Multi-Employer Benefit Plans

The Company has 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 legislation passed in 2006. The Combined Fund obligations are accounted for in accordance with Emerging Issues Task Force No. 92-13, "Accounting for Estimated Payments in Connection with the Coal Industry Retiree Health Benefit Act of 1992," as determined on an actuarial basis. The 1992 Benefit Plan and the 1993 Benefit Plan qualify as multi-employer plans under SFAS No. 106, and expense is recognized as contributions are made.

Pension Plans

Prior to the spin-off, Patriot participated in a non-contributory defined benefit pension plan (the Pension Plan) accounted for in accordance with SFAS No. 87, "Employers' Accounting for Pensions" (SFAS No. 87), which requires that the cost to provide the benefits be accrued over the employees' period of active service. The Pension Plan was sponsored by one of Peabody's subsidiaries and covered certain U.S. salaried employees and eligible hourly employees of Peabody. In connection with the spin-off, Patriot employees no longer participate in a defined benefit pension plan, and Patriot did not retain any of the assets and liabilities for the Pension Plan. Accordingly the assets and liabilities of the Pension Plan are not allocated to Patriot and are not presented in the accompanying balance sheets. However, annual contributions to the Pension Plan were made as determined by consulting actuaries based upon the Employee Retirement Income Security Act of 1974 minimum funding standard. Patriot recorded expense of $1.1 million, $3.7 million, and $4.5 million for the years ended December 31, 2007, 2006 and 2005, respectively, as a result of its participation in the Pension Plan, reflecting Patriot's proportional share of Peabody's expense based on the number of plan participants.

Patriot also participates in two multi-employer pension plans, the United Mine Workers of America 1950 Pension Plan (the 1950 Plan) and the United Mine Workers of America 1974 Pension Plan (the 1974 Plan). These plans qualify as multi-employer plans under SFAS No. 87, and expense is recognized as contributions are made. See Note 15 for additional information.

Postemployment Benefits

Postemployment benefits are provided to qualifying employees, former employees and dependents, and Patriot accounts for these items on the accrual basis in accordance with SFAS No. 112 "Employers' Accounting for Postemployment Benefits." 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 are recognized when the obligation occurs. As a result of the adoption of SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" (SFAS No. 158) on December 31, 2006, the Company's consolidated balance sheets as of December 31, 2007 and December 31, 2006 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 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, Patriot has significant long-term liabilities relating to retiree healthcare and work-related injuries and illnesses. Each of these liabilities is actuarially determined and uses various actuarial assumptions, including the discount rate and future cost trends, to estimate the costs and obligations for these items. In addition, the Company has significant asset retirement obligations that involve estimations of costs to remediate mining lands 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 the obligation 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 such determination is made.

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. There were no impairment losses recorded during the periods covered by the consolidated financial statements.

Fair Value of Financial Instruments

SFAS No. 107, "Disclosures about Fair Value of Financial Instruments," defines the fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments as of December 31, 2007 and 2006:

- 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 fair value of notes receivable approximates the carrying value as of December 31, 2007 and 2006.
- The fair value of net payables to former affiliates approximated the carrying value as of December 31, 2006.

New Accounting Pronouncements

FASB Statement No. 157

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement No. 157, "Fair Value Measurements" (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles, and expands disclosures about fair value measures. SFAS No. 157 clarifies that 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. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The provisions of SFAS No. 157 are to be applied on a prospective basis, with the exception of certain financial instruments for which retrospective application is required. The Company is still determining the impact, if any, the adoption of SFAS No. 157 will have on the results of operations, financial position, and liquidity; however, at this time, the Company does not expect the impact to be material.

FASB Statement No. 159

In February 2007, the FASB issued Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" (SFAS No. 159). SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. Entities electing the fair value option will be required to recognize changes in fair value in earnings and to expense upfront cost and fees associated with each item for which the fair value option is elected. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The impact the adoption of SFAS No. 159 will have on the results of operations, financial position, and liquidity, if any, is still being determined; however, at this time, the Company does not expect the impact to be material.

FASB Statement No. 160

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51" (SFAS No. 160). SFAS No. 160 establishes accounting and reporting standards for (1) noncontrolling interests in partially owned consolidated subsidiaries and (2) the loss of control of subsidiaries. SFAS No. 160 requires noncontrolling interests (minority interests) to be reported as a separate component of equity. The amount of net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement. In addition, this statement requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. Such gain or loss will be measured using the fair value of the noncontrolling equity investment on the deconsolidation date. SFAS No. 160 also includes expanded disclosure requirements regarding the interests of the parent and its noncontrolling interest. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008 (January 1, 2009 for the Company). Early adoption is not allowed. The Company is in the process of determining the effect, if any, the adoption of SFAS No. 160 will have on the results of operations, financial position, and liquidity; however, at this time, the Company does not expect the impact to be material.

FASB Statement No. 141(R)

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations" (SFAS No. 141(R)), which replaces SFAS No. 141. SFAS No. 141(R) significantly changes the principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. This statement also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. This statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008 (January 1, 2009 for the Company). The adoption of SFAS No. 141(R) will only impact the Company's financial statements to the extent any acquisitions are made on or subsequent to January 1, 2009.

(3) RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

Patriot is 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 the Company's risk management policies. The Company manages its commodity price risk related to the sale of coal through the use of long-term, fixed-price contracts, rather than financial instruments.

Credit Risk

Patriot's concentration of credit risk is substantially with Peabody and utility customers. Patriot sells the majority of its production through a marketing affiliate of Peabody at prices paid by third-party customers (see Note 17 for additional discussion of related party transactions). Allowance for doubtful accounts was $0.3 million at December 31, 2007 and 2006. The Company also has $133.3 million in notes receivable as of December 31, 2007 outstanding from counterparties from the sale of coal reserves and surface land discussed in Note 4. Each of these notes contain a cross-collaterization provision secured primarily by the underlying coal reserves and surface land.

The Company's 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 the Company's credit standards, the Company may protect its 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 include obtaining letters of credit or cash collateral, requiring prepayments for shipments or the creation of customer trust accounts held for the Company's benefit to serve as collateral in the event of failure to pay.

Employees

As of December 31, 2007, Patriot had approximately 2,300 employees. As of December 31, 2007, approximately 61% of the employees at company operations were represented by an organized labor union and they generated approximately 49% of the 2007 sales volume. Relations with its employees and, where applicable, organized labor are important to the Company's success. Union labor is represented by the United Mine Workers of America (UMWA). The approximately 350 represented workers at the Illinois Basin Highland Mine operate under a contract that expires on December 31, 2011 and this mine generated approximately 19% of the 2007 coal production. The remainder of the Company's represented workers are in Appalachia and operate under a labor agreement also expiring December 31, 2011.

(4) NET GAIN ON DISPOSAL OR EXCHANGE OF ASSETS AND OTHER COMMERCIAL EVENTS

In 2007, Patriot sold approximately 88 million tons of coal reserves and surface land located in Kentucky and the Big Run Mine for cash of $26.5 million and notes receivable of $69.4 million which resulted in a gain of $78.5 million.

During 2006, Patriot sold coal reserves and surface land located in Kentucky and West Virginia for proceeds of $84.9 million including cash of $31.8 million and notes receivable of $53.1 million which resulted in a gain of $66.6 million. The gain from these transactions is included in "Net gain on disposal or exchange of assets" in the consolidated statements of operations.

In the third quarter of 2005, Peabody exchanged certain steam coal reserves for steam and metallurgical coal reserves as part of a contractual dispute settlement between Peabody and a third-party. Under the settlement, Peabody received $10.0 million in cash, a new coal supply agreement that partially replaced the disputed coal supply agreement and exchanged the Company's steam coal reserves. As a result of the final settlement and based on the fair values of the items exchanged in the overall settlement transaction (including cash of $4.0 million), Patriot recognized a gain on assets exchanged of $37.4 million in relation to this transaction. The fair value of assets exchanged exceeded the book value of assets relinquished by $33.4 million and this non-cash addition is not included in "Additions to property, plant, equipment and mine development" in the consolidated statement of cash flows. The gain from this transaction is included in "Net gain on disposal or exchange of assets" in the consolidated statements of operations.

Also in the third quarter of 2005, Patriot recognized a $6.2 million gain from an exchange transaction involving the acquisition of Illinois Basin coal reserves in exchange for coal reserves, cash, notes and the Company's 45% equity interest in a partnership.

(5) 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. Earnings (loss) per share is not presented for periods prior to October 31, 2007, because Peabody and its affiliates were the sole owners prior to the initial distribution.

For the year ended December 31, 2007, 32,929 shares were excluded from the diluted earnings per share calculations for the Company's common stock because they were anti-dilutive.

(6) ACQUISITION

KE Ventures, LLC

As of December 31, 2005, the Company owned a 49% interest in KE Ventures, LLC and accounted for the interest under the equity method of accounting. In March 2006, Patriot increased its ownership interest in the joint venture to an effective 73.9% and accordingly, fully consolidated KE Ventures, LLC effective January 1, 2006. The purchase price for the additional 24.9% interest was $44.5 million plus assumed debt. The purchase price was allocated over the various assets and liabilities in proportion to the additional ownership percentage with an additional $52.8 million allocated to coal reserves and plant and equipment included in "Property, plant, equipment and mine development" and customer contracts included in "Investments and other assets".

In September 2007, Patriot acquired an additional 7.6% interest in KE Ventures, LLC for $13.6 million, increasing effective ownership to 81.5%. The minority holders of KE Ventures, LLC held an option which could require Patriot to purchase the remaining 18.5% of KE Ventures, LLC upon a change in control. This option became fully exercisable upon the spin-off from Peabody. The minority owners of KE Ventures, LLC exercised this option in 2007, and the Company acquired the remaining minority interest in KE Ventures, LLC on November 30, 2007 for $33.0 million. The additional purchase price of $46.6 million was allocated to the proportional percentage of assets and liabilities acquired in 2007. The purchase price was primarily allocated to coal reserves as it was the most significant asset acquired.

Because the option requiring Patriot to purchase KE Ventures, LLC is considered a mandatorily redeemable instrument outside of the Company's control, amounts paid to the minority interest holders in excess of carrying value of the minority interests in KE Ventures, LLC is reflected as an increase in net loss attributable to common stockholders. This treatment is consistent with the guidance in SEC ASR 268 "Redeemable Preferred Stock" and EITF Topic D-98 "Classification and Measurement of Redeemable Securities." Because this obligation is fully redeemed as of December 31, 2007, adjustments to net income attributable to common shareholders will not be required in future periods.

(7) INVENTORIES

Inventories consisted of the following:

	December 31,	
(Dollars in thousands)	**2007**	2006
Saleable coal	**$13,519**	$16,651
Materials and supplies	**13,385**	13,343
Raw coal	**4,133**	4,698
Total	**$31,037**	$34,692

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.

(8) LEASES

Patriot leases equipment and facilities, directly or through Peabody, under various non-cancelable 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 by both Peabody and Patriot. Rental expense under operating leases was $30.9 million, $28.4 million and $29.9 million for the years ended December 31, 2007, 2006 and 2005, respectively.

A substantial amount of the coal mined by Patriot is produced from mineral reserves leased from third-party land owners. Patriot leases 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 $43.2 million, $51.0 million and $32.9 million for the years ended December 31, 2007, 2006 and 2005, respectively.

Future minimum lease and royalty payments as of December 31, 2007, are as follows:

(Dollars in thousands)	Operating Leases	Coal Reserves
2008	$24,117	$12,059
2009	21,589	10,400
2010	20,369	7,113
2011	15,070	4,914
2012	7,278	4,466
2013 and thereafter	6,500	6,676
Total minimum lease and royalty payments	$94,923	$45,628

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. Patriot 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. Patriot leased back the coal from PVR and pays 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 2007, 2006 and 2005. The remaining deferred gain of $6.4 million at December 31, 2007 is intended to provide for potential exposure to loss resulting from continuing involvement in the properties and will be amortized to "Operating costs and expenses" in the consolidated statement of operations over the minimum remaining term of the lease, which is two years from December 31, 2007.

As of December 31, 2007, certain of the Company's lease obligations were secured by $16.9 million outstanding letters of credit under Patriot's Credit Facility.

(9) ACCRUED EXPENSES

Accrued expenses consisted of the following:

	December 31,	
(Dollars in thousands)	**2007**	2006
Accrued healthcare, including post-retirement	**$ 30,120**	$ 78,174
Workers' compensation obligations	**23,778**	24,456
Accrued payroll and related benefits	**21,565**	20,803
Accrued taxes other than income	**13,339**	15,257
Other accrued benefits	**9,487**	8,272
Accrued royalties	**5,281**	4,381
Accrued lease payments	**1,692**	1,745
Other accrued expenses	**11,519**	9,783
Total accrued expenses	**$116,781**	$162,871

(10) INCOME TAXES

The income (loss) before income taxes and minority interests was a loss of $102.1 million, income of $6.0 million, and income of $34.8 million for the years ended December 31, 2007, 2006 and 2005, respectively, and consisted entirely of domestic results.

The income tax rate differed from the U.S. federal statutory rate as follows:

(Dollars in thousands)	Year Ended December 31, 2007	2006	2005
Federal statutory rate	**$(35,751)**	$ 2,110	$ 12,176
Depletion	**(11,281)**	(15,006)	(15,184)
State income taxes, net of U.S. federal tax benefit	**(6,911)**	(2,183)	(10,180)
Minority interest	**(1,652)**	(3,909)	–
Changes in valuation allowance	**55,183**	26,864	81,213
Changes in tax reserves	**107**	172	224
Deemed liquidation of subsidiary	**–**	–	(68,397)
Other, net	**305**	302	148
Total	**$ –**	$ 8,350	$ –

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities consisted of the following:

(Dollars in thousands)	December 31, 2007	2006
Deferred tax assets:		
Postretirement benefit obligations	**$ 233,881**	$ 486,847
Tax credits and loss carryforwards	**20,346**	6,032
Accrued workers' compensation liabilities	**91,925**	92,610
Accrued reclamation and mine closing liabilities	**53,483**	54,855
Obligation to industry fund	**12,672**	10,251
Other	**20,387**	6,772
Total gross deferred tax assets	**432,694**	657,367
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	**162,092**	159,284
Total gross deferred tax liabilities	**162,092**	159,284
Valuation allowance	**(270,602)**	(498,083)
Net deferred tax liability	**$ –**	$ –
Deferred taxes consisted of the following:		
Current deferred income taxes	**$ –**	$ –
Noncurrent deferred income taxes	**–**	–
Net deferred tax liability	**$ –**	$ –

In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109" (FIN No. 48). This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN No. 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

Patriot adopted the provisions of FIN No. 48 on January 1, 2007, with no impact to retained earnings. At adoption and at December 31, 2007, the unrecognized tax benefits in our consolidated financial statements were immaterial, and if recognized, would not currently affect the Company's effective tax rate as any recognition would be offset by valuation allowances. The Company does not expect any significant increases or decreases to our unrecognized tax benefits within 12 months of this reporting date.

Due to the immaterial nature of its unrecognized tax benefits and the existence of net operating loss carryforwards, the Company has not currently accrued interest on any of its unrecognized tax benefits. The Company has considered the application of penalties on its unrecognized tax benefits and has determined, based on several factors, including the existence of its net operating loss carryforwards, that no accrual of penalties related to its unrecognized tax benefits is required. If the accrual of interest or penalties becomes appropriate, the Company will record an accrual as part of its income tax provision.

As the Company has not yet filed any income tax returns as a stand alone consolidated group, we have no income tax years currently subject to audit by any tax jurisdiction. Patriot and our subsidiaries are included in consolidated Peabody income tax returns prior to November 1, 2007 and Peabody retains all liability related to these returns.

The Company's deferred tax assets included net operating losses (NOL) carryforwards and alternative minimum tax (AMT) credits of $20.3 million and $6.0 million as of December 31, 2007 and 2006, respectively. The NOL's and AMT credits represent the amounts that are expected to be apportioned to the Company in accordance with the Internal Revenue Code and Treasury Regulations at the time of the Company's spin-off from Peabody on October 31, 2007, as well as the stand-alone taxable income from the Company's operations for the last two months of calendar year 2007. The NOL carryforwards begin to expire in 2019, and the AMT credits have no expiration date.

Overall, the Company's net deferred tax assets are offset by a valuation allowance of $270.6 million and $498.1 million as of December 31, 2007 and 2006, respectively. The valuation allowance decreased by $227.5 million for the year ended December 31, 2007 primarily as a result of Peabody agreeing to pay certain retiree healthcare obligations related to the business of Patriot. The Company 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, 2007 and 2006.

(11) LONG-TERM DEBT

Patriot's total indebtedness consisted of the following:

	December 31,	
(Dollars in thousands)	**2007**	2006
Promissory Notes	**$12,365**	$12,365
Notes Payable	**–**	8,357
Total	**$12,365**	$20,722

Promissory Notes

In conjunction with the exchange transaction involving the acquisition of Illinois Basin coal reserves in 2005 discussed in Note 4, the Company entered into Promissory Notes (the Notes). The Notes and related interest are payable in annual installments of $1.7 million beginning January 2008. The Notes mature in January 2017. At December 31, 2007, the short-term portion of the Notes was $0.9 million.

Notes Payable

Notes Payable represented long-term debt outstanding of KE Ventures, LLC. The Notes Payable were obligations with the partners of the joint venture. All outstanding debt owed by KE Ventures, LLC to its members was paid upon close of the acquisition of 100% interest by Patriot.

(12) CREDIT FACILITY

In connection with the spin-off, Patriot entered into a $500 million, four-year revolving credit facility, which includes a $50 million swingline sub-facility and a letter of credit sub-facility. The proceeds from this facility are available for use by Patriot for working capital requirements, capital expenditures and other corporate purposes. In connection with the spin-off on October 31, 2007, Patriot's credit facility was utilized to replace certain Peabody letters of credit and surety bonds that were in place as of the spin-off date with respect to Patriot's obligations. Patriot issued $253.5 million in letters of credit against the credit facility in connection with the spin-off, which remained outstanding at December 31, 2007. As of December 31, 2007, there was no outstanding debt balance on this credit facility and availability under the credit facility was $246.5 million.

The obligations under the credit facility are secured by a first lien on substantially all of Patriot's assets, including but not limited to certain of its mines and coal reserves and related fixtures and accounts receivable. The credit facility contains certain customary covenants, including financial covenants limiting the Company's total indebtedness (maximum leverage ratio of 2.75) and requiring minimum EBITDA coverage of interest expense (minimum interest coverage ratio of 4.0), as well as contains certain limitations on, among other things, additional debt, liens, investments, acquisitions and capital expenditures, future dividends and asset sales. The credit facility calls for quarterly reporting of compliance with financial covenants, beginning with the period ended March 31, 2008. The rolling four quarters compliance calculation contains a phase-in provision for 2008. The terms of the credit facility also contain certain customary events of default, which give the lender 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 the Company's other indebtedness exceeding a certain amount.

The Company paid a commitment fee of $4.7 million on commencement of the credit facility, which will be amortized utilizing a method which approximates the effective interest method over the remaining term of the agreement.

(13) ASSET RETIREMENT OBLIGATIONS

Reconciliations of Patriot's liability for asset retirement obligations were as follows:

	December 31,	
(Dollars in thousands)	**2007**	2006
Balance at beginning of year	**$139,703**	$134,447
Liabilities incurred	**1,427**	10,441
Liabilities settled or disposed	**(17,249)**	(22,414)
Accretion expense	**14,237**	15,917
Revisions to estimate	**4,961**	1,312
Liabilities conveyed to Peabody (upon spin-off)	**(8,715)**	–
Balance at end of year	**$134,364**	$139,703

As of December 31, 2007, asset retirement obligations of $134.4 million consisted of $102.7 million related to locations with active mining operations and $31.7 million related to locations that are closed or inactive. As of December 31, 2006, asset retirement obligations of $139.7 million consisted of $96.3 million related to locations with active mining operations and $43.4 million related to locations that are closed or inactive. The credit-adjusted, risk-free interest rates were 6.60% and 6.16% at January 1, 2007 and 2006, respectively.

For the years ended December 31, 2007 and 2006, the Company recorded a $1.3 million and $1.2 million, respectively, reduction in its asset retirement obligations and expense associated with the disposal of non-strategic properties and the assumption of the related reclamation liabilities by the purchaser.

As of December 31, 2007 and 2006, Patriot had $84.1 million and $85.5 million, respectively, in surety bonds outstanding to secure the Company's reclamation obligations or activities. In addition, Patriot had $61.9 million of letters of credit outstanding as of December 31, 2007 to secure reclamation and other surety obligations. No letters of credit were outstanding as of December 31, 2006 related to reclamation activities. As of December 31, 2007, Peabody had $19.9 million of self bonding outstanding that related to Patriot's reclamation obligations or activities. In 2008, these self bonds will be replaced with Patriot surety bonds. As of December 31, 2006, the amount of reclamation self bonding in certain states in which the Company qualified was $54.9 million.

(14) WORKERS' COMPENSATION OBLIGATIONS

Certain of Patriot's 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 the Company operates. These laws require Patriot's operations to pay benefits for occupational disease resulting from coal workers' pneumoconiosis (occupational disease). Provisions for occupational disease costs are based on determinations by independent actuaries or claims administrators.

Patriot provides income replacement and medical treatment for work related traumatic injury claims as required by applicable state law. Provisions for estimated claims incurred are recorded based on estimated loss rates applied to payroll and claim reserves determined by independent actuaries or claims administrators. Certain of the Company's operations are required to contribute to state workers' compensation funds for second injury and other costs incurred by the state fund based on a payroll-based assessment by the applicable state. Provisions are recorded based on the payroll-based assessment criteria.

The workers' compensation provision consists of the following components:

	Year Ended December 31,		
(Dollars in thousands)	**2007**	2006	2005
Service cost	**$ 2,971**	$ 2,807	$ 4,137
Interest cost	**9,124**	9,568	10,244
Net amortization of actuarial gains	**(1,607)**	(1,369)	(1,352)
Total occupational disease	**10,488**	11,006	13,029
Traumatic injury claims	**13,160**	10,984	17,505
State assessment taxes	**4,373**	10,388	16,315
Total provision	**$28,021**	$32,378	$46,849

The significant decline in traumatic workers' compensation costs was primarily driven by the impact of changes in workers' compensation law in West Virginia. Administrative fees have been reduced as a result of successfully self-administering, at a lower cost, claims that were previously administered by the state. In addition, the law changes have reduced the frequency and magnitude of claims.

The weighted-average assumptions used to determine the workers' compensation provision were as follows:

	Year Ended December 31,		
	2007	2006	2005
Discount rate	**6.00%**	5.90%	6.10%
Inflation rate	**3.50%**	3.50%	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,	
(Dollars in thousands)	**2007**	2006
Occupational disease costs	**$155,829**	$173,924
Traumatic injury claims	**60,679**	58,392
Total obligations	**216,508**	232,316
Less current portion (included in Accrued expenses)	**(23,778)**	(24,456)
Noncurrent obligations (included in Workers' compensation obligations)	**$192,730**	$207,860

As a result of the adoption of SFAS No. 158 on December 31, 2006, the accrued workers' compensation liability recorded on the consolidated balance sheet at December 31, 2007 and 2006 reflects the accumulated benefit obligation less any portion that is currently funded. The accumulated actuarial gain that had not yet been reflected in net periodic postretirement benefit costs was included in "Accumulated other comprehensive gain" as follows:

(Dollars in thousands)	Accumulated Actuarial Gain
December 31, 2006 (Initial adoption of SFAS No. 158)	$ 9,006
Net Amortization	825
Change to actuarial gain arising during period	11,953
December 31, 2007	$21,784

As of December 31, 2007 and 2006, Patriot had $183.8 million and $146.2 million, respectively, in surety bonds and letters of credit outstanding to secure workers' compensation obligations.

The reconciliation of changes in the occupational disease liability benefit obligation was as follows:

	December 31,	
(Dollars in thousands)	**2007**	2006
Change in benefit obligation:		
Beginning of year obligation	**$ 173,924**	$ 165,954
Service cost	**2,971**	2,807
Interest cost	**9,124**	9,568
Net change in actuarial loss (gain)	**(21,653)**	4,311
Benefit and administrative payments	**(8,537)**	(8,716)
Net obligation at end of year	**155,829**	173,924
Change in plan assets:		
Fair value of plan assets at beginning of period	**–**	–
Employer contributions	**8,537**	8,716
Benefits paid	**(8,537)**	(8,716)
Fair value of plan assets at end of period	**–**	–
Funded status at end of period	**$(155,829)**	$(173,924)

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 6.4% and 6.0% at December 31, 2007 and 2006, respectively. Traumatic injury workers' compensation obligations are estimated from both case reserves and actuarial determinations of historical trends, discounted at 5.8% and 5.9% as of December 31, 2007 and 2006, respectively.

Federal Black Lung Excise Tax Refund Claims

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. The Company had a receivable for excise tax refunds of $19.4 million as of December 31, 2006 related to a court ruling that excise taxes paid in prior years on export coal was refundable to the Company, which was included in "Investments and other assets" in the consolidated balance sheet. In the fourth quarter of 2007, Peabody monetized the receivable to Patriot as part of the settlement at the time of spin-off.

(15) PENSION AND SAVINGS PLANS

Multi-Employer Pension Plans

Certain subsidiaries participate in multi-employer pension plans (the 1950 Plan and the 1974 Plan), which provide defined benefits to substantially all hourly coal production workers represented by the UMWA. Benefits under the UMWA plans are computed based on service with the subsidiaries or other signatory employers. The 1950 Benefit Plan and the 1974 Benefit Plan qualify under SFAS No. 106 as multi-employer benefit plans, which allows Patriot to recognize expense as contributions are made. The expense related to these funds was $6.9 million for the year ended December 31, 2007. There were no contributions to the multi-employer pension plans during the years ended December 31, 2006 or 2005. In December 2006, the 2007 National Bituminous Coal Wage Agreement 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 labor contract, the per-hour funding rate increased to $2.00 in 2007 and increases each year thereafter until reaching $5.50 in 2011. The Company expects to pay approximately $11.2 million related to these funds in 2008.

Defined Contribution Plans

Patriot sponsors employee retirement accounts under a 401(k) plan for eligible salaried U.S. employees of the Company (the 401(k) Plan). Patriot matches voluntary contributions to the 401(k) Plan up to specified levels. Peabody also sponsored a similar 401(k) plan in which eligible Patriot employees could participate prior to the spin-off. The Company recognized expense for these plans of $3.4 million, $5.6 million and $2.5 million for the years ended December 31, 2007, 2006 and 2005, respectively. A performance contribution feature under both Patriot's plan and Peabody's plan allows for additional contributions based upon meeting specified performance targets. The performance contributions made to Patriot employees were $0.6 million, $2.7 million and $2.7 million for the years ended December 31, 2007, 2006 and 2005, respectively.

(16) POSTRETIREMENT HEALTHCARE BENEFITS

The Company currently provides healthcare and life insurance benefits to qualifying salaried and hourly retirees and their dependents from defined benefit plans established by Peabody and continued by Patriot after the spin-off. Plan coverage for health and life insurance benefits is provided to certain hourly retirees in accordance with the applicable labor agreement.

Net periodic postretirement benefit costs included the following components:

	Year Ended December 31,		
(Dollars in thousands)	**2007**	2006	2005
Service cost for benefits earned	**$ 981**	$ 599	$ 538
Interest cost on accumulated postretirement benefit obligation	**65,964**	62,385	62,615
Amortization of prior service cost	**(1,306)**	(2,545)	(2,685)
Amortization of actuarial losses	**34,260**	26,866	22,896
Net periodic postretirement benefit costs	**$99,899**	$87,305	$83,364

The following table sets forth the plans' combined funded status reconciled with the amounts shown in the consolidated balance sheets:

(Dollars in thousands)	December 31, 2007	2006
Change in benefit obligation:		
Accumulated postretirement benefit obligation at beginning of period	**$1,214,032**	$ 1,088,507
Service cost	**981**	599
Interest cost	**65,964**	62,385
Participant contributions	**840**	956
Plan amendments	**11,687**	10,166
Retention by Peabody of certain liabilities	**(615,837)**	–
Benefits paid	**(74,948)**	(81,984)
Change in actuarial (gain) or loss	**(47,971)**	133,403
Accumulated postretirement benefit obligation at end of period	**554,748**	1,214,032
Change in plan assets:		
Fair value of plan assets at beginning of period	**–**	–
Employer contributions	**74,108**	81,028
Participant contributions	**840**	956
Benefits paid and administrative fees (net of Medicare Part D reimbursements)	**(74,948)**	(81,984)
Fair value of plan assets at end of period	**–**	–
Accrued postretirement benefit obligation	**(554,748)**	(1,214,032)
Less current portion (included in Accrued expenses)	**27,433**	75,015
Noncurrent obligation (included in Accrued postretirement benefit costs)	**$ (527,315)**	$(1,139,017)

Peabody assumed certain of the Company's retiree healthcare liabilities in the aggregate amount of $603.4 million as of December 31, 2007 which are not included 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 Act for which the Company is secondarily liable, and obligations for certain active, vested employees of the Company.

The Company amortizes actuarial gains and losses using a 0% corridor with an amortization period that covers the average remaining service period of active employees (6.47 years and 8.47 years at January 1, 2007 and 2006, respectively). The estimated net actuarial loss and prior service cost that will be amortized from accumulated other comprehensive income (loss) into net periodic postretirement benefit costs during the year ending December 31, 2008 are amortization loss of $13.0 million and amortization gain of $0.7 million, respectively.

As a result of the adoption of SFAS No. 158 on December 31, 2006, the accrued postretirement benefit liability recorded on the consolidated balance sheet at December 31, 2007 and 2006 reflects the accumulated postretirement benefit obligation less any portion that is currently funded. The accumulated actuarial loss and prior service costs that had not yet been reflected in net periodic postretirement benefit costs were included in "Accumulated other comprehensive loss" as follows:

(Dollars in thousands)	Accumulated Actuarial Loss	Prior Service Cost
December 31, 2006 (Initial adoption of SFAS No. 158)	$(327,587)	$ (3,507)
Amortization	34,260	(1,306)
Retention by Peabody of certain liabilities	165,334	–
Change to actuarial loss arising during period	44,024	(7,656)
December 31, 2007	$ (83,969)	$(12,469)

The weighted-average assumptions used to determine the benefit obligations as of the end of each year were as follows:

	Year Ended December 31,	
	2007	2006
Discount rate	**6.80%**	6.00%
Rate of compensation increase	**3.50%**	3.50%
Measurement date	**Dec. 31, 2007**	Dec. 31, 2006

The weighted-average assumptions used to determine net periodic benefit cost were as follows:

	Year Ended December 31,		
	2007	2006	2005
Discount rate	**6.00%**	5.90%	6.10%
Rate of compensation increase	**3.50%**	3.50%	3.50%
Measurement date	**Dec. 31, 2006**	Dec. 31, 2005	Dec. 31, 2004

The following presents information about the assumed healthcare cost trend rate:

	Year Ended December 31,	
	2007	2006
Healthcare cost trend rate assumed for next year	**7.50%**	7.50%
Rate to which the cost trend is assumed to decline (the ultimate trend rate)	**4.75%**	4.75%
Year that the rate reaches that ultimate trend rate	**2013**	2012

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:

(Dollars in thousands)	+1.0%	-1.0%
Effect on total service and interest cost components for 2007	$ 8,163	$ (7,494)
Effect on year-end 2007 postretirement benefit obligation	66,450	(60,983)

Plan Assets

The Company's postretirement benefit plans are unfunded.

Estimated Future Benefit Payments

The following benefit payments (net of retiree contributions), which reflect expected future service, as appropriate, are expected to be paid by Patriot:

(Dollars in thousands)	Postretirement Benefits
2008	$ 27,433
2009	30,685
2010	34,275
2011	37,950
2012	43,721
Years 2013-2017	245,715

Medicare and Other Plan Changes

Effective January 1, 2007, the Company entered into a new labor relations agreement for our UMWA represented employees in Appalachia. The provisions of the new agreement mirror the 2007 National Bituminous Coal Wage Agreement and resulted in an actuarially determined projected increase in healthcare costs of $11.7 million primarily in relation to the elimination of certain deductibles.

Effective November 15, 2006, the medical premium reimbursement plan was changed for salaried employees who retired after December 31, 2004. The amendment resulted in a $9.5 million increase to the retiree healthcare liability. The Company began recognizing the effect of the plan amendment over 10.25 years beginning November 15, 2006. The effect was $0.9 million and $0.1 million for the years ended December 31, 2007 and 2006, respectively.

Multi-Employer Benefit Plans

Retirees formerly employed by certain subsidiaries and their predecessors, who were members of the UMWA, last worked before January 1, 1976 and were receiving health benefits on July 20, 1992, receive health benefits provided by the Combined Fund, a fund created by the Coal Act. 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.

The Company has recorded an actuarially determined liability representing the amounts anticipated to be due to the Combined Fund. The noncurrent portion related to this obligation as reflected in "Obligation to industry fund" in the consolidated balance sheets as of December 31, 2007 and 2006, was $31.1 million and $25.6 million, respectively. The current portion related to this obligation reflected in "Accrued expenses" in the consolidated balance sheets was $5.2 million as of December 31, 2007 and 2006.

Expense of $2.9 million was recognized related to the Combined Fund for the year ended December 31, 2007, and consisted of interest discount of $2.3 million and amortization of actuarial loss of $0.6 million. Expense of $2.5 million was recognized related to the Combined Fund for the year ended December 31, 2006, and consisted of interest discount of $2.4 million and amortization of actuarial loss of $0.1 million. Expense of $0.9 million was recognized related to the Combined Fund for the year ended December 31, 2005, and consisted of interest discount of $1.9 million and amortization of actuarial gain of $1.0 million. The Company made payments of $5.5 million, $8.3 million and $4.0 million to the Combined Fund for the years ended December 31, 2007, 2006 and 2005, respectively.

As a result of the adoption of SFAS No. 158 on December 31, 2006, the obligation to industry fund recorded on the consolidated balance sheets at December 31, 2007 and 2006 reflects the obligation less any portion that is currently funded. The accumulated actuarial gain that had not yet been reflected in expense of $0.6 million was included in "Accumulated other comprehensive loss".

The Coal Act also established the 1992 Benefit Plan, which provides medical and death benefits to persons who are not eligible for the Combined Fund, who retired prior to October 1, 1994 and whose employer and any affiliates are no longer in business. 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. The 1992 Benefit Plan and the 1993 Benefit Plan qualify under SFAS No. 106 as multi-employer benefit plans, which allows the Company to recognize expense as contributions are made. The expense related to these funds was $15.9 million, $6.9 million and $4.8 million for the years ended December 31, 2007, 2006 and 2005, respectively. The Company expects to pay $10.9 million in 2008 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, 1992 Benefit Plan and the 1993 Benefit Plan. Among other things, the 2006 Act guarantees full funding of all beneficiaries in the Combined Fund, provides funds on a phased-in basis for the 1992 Benefit Plan, and authorizes the trustees of the 1993 Benefit Plan to determine the contribution rates through 2010 for pre-2007 beneficiaries. 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 Benefit Fund), and (ii) Congress does not allocate additional funds to cover the shortfall, contributing employers and affiliates, including some of the Company's entities, would be responsible for the additional costs.

Pursuant to the provisions of the Coal Act and the 1992 Benefit Plan, the Company was required to provide security in an amount equal to three times the annual cost of providing healthcare benefits for all individuals receiving benefits from the 1992 Benefit Plan who are attributable to the Company, plus all individuals receiving benefits from an individual employer plan maintained by the Company who are entitled to receive such benefits. Beginning in 2007, the amount of security the Company was required to provide for the 1992 Benefit Plan was reduced to one times the annual cost to provide the above mentioned healthcare benefits.

(17) RELATED PARTY TRANSACTIONS

Pre-spin-off Relationship with Peabody

Prior to the spin-off, Patriot routinely entered into transactions with Peabody and its affiliates. The terms of these transactions were outlined in agreements executed by Peabody and its affiliates. The amounts included in "Net receivable from former affiliates" reflected the effects of the related party transactions, which had not been settled by cash payments, as well as temporary cash advances to and from affiliated companies. The following agreements/transactions with Peabody impacted our results of operations, financial condition and cash flows prior to the spin-off on October 31, 2007:

The Company sold 21.6 million tons of coal resulting in revenues of $1.03 billion for the year ended December 31, 2007 (includes two months of post-spin activity); 24.3 million tons of coal resulting in revenues of $1.13 billion for the year ended December 31, 2006; and 21.5 million tons of coal resulting in revenues of $891.2 million for the year ended December 31, 2005 to a marketing affiliate of Peabody, who negotiated and maintained coal sales contracts. These sales were made at prices paid by outside third-party customers. Receivables related to sales transactions with Peabody were included in "Net receivable from former affiliates" on the consolidated balance sheet prior to the spin-off.

Selling and administrative expenses include $37.3 million, $47.9 million, and $57.1 million for the years ended December 31, 2007, 2006 and 2005, respectively, for services provided by Peabody and its affiliates prior to our spin-off. These selling and administrative expenses represented an allocation of Peabody general corporate expenses to all of its mining operations, both foreign and domestic, based on principal activity, headcount, tons sold and revenues as applicable to the specific expense being allocated. The allocated expenses generally reflected service costs for marketing and sales, legal, finance and treasury, public relations, human resources, environmental engineering and internal audit. Different allocation bases or methods could have been used and could have resulted in significantly different operating results. The services fees incurred by the Company are not necessarily indicative of the selling and administrative expenses that would have been incurred if the Company had been an independent entity.

The Company recognized interest expense of $4.1 million, $5.0 million and $5.0 million for the years ended December 31, 2007, 2006 and 2005, respectively, related to a $62.0 million demand note payable to Peabody, which reflected interest at 8.0%. In connection with the spin-off, this note was forgiven by Peabody.

In 2007 and 2006, the Company received contributions from Peabody of $43.6 million and $44.5 million, respectively, primarily for the funding of acquisitions. In 2005, one of the Company's entities received a $766.7 million non-cash dividend from a Peabody subsidiary that was not included in the spin-off.

In June 2007, Peabody exchanged numerous oil and gas rights and assets owned throughout its operations, including some owned by Patriot, for coal reserves in West Virginia and Kentucky. Peabody did not allocate gain recognized from this transaction to Patriot but contributed to Patriot approximately 28 million tons of West Virginia coal reserves. These reserves are located in the Pittsburgh coal seam adjacent to Patriot's Federal No. 2 mining operations and were valued at $45.2 million.

Spin-off and Subsequent Periods

On October 31, 2007, at the spin-off of Patriot from Peabody, the Company received a net contribution from Peabody of $781.3 million, which reflected the following:

- retention by Peabody of certain retiree healthcare liabilities of $615.8 million;
- the forgiveness of the outstanding intercompany payables to Peabody on October 31, 2007 of $81.5 million;
- the retention by Patriot of trade accounts receivable at October 31, 2007, previously recorded through intercompany receivables, of $68.6 million;
- a $30.0 million cash contribution;
- the retention by Peabody of assets and asset retirement obligations related to certain Midwest mining operations of a net $8.1 million;
- less the transfer of intangible assets of $22.7 million to Peabody from Patriot related to purchased contract rights for a supply contract retained by Peabody.

As part of the separation agreement with Peabody, Peabody funded a portion of Patriot's credit facility origination fees and various legal fees related to the spin-off totaling $7.1 million. In the fourth quarter of 2007, Peabody monetized a receivable related to excise tax refunds of $19.4 million as part of the settlement at the time of spin-off.

After the spin-off, the Company continues to supply coal to Peabody to satisfy third-party contracts. With the exception of one contract, all sales were made at prices paid by outside third-party customers. After the spin-off, all sales transactions with Peabody are reflected in "Accounts receivable and other".

Patriot entered into certain agreements with Peabody to provide certain transition services following the spin-off. Peabody continues to provide support to Patriot, including services related to information technology, certain accounting services, engineering, geology, land management and environmental services. The Company paid $0.9 million to Peabody in November and December 2007 for transition services.

(18) GUARANTEES

In the normal course of business, Patriot is a 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. These financial instruments are valued based on the amount of exposure under the instrument and the likelihood of required performance. In Patriot's past experience, virtually no claims have been made against these financial instruments. Management does not expect any material losses to result from these guarantees or off-balance-sheet instruments.

Letters of Credit and Bonding

The Company's letters of credit and surety bonds in support of the Company's reclamation, lease, workers' compensation and other obligations were as follows as of December 31, 2007:

(Dollars in thousands)	Reclamation Obligations	Lease Obligations	Workers' Compensation Obligations	Other[1]	Total
Surety Bonds	$ 84,109	$ –	$ 12,961	$12,030	$109,100
Letters of Credit	61,883	16,949	170,844	3,871	253,547
	$145,992	$16,949	$183,805	$15,901	$362,647

(1) Other includes letters of credit and surety bonds related to collateral for surety companies and bank guarantees, road maintenance and performance guarantees.

Additionally, as of December 31, 2007, Peabody continued to guarantee certain bonds (self bonding) related to Patriot liabilities that have not yet been replaced by Patriot surety bonds. As of December 31, 2007, Peabody self bonding related to Patriot liabilities aggregated $22.8 million, of which $19.9 million was for post-mining reclamation and $2.9 million was for other obligations. Patriot expects to replace these Peabody self bonds in 2008.

Other Guarantees

In connection with the exchange transaction involving the acquisition of Illinois Basin coal reserves discussed in Note 4, the Company guaranteed bonding for a partnership in which it formerly held an interest. The aggregate amount guaranteed by the Company was $2.8 million, and the fair value of the guarantee recognized as a liability was $0.4 million as of December 31, 2007. The Company's obligation under the guarantee extends to September 2015.

Patriot is the lessee 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 Patriot's operations. Patriot expects that losses with respect to leased property would be covered by insurance (subject to deductibles). Patriot and certain of its subsidiaries have guaranteed other subsidiaries' performance under their various lease obligations. Aside from indemnification of the lessor for the value of the property leased, Patriot's maximum potential obligations under their leases are equal to the respective future minimum lease payments, assuming no amounts could be recovered from third parties.

(19) COMMITMENTS AND CONTINGENCIES

Commitments

As of December 31, 2007, purchase commitments for capital expenditures were $6.3 million. Commitments for expenditures to be made under coal leases are reflected in Note 8.

Other

At times Patriot becomes a party to other claims, lawsuits, arbitration proceedings and administrative procedures in the ordinary course of business. Management believes that the ultimate resolution of such other pending or threatened proceedings is not reasonably likely to have a material effect on Patriot's consolidated financial position, results of operation or liquidity.

(20) SEGMENT INFORMATION

Patriot reports its operations through two reportable operating segments, Appalachia and Illinois Basin. The Appalachia and Illinois Basin segments consist of Patriot's mining operations in West Virginia and Kentucky, respectively. The principal business of the Appalachia segment is the mining, preparation and sale of thermal coal, sold primarily to electric utilities and metallurgical coal, sold to steel and coke producers. The principal business of the Illinois Basin segment is the mining, preparation and sale of thermal coal, sold primarily to electric utilities. For the year ended December 31, 2007, 77% of Patriot's sales were to electricity generators and 23% to steel and coke producers. For the years ended December 31, 2007 and 2006, Patriot's revenues attributable to foreign countries, based on where the product was shipped, were $120.8 million and $142.0 million, respectively. Patriot's operations are characterized by primarily underground mining methods, coal with high and medium Btu content and relatively short shipping distances from the mine to the customer. "Corporate and Other" includes selling and administrative expenses, net gains on asset disposals and costs associated with past mining obligations.

Patriot's chief operating decision makers use Adjusted EBITDA as the primary measure of segment profit and loss. Consolidated Adjusted EBITDA is defined as net income (loss) before deducting net interest expense, income taxes, minority interests, asset retirement obligation expense and depreciation, depletion and amortization. Segment Adjusted EBITDA also excludes past mining obligation expense, including retiree healthcare and workers' compensation expenses related to non-operating locations. Total assets are not separately identified as part of the financial information provided to the chief operating decision makers and therefore, not disclosed herein.

Operating segment results for the year ended December 31, 2007 were as follows:

(Dollars in thousands)	**Appalachia**	**Illinois Basin**	**Corporate and Other[1]**	**Consolidated**
Revenues	**$821,116**	**$252,246**	**$ –**	**$1,073,362**
Adjusted EBITDA	**89,850**	**11,862**	**(101,281)**	**431**
Additions to property, plant, equipment and mine development	**48,955**	**6,639**	**–**	**55,594**
Income from equity affiliates	**63**	**–**	**–**	**63**

Operating segment results for the year ended December 31, 2006 were as follows:

(Dollars in thousands)	Appalachia	Illinois Basin	Corporate and Other[1]	Consolidated
Revenues	$890,198	$257,721	$ –	$1,147,919
Adjusted EBITDA	204,827	(1,900)	(76,158)	126,769
Additions to property, plant, equipment and mine development	72,236	7,988	–	80,224
Income from equity affiliates	60	–	–	60

Operating segment results for the year ended December 31, 2005 were as follows:

(Dollars in thousands)	Appalachia	Illinois Basin	Corporate and Other[1]	Consolidated
Revenues	$742,753	$235,524	$ –	$978,277
Adjusted EBITDA	227,100	1,645	(104,134)	124,611
Additions to property, plant, equipment and mine development	67,775	7,376	–	75,151
Income from equity affiliates	15,578	–	–	15,578

(1) Corporate and Other results include the gains on disposal of assets discussed in Note 4.

A reconciliation of Adjusted EBITDA to net income (loss) follows:

	Year Ended December 31,		
(Dollars in thousands)	**2007**	2006	2005
Total Adjusted EBITDA	**$ 431**	$126,769	$124,611
Depreciation, depletion and amortization	**(85,640)**	(86,458)	(65,972)
Asset retirement obligation expense	**(20,144)**	(24,282)	(15,572)
Interest expense	**(8,337)**	(11,419)	(9,833)
Interest income	**11,543**	1,417	1,553
Income tax provision	**–**	(8,350)	–
Minority interests	**(4,721)**	(11,169)	–
Net income (loss)	**$(106,868)**	$ (13,492)	$ 34,787

(21) STOCKHOLDERS' EQUITY

Common Stock

On October 31, 2007, the spin-off of Patriot from Peabody was completed and holders of Peabody common stock received a dividend of one share of Patriot common stock for each ten shares of Peabody common stock that they owned, resulting in total outstanding shares of 26,570,940 as of October 31, 2007. The Company has 100 million authorized shares of $0.01 par value common stock. Each share of common stock will be 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.

The following table summarizes common share activity from spin-off date to December 31, 2007:

	Shares Outstanding
October 31, 2007 (shares outstanding at spin-off)	26,570,940
Stock grants to employees	187,828
December 31, 2007	26,758,768

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 one million shares of Series A Junior Participating Preferred Stock. Patriot's 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. Patriot believes that the ability of the Board to issue one or more series of preferred stock will provide the Company 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, 2007.

Preferred Share Purchase Rights Plan and Series A Junior Participating Preferred Stock

The Board of Directors of Patriot 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, the Company 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, the Company 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 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 the Company 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 the Company 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 Patriot's equity securities or seeking to obtain control of the Company. 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, 2007.

(22) STOCK-BASED COMPENSATION

The Company has one equity incentive plan for employees and 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 the Company's Board of Directors are eligible for deferred stock unit grants at the date of their election and annually. This plan made 2.6 million shares of the Company's common stock available for grant, with 1.2 million shares available for grant as of December 31, 2007. Additionally, the Company established an employee stock purchase plan that provided for the purchase of up to 1.0 million shares of the Company's common stock.

Restricted Stock

In connection with the spin-off, the Company approved a form of Restricted Stock Agreement for grants to employees and service providers of Patriot and its subsidiaries and affiliates. On November 1, 2007, 187,828 shares were granted at $37.50 per share. The agreement provides that the restricted stock will fully vest on the third anniversary of the date the restricted stock was granted to the employee or service provider. However, 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 such term is defined in the Patriot Coal Corporation 2007 Long-Term Equity Incentive Plan (the Equity Plan)).

Extended Long-Term Incentive Restricted Stock Units

In connection with the spin-off, the Company approved a form of Extended Long-Term Incentive Restricted Stock Units Agreement for grants to employees and service providers of Patriot. The agreement grants restricted stock units that vest over time as well as restricted stock units that vest based upon Patriot's financial performance. On November 1, 2007, restricted stock units totaling 590,131 were granted at $37.50 per unit. The restricted stock units that vest over time will be 50% vested on the fifth anniversary of the date of grant, 75% vested on the sixth such anniversary and 100% vested on the seventh such anniversary. However, 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 such term is defined in the Equity Plan). The restricted stock units that vest according to Patriot's financial performance vest according to a formula described in the form of Extended Long-Term Incentive Restricted Stock Units Agreement, the results of which are calculated on the December 31 following the fifth, sixth and seventh anniversaries of the grant date. The Company 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 the estimate is changed.

Extended Long-Term Incentive Non-Qualified Stock Option

In connection with the spin-off, the Company approved a form of Extended Long-Term Incentive Non-Qualified Stock Option Agreement for grants to employees and service providers of Patriot. On November 1, 2007, options totaling 554,673 were granted at an exercise price of $37.50. The agreement provides that the option will become exercisable in three installments. The option shall be 50% exercisable on the fifth anniversary of the date of grant, 75% exercisable on the sixth such anniversary and 100% exercisable on the seventh such anniversary. However, 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 such term is 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 form of Extended Long-Term Incentive Non-Qualified Stock Option Agreement. Each award will be forfeited if the grantee terminates employment with or stops providing services to Patriot for any reason other than death or disability prior to the time the award becomes vested.

The Company recognizes share-based compensation expense in accordance with SFAS No. 123(R), "Share-Based Payment". The Company 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. 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. The Company utilized U.S. Treasury yields as of the grant date for its risk-free interest rate assumption, matching the treasury yield terms to the expected life of the option or vesting period of the performance unit awards. The Company utilized a seven-year peer historical lookback to develop its expected volatility. Expected option life assumptions were developed by taking the weighted average time to vest plus the weighted average holding period after vesting.

	December 31, 2007
Weighted-average fair value	$15.34
Risk-free interest rate	4.22%
Expected option life	6.69 years
Expected volatility	30.64%
Dividend yield	0%

On November 1, 2007, stock options representing 554,673 shares were granted with an exercise price of $37.50. No shares were exercised, forfeited or expired. The weighted average remaining contractual term in years is 10 years.

Share-based compensation expense of $1.3 million was recorded in "Selling and administrative expenses" in the consolidated statements of operations at December 31, 2007. Share-based compensation expense included $0.3 million related to awards from restricted stock and stock options granted by Peabody to Patriot employees prior to spin-off. As of December 31, 2007, the total unrecognized compensation cost related to nonvested awards granted after spin-off was $8.3 million, net of taxes, which is expected to be recognized over 7 years. As of December 31, 2007, the total unrecognized compensation cost related to nonvested awards granted by Peabody prior to spin-off was $3.2 million, net of taxes, which is expected to be recognized through 2011.

Deferred Stock Units

In connection with the spin-off, the Company approved a form of Deferred Stock Units Agreement for grants to non-employee directors of Patriot. On November 1, 2007, 18,670 units were granted at $37.50. The agreement provides that the deferred stock units will fully vest on the first anniversary of the date of grant, but only 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. However, 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.

Employee Stock Purchase Plan

Based on the Company's 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 limit of $25,000 per person per year. Effective January 1, 2008, employees are able to purchase Company common stock at a 15% discount to the lower of the fair market value of the Company's 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 the Company's 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. The Company recognized no expense for the year ended December 31, 2007 related to its employee stock purchase plan.

(23) SUMMARY QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

A summary of the unaudited quarterly results of operations for the years ended December 31, 2007 and 2006, is presented below. Patriot common stock is listed on the New York Stock Exchange under the symbol "PCX."

	Year Ended December 31, 2007			
(Dollars in thousands, except per share and stock price data)	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
Revenues	**$269,663**	**$256,221**	**$293,301**	**$254,177**
Operating profit	**(10,698)**	**(4,392)**	**(39,823)**	**(50,440)**
Net loss	**(11,951)**	**(5,814)**	**(39,451)**	**(49,652)**
Basic and diluted loss attributable to common stockholders per share	**n/a**	**n/a**	**n/a**	**$ (2.17)**
Weighted average shares used in calculating basic earnings per share	**n/a**	**n/a**	**n/a**	**26,570,940**
Stock price – high and low prices	**n/a**	**n/a**	**n/a**	**$43.00-$27.16**

	Year Ended December 31, 2006			
(Dollars in thousands)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	$289,107	$312,495	$285,038	$261,279
Operating profit	21,530	2,648	9,290	(17,439)
Net income (loss)	13,921	(1,774)	(2,954)	(22,685)

April 7, 2008

Dear Stockholder:

You are cordially invited to attend the 2008 Annual Meeting of Stockholders of Patriot Coal Corporation (the "Company"), which will be held on Monday, May 12, 2008, at 10:00 A.M., Central Time, at the Donald Danforth Plant Science Center at 975 North Warson Road, Saint Louis, Missouri 63132.

During this meeting, stockholders will vote on the following items:

1. Election of two Class I Directors for three-year terms;

2. Ratification of the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2008; and

3. To transact such other business, if any, as lawfully may be brought before the meeting.

The accompanying Notice of Annual Meeting of Stockholders and Proxy Statement contain complete details on these items and other matters. We also will be reporting on the Company's operations and responding to stockholder questions. If you have questions that you would like to raise at the meeting, we encourage you to submit written questions in advance (by mail or e-mail) to the Corporate Secretary. This will help us respond to your questions during the meeting. If you would like to e-mail your questions, please send them to stockholders.questions@patriotcoal.com.

Your participation in the Annual Meeting is important, regardless of the number of shares you hold. To ensure your representation, we encourage you to vote over the telephone or internet or to complete and return the enclosed proxy card as soon as possible. If you attend the Annual Meeting, you may then revoke your proxy and vote in person if you so desire.

Thank you for your continued support of Patriot Coal. We look forward to seeing you on May 12.

Very truly yours,

Richard M. Whiting

Richard M. Whiting
President & Chief Executive Officer

PATRIOT COAL CORPORATION

12312 Olive Boulevard
Saint Louis, Missouri 63141

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

Patriot Coal Corporation (the "Company") will hold its Annual Meeting of Stockholders at the Donald Danforth Plant Science Center at 975 North Warson Road, Saint Louis, Missouri 63132 on Monday, May 12, 2008, at 10:00 A.M., Central Time, to:

- Elect two Class I Directors for three-year terms;
- Ratify the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2008; and
- To transact such other business, if any, as lawfully may be brought before the meeting.

The Board of Directors has fixed March 20, 2008 as the record date for determining stockholders who will be entitled to receive notice of and vote at the Annual Meeting or any adjournment. Each share of Common Stock is entitled to one vote. As of the record date, there were 26,760,377 shares of Common Stock outstanding.

If you own shares of the Company's Common Stock as of March 20, 2008, you can vote those shares by completing and mailing the enclosed proxy card or by attending the Annual Meeting and voting in person. Stockholders of record also may submit their proxies electronically or by telephone as follows:

- By visiting the website at www.voteproxy.com and following the voting instructions provided; or
- By calling 1-800-PROXIES on a touch-tone telephone and following the recorded instructions.

An admittance card or other proof of ownership is required to attend the Annual Meeting. Please retain the top portion of your proxy card for this purpose. Also, please indicate your intention to attend the Annual Meeting by checking the appropriate box on the proxy card, or, if voting by the Internet or by telephone, when prompted. If your shares are held by a bank or broker, you will need to ask them for an admission card in the form of a confirmation of beneficial ownership. If you do not receive a confirmation of beneficial ownership or other admittance card from your bank or broker, you must bring proof of share ownership (such as a copy of your brokerage statement) to the Annual Meeting.

Your vote is important. Whether or not you plan to attend the Annual Meeting, please cast your vote by telephone or the Internet, or complete, date and sign the enclosed proxy card and return it in the envelope provided. If you attend the meeting, you may withdraw your proxy and vote in person, if you so choose.

Joseph W. Bean
Senior Vice President, General Counsel
& Corporate Secretary

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PATRIOT COAL CORPORATION
PROXY STATEMENT
FOR THE
2008 ANNUAL MEETING OF STOCKHOLDERS

QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING AND VOTING

Q: Why did I receive this Proxy Statement?

A: The Board of Directors is soliciting your proxy to vote at the 2008 Annual Meeting of Stockholders because you are a stockholder of Patriot Coal Corporation as of March 20, 2008, the record date. As of the record date, there were 26,760,377 shares of Common Stock outstanding. Each share of Common Stock is entitled to one vote.

This Proxy Statement summarizes the information you need to know to vote at the Annual Meeting. This Proxy Statement and proxy card were first mailed to stockholders on or about April 8, 2008.

Q: What am I being asked to vote on?

A: You are being asked to vote on the following items:

- Election of Michael M. Scharf and J. Joe Adorjan as Class I Directors;
- Ratification of the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2008; and
- Any other matter properly introduced at the meeting.

Q: What are the voting recommendations of the Board of Directors?

A: The Board recommends the following votes:

- FOR each of the director nominees (Item 1); and
- FOR ratification of the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2008 (Item 2).

Q: Will any other matters be voted on?

A: We are not aware of any other matters that will be brought before the stockholders for a vote at the Annual Meeting. If any other matter is properly brought before the meeting, your proxy will authorize each of Richard M. Whiting, Mark N. Schroeder and Joseph W. Bean to vote on such matters in their discretion.

Q: How do I vote?

A: If you are a stockholder of record or hold stock through the Patriot Coal Corporation 401(k) Retirement Plan, you may vote using any of the following methods:

- Via the internet, by visiting the website www.voteproxy.com and following the instructions for Internet voting on your proxy card;
- From the United States, Canada or Puerto Rico, by dialing 1-800-PROXIES and following the instructions for telephone voting on your proxy card;
- By completing and mailing your proxy/voting instruction card; or
- By casting your vote in person at the Annual Meeting.

If you vote over the Internet, you may incur costs such as telephone and Internet access charges for which you will be responsible. The telephone and Internet voting facilities for the stockholders of record of all shares, other than those held in the Patriot Coal Corporation 401(k) Retirement Plan, close at 10:59 P.M. Central Time on May 11, 2008. The Internet and telephone voting procedures are designed to authenticate stockholders by use of a control number and to allow you to confirm your instructions have been properly recorded.

If you hold shares of the Company's common stock in the Patriot Coal Corporation 401(k) Retirement Plan, you will receive a single proxy/voting instruction card with respect to all shares registered in your name, whether inside or outside of the plan. If your accounts inside and outside of the plan are not registered in the same name, you will receive a separate proxy/voting instruction card with respect to the shares credited in your plan account. Voting instructions regarding plan shares must be received by 3:00 P.M. Central Time on May 7, 2008, and all telephone and Internet voting facilities with respect to plan shares will close at that time.

Shares of common stock in the Patriot Coal Corporation 401(k) Retirement Plan will be voted by Vanguard Fiduciary Trust Company ("Vanguard"), as trustee of the plan. Plan participants should indicate their voting instructions to Vanguard for each action to be taken under proxy by completing and returning the proxy/voting instruction card, by using the toll-free telephone number or by indicating their instructions over the Internet. All voting instructions from plan participants will be kept confidential. If a plan participant fails to sign or to timely return the proxy/voting instruction card or otherwise timely indicate his or her instructions by telephone or over the Internet, the shares allocated to such participant, together with unallocated shares, will be voted in the same proportion as plan shares for which the trustee receives voting instructions.

If you return your signed proxy card or vote by Internet or telephone, your shares will be voted as you indicate. If you do not indicate how your shares are to be voted on a matter, the shares represented by your properly completed proxy/voting instruction card will be voted "For" the nominees for director and "For" ratification of the appointment of Ernst & Young LLP.

If your shares are held in a brokerage account in your broker's name (also known as "street name"), you should follow the instructions for voting provided by your broker or nominee. You may complete and mail a voting instruction card to your broker or nominee or, if your broker or nominee allows, submit voting instructions by Internet or telephone. If you provide specific voting instructions by mail, telephone or Internet, your broker or nominee will vote your shares as you have directed.

Ballots will be provided during the Annual Meeting to anyone who wants to vote in person at the meeting. If you hold shares in street name, you must request a confirmation of beneficial ownership from your broker to vote in person at the meeting.

Q: Can I change my vote?

A: Yes. If you are a stockholder of record, you can change your vote or revoke your proxy before the Annual Meeting by:

- Submitting a valid, later-dated proxy;
- Submitting a valid, subsequent vote by telephone or the Internet at any time prior to 10:59 P.M. Central Time on May 11, 2008;
- Notifying the Company's Corporate Secretary in writing that you have revoked your proxy; or
- Completing a written ballot at the Annual Meeting

You can revoke your voting instructions with respect to shares held in the Patriot Coal Corporation 401(k) Retirement Plan at any time prior to 10.59 P.M. Central Time on May 11, 2008 by timely delivery of a properly executed, later-dated voting instruction card (or an Internet or telephone vote), or by delivering a written revocation of your voting instructions to Vanguard.

Q: Is my vote confidential?

A: Yes. All proxies, ballots and vote tabulations that identify how individual stockholders voted will be kept confidential and not be disclosed to the Company's directors, officers or employees, except in limited circumstances, including:

- When disclosure is required by law;
- During any contested solicitation of proxies; or
- When written comments by a stockholder appear on a proxy card or other voting material.

Q: What will happen if I do not instruct my broker how to vote?

A: If your shares are held in street name and you do not instruct your broker how to vote, your broker may vote your shares at its discretion on routine matters such as the election directors (Item 1) or ratification of the independent registered public accounting firm (Item 2). On non-routine matters, brokers and other nominees cannot vote without instructions from the beneficial owner, resulting in so-called "broker non-votes."

Q: How will my Company stock in the Patriot Coal Corporation 401(k) Retirement Plan be voted?

A: Vanguard, as the plan trustee, will vote your shares in accordance with your instructions if you send in a completed proxy/voting instruction card or vote by telephone or the Internet before 10:59 P.M. Central Time on May 11, 2008. All telephone and Internet voting facilities with respect to plan shares will close at that time. Vanguard will vote allocated shares of Company Common Stock for which it has not received direction, as well as shares not allocated to individual participant accounts, in the same proportion as plan shares for which the trustee receives voting instructions.

Q: How many shares must be present to hold the Annual Meeting?

A: Holders of a majority of the shares of outstanding Common Stock as of the record date must be represented in person or by proxy at the Annual Meeting in order to conduct business. This is called a quorum. If you vote, your shares will be part of the quorum. Abstentions, "Withheld" votes and broker non-votes also will be counted in determining whether a quorum exists.

Q: What vote is required to approve the proposals?

A: In the election of directors, the two nominees receiving the highest number of "For" votes will be elected. Abstentions and proxies marked "Withhold" will have no effect on the election of directors, except, if a nominee in an uncontested election receives more "Withhold" than "For" votes, the nominee must tender his resignation in accordance with our Director Election Procedures. The Board will then determine whether to accept or reject the resignation based on all factors affecting the nominee's qualifications and contributions to the Company. Our Director Election Procedures can be accessed on the Company's website (www.patriotcoal.com) by clicking on "Investors," then "Corporate Governance," and then "Corporate Governance Guidelines." Information on our website is not considered part of this Proxy Statement.

The ratification of the appointment of Ernst & Young LLP will require approval by a majority of the shares present in person or by proxy at the meeting and entitled to vote. Abstentions will have the same effect as votes cast against this proposal while broker non-votes will have no impact on this proposal.

Q: What does it mean if I receive more than one proxy card?

A: It means your shares are held in more than one account at the transfer agent and/or with banks or brokers. Please vote all of your shares.

Q: Who can attend the Annual Meeting?

A: All Patriot Coal Corporation stockholders as of March 20, 2008 may attend the Annual Meeting.

Q: What do I need to do to attend the Annual Meeting?

A: If you are a stockholder of record or a participant in the Patriot Coal Corporation 401(k) Retirement Plan, your admission card is attached to your proxy card or voting instruction form. You will need to bring this admission card with you to the Annual Meeting.

If you own shares in street name, you will need to ask your bank or broker for an admission card in the form of a confirmation of beneficial ownership. You will need to bring a confirmation of beneficial ownership with you to vote at the Annual Meeting. If you do not receive your confirmation of beneficial ownership in time, bring your most recent brokerage statement with you to the Annual Meeting. We can use that to verify your ownership of Common Stock and admit you to the meeting; however, you will not be able to vote your shares at the meeting without a confirmation of beneficial ownership.

Q: Where can I find the voting results of the Annual Meeting?

A: We plan to announce preliminary voting results at the Annual Meeting and to publish final results in our Quarterly Report on SEC Form 10-Q for the quarterly period ended June 30, 2008.

ELECTION OF DIRECTORS (ITEM 1)

In accordance with the terms of the Company's certificate of incorporation, the Board of Directors is divided into three classes, with each class serving a staggered three-year term. At this year's Annual Meeting, the terms of current Class I Directors will expire. The terms of Class II Directors and Class III Directors will expire at the Annual Meetings to be held in 2009 and 2010, respectively.

The Board of Directors has nominated J. Joe Adorjan and Michael M. Scharf for election as Class I Directors with terms expiring in 2011. Each of the nominees is currently serving as a director of the Company. All nominees have consented to serve for the new term. Should any one or more of the nominees become unavailable for election, your proxy authorizes us to vote for such other persons, if any, as the Board of Directors may recommend.

The Board of Directors recommends that you vote "For" each of the Class I director nominees named below.

Class I Director Nominees — Terms Expiring in 2011

J. JOE ADORJAN, age 69, has been a director of the Company since November 2007. Mr. Adorjan is currently chairman of Adven Capital, a private equity firm and is a partner of Stonington Partners Inc., a New York based private equity firm. He has served in these positions since February 2001. From 1995 through December 2000, Mr. Adorjan served as chairman and chief executive officer of Borg-Warner Security Corporation, a provider of security services. Prior to joining Borg-Warner, Mr. Adorjan served in a number of senior executive capacities with Emerson Electric Co. and ESCO Electronics Corporation, an independent NYSE corporation that was formed in 1990 with the spin-off of Emerson's government and defense business. He was chairman and chief executive officer of ESCO from 1990 to 1992, when he rejoined Emerson as president. Mr. Adorjan originally joined Emerson in 1968 and served in a number of senior executive capacities, including executive vice president of finance, international, technology and corporate development.

Mr. Adorjan has a Bachelors and Masters degree in economics from Saint Louis University. Mr. Adorjan currently serves as a director for Goss Graphics Systems, Inc., a manufacturer of web offset newspaper press systems, and is chairman of Bates Sales Company, a distributor of industrial power transmission equipment and parts. He is also a member of the board of directors of Thermadyne Holdings Corporation, a marketer of cutting and welding products and accessories, where he serves as lead director and as a member of the audit and compensation committees. He also serves on the board of trustees of Saint Louis University and Ranken Technical College and is Chairman of The Hungarian — Missouri Educational Partnership.

MICHAEL M. SCHARF, age 60, has been a director of the Company since November 2007. Mr. Scharf is Senior Vice President & Chief Financial Officer of Bunge North America, the North American operating arm of Bunge Limited, a global supplier of agricultural commodities and food products. He has served in this capacity since joining Bunge in 1990. He was previously Senior Vice President and Chief Financial Officer of Peabody Holding Company, Inc. (1978-1990) and Tax Manager at Arthur Andersen & Co. (1969-1978).

Mr. Scharf has a degree in Accounting from Wheeling Jesuit University and is a certified public accountant. Mr. Scharf represents Bunge's interests with multiple biofuels joint ventures, and is currently a director of Renewable Energy Group (biodiesel), Bunge-Ergon Vicksburg (ethanol), Biofuels Company of America (biodiesel), and Southwest Iowa Renewable Energy (ethanol).

Class II Directors — Terms Expiring in 2009

B. R. BROWN, age 75, has been a director of the Company since October 2007. Mr. Brown is the retired Chairman, President and Chief Executive Officer of CONSOL Energy, Inc., a domestic coal and gas producer and energy services provider. He served as Chairman, President and Chief Executive Officer of CONSOL and predecessor companies from 1978 to 1998. He also served as a Senior Vice President of E.I. du Pont de Nemours & Co., CONSOL's controlling stockholder, from 1981 to 1991. Before joining CONSOL, Mr. Brown was a Senior Vice President at Conoco. From 1990 to 1995, he also was President and Chief Executive Officer of Remington Arms Company, Inc.

Mr. Brown has a degree in economics from the University of Arkansas. Mr. Brown has previously served as Director and Chairman of the Bituminous Coal Operators Association Negotiating Committee, Chairman of the National Mining Association, and Chairman of the Coal Industry Advisory Board of the International Energy Agency. Mr. Brown was a director of Peabody Energy Corporation from December 2003 until October 2007, when he resigned to join Patriot's Board of Directors. He is also a director of Delta Trust & Bank and Remington Arms Company, Inc.

JOHN E. LUSHEFSKI, age 52, has been a director of the Company since October 2007. Mr. Lushefski has been a senior consultant providing strategic, business development and financial advice to public and private companies since July 2005. He has substantial coal industry experience and a global background in treasury, tax, accounting, strategic planning, information technology, human resources, investor relations and business development. From December 2004 until July 2005, Mr. Lushefski was engaged in the development of his current consulting business. From 1996 until December 2004, he served as Chief Financial Officer of Millennium Chemicals Inc., a NYSE-listed international chemicals manufacturer that was spun off from Hanson PLC. He also served as Senior Vice President & Chief Financial Officer of Hanson Industries Inc. from 1995 to 1996, and as Vice President & Chief Financial Officer of Peabody Holding Company, Inc. from 1991 to 1995. Prior to joining Hanson in 1985, he was an Audit Manager with Price Waterhouse LLP, New York.

Mr. Lushefski is a certified public accountant with a B.S. in Business Management/Accounting from Pennsylvania State University. He also has served as a director of Suburban Propane, LP (1996-1999) and Smith Corona Corporation (1995-1996).

Class III Directors — Terms Expiring in 2010

RICHARD M. WHITING, age 53, has been a director of the Company since October 2007. Effective October 31, 2007, the Company was spun-off from Peabody Energy Corporation ("Peabody") and became a separate, publicly-traded company (the "spin-off"). Mr. Whiting assumed the position of President & Chief Executive Officer in October 2007.

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, Mr. Whiting was Peabody's Executive Vice President & Chief Marketing Officer from May 2006 to October 2007, with responsibility for all marketing, sales and coal trading operations, as well as Peabody's joint venture relationships. He 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 is the former Chairman of National Mining Association'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 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.

IRL F. ENGELHARDT, age 61, has served as Chairman of the Board of Directors and Executive Advisor of the Company since its October 31, 2007 spin-off. Mr. Engelhardt served as Chairman and Chief Executive Officer of Peabody from 1990 to December 2005 and its Chairman of the Board of Directors from 2006 through October 2007. He served as Co-Chief Executive Officer of The Energy Group from 1997 to 1998, Chairman of Suburban Propane Company from 1995 to 1996, Chairman of Cornerstone Construction and Materials from 1994 to 1995 and Director and Group Vice President of Hanson Industries from 1995 to 1996. Mr. Engelhardt is also a director of The Williams Companies, Inc., Valero Energy Corporation, Chairman of The Federal Reserve Bank of St. Louis and General Manager of White Walnut Farms LLC.

ROBERT O. VIETS, age 64, has been a director of the Company since November 2007. Mr. Viets is the former President, Chief Executive Officer and Director of CILCORP, a NYSE-listed holding company which owned a regulated electric and natural gas utility (CILCO) in central Illinois. Mr. Viets served in this capacity from 1988 until 1999, when CILCORP was acquired by AES. He also served as Chief Financial Officer during his 26-year career at CILCORP. Prior to joining CILCORP, Mr. Viets was an auditor with Arthur Andersen & Co. Following his career at CILCORP, Mr. Viets has provided consulting services to regulated energy and communication businesses.

Mr. Viets has a degree in economics from Washburn University (Topeka) and a law degree from Washington University School of Law. He is also a certified public accountant. He has served as a director of, among other companies, RLI Corp., a specialty property and casualty insurer (1993-present); Consumers Water Company, a Maine-based regulated water utility (1996-1998); and Philadelphia Suburban Corp., now Aqua America, Inc. (1998-2001); including serving as a member of the Audit Committees at RLI Corp. and Philadelphia Suburban Corp.

INFORMATION REGARDING BOARD OF DIRECTORS AND COMMITTEES

Director Independence

As required by the rules of the New York Stock Exchange ("NYSE"), the Board of Directors will evaluate the independence of its members at least annually, and at other appropriate times when a change in circumstances could potentially impact the independence or effectiveness of one or more directors (e.g., in connection with a change in employment status or other significant changes). This process is administered by the Nominating & Governance Committee which consists entirely of directors who are independent under applicable NYSE rules. After carefully considering all relevant relationships with the Company, the Nominating & Governance Committee submits its recommendations regarding independence to the full Board, which then makes a determination with respect to each director.

In making independence determinations, the Nominating & Governance Committee and the Board consider all relevant facts and circumstances, including (1) the nature of any relationships with the Company, (2) the significance of the relationship to the Company, the other organization and the individual director, (3) whether or not the relationship is solely a business relationship in the ordinary course of the Company's and the other organization's businesses and does not afford the director any special benefits, and (4) any commercial, industrial, banking, consulting, legal, accounting, charitable and familial relationships. For purposes of this determination, the Board deems any relationships that have expired for more than three years to be immaterial.

After considering the standards for independence adopted by the NYSE and various other factors as described herein, the Board of Directors has determined that all directors other than Messrs. Whiting and Engelhardt are independent. None of the directors, other than Messrs. Whiting and Engelhardt, receives any compensation from the Company other than customary director and committee fees.

The Board has determined that Directors Adorjan, Brown, Lushefski and Scharf are independent, based upon the fact that they have no relationships with the Company (other than serving as directors). The Board has also determined that Mr. Viets is independent after evaluating his relationship with the Company and concluding that such relationship is immaterial. Such relationship is outlined below.

Mr. Viets serves as a director of RLI Corp., a specialty property and casualty insurer that provides marine excess liability insurance coverage to the Company for an annual premium of $8,400. The Board has concluded that this relationship is not material since this service is offered to the Company on the same general terms and conditions as other large commercial customers and was provided to the Company prior to Mr. Viets joining the Board. The Company's directors did not solicit these commercial relationships and were not involved in any related discussions or deliberations.

Board Attendance and Executive Sessions

The Board of Directors met three times in 2007. During that period, each incumbent director attended 100% of the meetings of the Board and the committees on which he served. Mr. Engelhardt serves as chairman at all meetings of the Board of Directors, including portions of meetings where all directors are present.

Non-management directors meet in executive session at least quarterly. If the Board determines that any non-management director is not independent in accordance with the Board's standards for determining independence, an executive session comprised solely of independent directors will be held at least annually. Executive sessions are chaired by the chairpersons of the Audit Committee, the Compensation Committee, and the Nominating & Governance Committee, on a rotating basis.

Committees of the Board of Directors

The Board has appointed four standing committees from among its members to assist it in carrying out its obligations. These committees are the Audit Committee, Compensation Committee, Executive Committee and Nominating & Governance Committee. Each standing committee has adopted a formal charter that describes in more detail its purpose, organizational structure and responsibilities. A copy of each committee charter can be found on the Company's website (www.patriotcoal.com) by clicking on "Investors," then "Corporate Governance," and then "Committee Charters" and is available in print to any stockholder who requests it. Information on our website is not considered part of this Proxy Statement. A description of each committee and its current membership follows:

Executive Committee

The members of the Executive Committee are Richard M. Whiting (Chair), Irl F. Engelhardt and B. R. Brown. The Executive Committee did not meet during 2007.

When the Board of Directors is not in session, the Executive Committee has all of the power and authority as delegated by the Board of Directors, except with respect to:

- Amending the Company's certificate of incorporation and bylaws;
- Adopting an agreement of merger or consolidation;
- Recommending to shareholders the sale, lease or exchange of all or substantially all of the Company's property and assets;
- Recommending to shareholders dissolution of the Company or revocation of any dissolution;
- Declaring a dividend;
- Issuing stock;
- Appointing members of Board committees; and
- Changing major lines of business.

Compensation Committee

The members of the Compensation Committee are John E. Lushefski (Chair), B. R. Brown and J. Joe Adorjan. The Board of Directors has affirmatively determined that, in its judgment, all members of the Compensation Committee are independent under rules established by the New York Stock Exchange.

The Compensation Committee met once during 2007. Some of the primary responsibilities of the Compensation Committee include the following:

- To annually review and approve corporate goals and objectives relevant to the Company's CEO compensation, evaluate the CEO's performance in light of those goals and objectives, and together with the other independent members of the Board of Directors, determine and approve the CEO's compensation levels based on this evaluation;

- To annually review, with the CEO, the performance of the Company's executive officers and make recommendations to the Board of Directors with respect to the compensation plans for such officers;
- To annually review and approve the CEO's and the executive officers' base salary, annual incentive opportunity and long-term incentive opportunity and as appropriate, employment agreements, severance agreements, change of control provisions and any special supplemental benefits;
- To approve annual bonus awards for executive officers other than the CEO;
- To oversee the Company's annual and long-term incentive programs;
- To periodically assess the Company's director compensation program and, when appropriate, recommend modifications for Board consideration;
- To review and make recommendations to the Board of Directors in conjunction with the CEO, as appropriate, with respect to succession planning and management development; and
- To make regular reports on its activities to the Board of Directors.

Nominating & Governance Committee

The members of the Nominating & Governance Committee are Michael M. Scharf (Chair), J. Joe Adorjan and Robert O. Viets. The Board of Directors has affirmatively determined that, in its judgment, all members of the Nominating & Governance Committee are independent under New York Stock Exchange rules.

The Nominating & Governance Committee met once during 2007. Some of the primary responsibilities of the Nominating & Governance Committee include the following:

- To identify, evaluate and recommend qualified candidates for election to the Board of Directors;
- To advise the Board of Directors on matters related to corporate governance;
- To assist the Board of Directors in conducting its annual assessment of Board performance;
- To recommend the structure, composition and responsibilities of other Board committees;
- To advise the Board of Directors on matters related to corporate social responsibility;
- To ensure the Company maintains an effective orientation program for new directors and a continuing education and development program to supplement the skills and needs of the Board of Directors;
- To monitor compliance with the Company's corporate compliance program and Code of Business Conduct and Ethics; and
- To make regular reports on its activities to the Board of Directors.

Audit Committee

The members of the Audit Committee are Robert O. Viets (Chair), Michael M. Scharf and John E. Lushefski. The Board of Directors has affirmatively determined that, in its judgment, all members of the Audit Committee are independent under New York Stock Exchange and SEC rules. The Board of Directors also has determined that each of Messrs. Viets, Scharf and Lushefski is an "audit committee financial expert" under SEC rules.

The Audit Committee met three times during 2007. The Audit Committee's primary purpose is to provide assistance to the Board of Directors in fulfilling its oversight responsibility with respect to:

- The quality and integrity of the Company's financial statements and financial reporting processes;
- The Company's systems of internal accounting and financial controls and disclosure controls;
- The independent registered public accounting firm's qualifications and independence;

- The performance of the Company's internal audit function and independent registered public accounting firm; and
- Compliance with legal and regulatory requirements.

Some of the primary responsibilities of the Audit Committee include the following:

- To appoint the Company's independent registered public accounting firm, which reports directly to the Audit Committee;
- To approve all audit engagement fees and terms and all permissible non-audit engagements with the Company's independent registered public accounting firm;
- To ensure that the Company maintains an internal audit function and to review the appointment of the senior internal audit team and/or provider;
- To approve the terms of engagement for the internal audit provider;
- To meet on a regular basis with the Company's financial management, internal audit management and independent registered public accounting firm to review matters relating to the Company's internal accounting controls, internal audit program, accounting practices and procedures, the scope and procedures of the outside audit, the independence of the independent registered public accounting firm and other matters relating to the Company's financial condition;
- To oversee the Company's financial reporting process and to review in advance of filing or issuance the Company's quarterly reports on Form 10-Q, annual reports on Form 10-K and earnings press releases;
- To review the Company's guidelines and policies with respect to risk assessment and risk management, and to monitor the Company's major financial risk exposures and steps management has taken to control such exposures; and
- To make regular reports to the Board of Directors regarding the activities and recommendations of the Audit Committee.

REPORT OF THE AUDIT COMMITTEE

The Audit Committee oversees the Company's financial reporting process on behalf of the Board of Directors. The Company's management has the primary responsibility for the financial statements, for maintaining effective internal control over financial reporting, and for assessing the effectiveness of internal control over financial reporting. In fulfilling its oversight responsibilities, the Committee reviewed and discussed the consolidated financial statements in the 2007 Annual Report on Form 10-K with Company management, including a discussion of the quality, not just the acceptability, of the accounting principles; the reasonableness of significant judgments; and the clarity of disclosures in the financial statements.

The Committee reviewed with the independent registered public accounting firm, Ernst & Young, which is responsible for expressing an opinion on the conformity of those audited consolidated financial statements with U.S. generally accepted accounting principles, its judgments as to the quality, not just the acceptability, of the Company's accounting principles and such other matters as are required to be discussed with the Committee by Statement on Auditing Standards No. 61, *Communication With Audit Committees*, (as amended), other standards of the Public Company Accounting Oversight Board (United States), rules of the Securities and Exchange Commission, and other applicable regulations. In addition, the Committee has discussed with the independent registered public accounting firm the firm's independence from Company management and the Company, including the matters in the letter from the firm required by Independence Standards Board Standard No. 1, *Independence Discussions with Audit Committees*, and considered the compatibility of non-audit services with the independent registered public accounting firm's independence.

The Committee discussed with Ernst & Young the overall scope and plans for their respective audits. The Committee meets with Ernst & Young, with and without management present, to discuss the results of their examinations; their evaluations of the Company's internal control; and the overall quality of the Company's financial reporting.

In reliance on the reviews and discussions referred to above, the Committee recommended to the Board of Directors, and the Board has approved, that the audited consolidated financial statements be included in the Annual Report on Form 10-K for the year ended December 31, 2007 filed by the Company with the Securities and Exchange Commission. The Committee and the Board also have recommended, subject to stockholder approval, the selection of the Company's independent registered public accounting firm.

The Committee is governed by a charter (refer to www.patriotcoal.com). The Committee held six meetings in relation to fiscal year 2007. The Committee is comprised solely of independent directors as defined by the New York Securities Exchange listing standards and Rule 10A-3 of the Securities Exchange Act of 1934.

MEMBERS OF THE AUDIT COMMITTEE:

ROBERT O. VIETS, CHAIR
MICHAEL M. SCHARF
JOHN E. LUSHEFSKI

FEES PAID TO INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Ernst & Young LLP has served as the Company's independent registered public accounting firm since October 31, 2007, the effective date of the spin-off from Peabody, and served as the Company's independent registered public accounting firm for the fiscal year ended December 31, 2007.

The following fees were paid to Ernst & Young for services rendered during the Company's last fiscal year:

- *Audit Fees:* Audit fees billed (or billable) to the Company by Ernst & Young with respect to the fiscal year ended December 31, 2007 were $682,500. Fiscal year December 31, 2007 audit fees include professional services rendered for the audit of the Company's annual financial statements, review of financial statements included in the Company's Form 10-Q and services that are normally provided by Ernst & Young in connection with statutory and regulatory filings or engagements for the fiscal year.
- *Audit-Related Fees:* There were no Audit-Related Fees billed by Ernst & Young with respect to the fiscal year ended December 31, 2007.
- *Tax Fees:* There were no Tax Fees billed by Ernst & Young with respect to the fiscal year ended December 31, 2007.
- *All Other Fees:* There were no Other Fees billed by Ernst & Young with respect to the fiscal year ended December 31, 2007.

Under procedures established by the Board of Directors, the Audit Committee is required to pre-approve all audit and non-audit services performed by the Company's independent registered public accounting firm to ensure that the provisions of such services do not impair such firm's independence. The Audit Committee may delegate its pre-approval authority to one or more of its members, but not to management. The member or members to whom such authority is delegated shall report any pre-approval decisions to the Audit Committee at its next scheduled meeting.

Each fiscal year, the Audit Committee reviews with management and the independent registered public accounting firm the types of services that are likely to be required throughout the year. Those services are comprised of four categories, including audit services, audit-related services, tax services and all other permissible services. At that time, the Audit Committee pre-approves a list of specific services that may be provided within each of these categories, and sets fee limits for each specific service or project. Management is then authorized to engage the independent registered public accounting firm to perform the pre-approved services as needed throughout the year, subject to providing the Audit Committee with regular updates. The Audit Committee reviews the amount of all billings submitted by the independent registered public accounting firm on a regular basis to ensure that their services do not exceed pre-defined limits. The Audit Committee must review and approve in advance, on a case-by-case basis, all other projects, services and fees to be performed by or paid to the independent registered public accounting firm. The Audit Committee also must approve in advance any fees for pre-approved services that exceed the pre-established limits, as described above.

Under Company policy and/or applicable rules and regulations, the Company's independent registered public accounting firm is prohibited from providing the following types of services to the Company: (1) bookkeeping or other services related to the Company's accounting records or financial statements, (2) financial information systems design and implementation, (3) appraisal or valuation services, fairness opinions or contribution-in-kind reports, (4) actuarial services, (5) internal audit outsourcing services, (6) management functions, (7) human resources, (8) broker-dealer, investment advisor or investment banking services, (9) legal services, (10) expert services unrelated to audit, (11) any services entailing a contingent fee or commission, and (12) tax services to an officer of the Company whose role is in a financial oversight capacity.

CORPORATE GOVERNANCE MATTERS

Good corporate governance is a priority at Patriot Coal Corporation. The Company's key governance practices are outlined in its Corporate Governance Guidelines, committee charters, and Code of Business Conduct and Ethics. These documents can be found on the Company's webpage (www.patriotcoal.com on the Internet) by clicking on "Investors," and then "Corporate Governance" and are available in print to any stockholder upon request. Information on our website is not considered part of this Proxy Statement. The Code of Business Conduct and Ethics applies to the Company's directors, Chief Executive Officer, Chief Financial Officer, Controller and other Company personnel.

The Nominating & Governance Committee of the Board of Directors is responsible for reviewing the Corporate Governance Guidelines annually and reporting and making recommendations to the Board concerning corporate governance matters.

Stockholder Communications with the Board of Directors

The Board of Directors has adopted the following procedures for stockholders and other interested persons to send communications to the Board, individual directors and/or Committee Chairs (collectively, "Stockholder Communications"):

Stockholders and other interested persons seeking to communicate with the Board should submit their written comments to the Chairman, Patriot Coal Corporation, 12312 Olive Boulevard, Saint Louis, Missouri 63141. The Chairman will forward such Stockholder Communications to each member of the Board (excluding routine advertisements and business solicitations, as instructed by the Board), and provide a report on the disposition of matters stated in such communications at the next regular meeting of the Board of Directors. If a Stockholder Communication is addressed to a specific individual director or Committee Chair (excluding routine advertisements and business solicitations), the Chairman will forward that communication to the named director, and will discuss with that director whether the full Board and/or one of its committees should address the subject matter.

If a Stockholder Communication raises concerns about the ethical conduct of management or the Company, it should be sent directly to the Corporate Secretary at 12312 Olive Boulevard, Suite 400, Saint Louis, Missouri 63141. The Corporate Secretary will promptly forward a copy of such Stockholder Communication to the Chairman of the Audit Committee and, if appropriate, the Company's Chairman, and take such actions as they authorize to ensure that the subject matter is addressed by the appropriate Board committee, management and/or by the full Board.

If a stockholder or other interested person seeks to communicate exclusively with the Company's non-management directors, such Stockholder Communication should be sent directly to the Corporate Secretary who will forward any such communications directly to the Chair of the Nominating & Governance Committee. The

Corporate Secretary will first consult with and receive the approval of the Chair of the Nominating and Corporate Governance Committee before disclosing or otherwise discussing the communication with members of management or directors who are members of management.

At the direction of the Board, the Company reserves the right to screen all materials sent to its directors for potential security risks, harassment purposes or routine solicitations.

Stockholders have an opportunity to communicate with the Board of Directors at the Company's Annual Meeting of Stockholders. Pursuant to Board policy, each director is expected to attend the Annual Meeting in person, subject to occasional excused absences due to illness or unavoidable conflicts.

Overview of Director Nominating Process

The Board of Directors believes that one of its primary goals is to advise management on strategy and to monitor the Company's performance. The Board also believes that the best way to accomplish this goal is by choosing directors who possess a diversity of experience, knowledge and skills that are particularly relevant and helpful to the Company. As such, current Board members posses a wide array of skills and experience in the coal industry, related energy industries and other important areas. When evaluating potential members, the Board seeks to enlist the services of candidates who possess high ethical standards and a combination of skills and experience which the Board determines are the most appropriate to meet its objectives. The Board believes all candidates should be committed to creating value over the long term and to serving the best interests of the Company and all of its stockholders.

The Nominating & Governance Committee ("Committee") is responsible for identifying, evaluating and recommending qualified candidates for election to the Board of Directors. The Committee will consider director candidates submitted by stockholders. In accordance with the Company's Bylaws, any stockholder wishing to submit a candidate for consideration should send the following information to the Secretary of the Company at 12312 Olive Boulevard, Suite 400, Saint Louis, Missouri 63141:

- Stockholder's name, number of shares owned, length of period held, and proof of ownership;
- Name, age and address of candidate;
- A detailed resume describing among other things the candidate's educational background, occupation, employment history, and material outside commitments (*e.g.*, memberships on other boards and committees, charitable foundations, etc.);
- A supporting statement which describes the candidate's reasons for seeking election to the Board of Directors, and documents his/her ability to satisfy the director qualifications described below;
- A description of any arrangements or understandings between the stockholder and the candidate; and
- A signed statement from the candidate, confirming his/her willingness to serve on the Board of Directors.

The Corporate Secretary will promptly forward such materials to the Committee Chair and the Chairman of the Board. The Corporate Secretary also will maintain copies of such materials for future reference by the Committee when filling Board positions.

Stockholders may submit potential director candidates at any time pursuant to these procedures. The Committee will consider such candidates if a vacancy arises or if the Board decides to expand its membership, and at such other times as the Committee deems necessary or appropriate.

Director Qualifications

General criteria for the nomination of director candidates include experience and successful track record, integrity, skills, diversity, ability to make analytical inquiries, understanding of our business environment, and willingness to devote adequate time to director duties, all in the context of the perceived needs of the Board at that time.

Pursuant to its charter, the Committee must review with the Board of Directors, at least annually, the requisite qualifications, independence, skills and characteristics of Board candidates, members and the Board as a whole. When assessing potential new directors, the Committee considers individuals from various and diverse backgrounds. While the selection of qualified directors is a complex and subjective process that requires consideration of many intangible factors, the Committee believes that candidates should generally meet the following criteria:

- Candidates should possess broad training, experience and a successful track record at senior policy-making levels in business, government, education, technology, accounting, law, consulting or administration;
- Candidates should possess the highest personal and professional ethics, integrity and values. Candidates also should be committed to representing the long-term interests of the Company and all of its stockholders;
- Candidates should have an inquisitive and objective perspective, strength of character and the mature judgment essential to effective decision-making;
- Candidates need to possess expertise that is useful to the Company and complementary to the background and experience of the other Board members; and
- Candidates need to be willing to devote sufficient time to Board and Committee activities and to enhance their knowledge of the Company's business, operations and industry.

The Committee will consider candidates submitted by a variety of sources (including, without limit, incumbent directors, stockholders, Company management and third-party search firms) when filling vacancies and/or expanding the Board. If a vacancy arises or the Board decides to expand its membership, the Committee generally asks each director to submit a list of potential candidates for consideration. The Committee then evaluates each potential candidate's educational background, employment history, and outside commitments and other relevant factors to determine whether he/she is potentially qualified to serve on the Board. At that time, the Committee also will consider potential nominees submitted by stockholders in accordance with the procedures described above. The Committee seeks to identify and recruit the best available candidates, and it intends to evaluate qualified stockholder nominees on the same basis as those submitted by Board members or other sources.

After completing this process, the Committee will determine whether one or more candidates are sufficiently qualified to warrant further investigation. If the process yields one or more desirable candidates, the Committee will rank them by order of preference, depending on their respective qualifications and the Company's needs. The Committee Chair, or another director designated by the Committee Chair, will then contact the preferred candidate(s) to evaluate their potential interest and to set up interviews with members of the Committee. All such interviews are held in person, and include only the candidates and the independent Committee members. Based upon interview results and appropriate background checks, the Committee then decides whether it will recommend the candidate's nomination to the full Board.

The Committee believes this process will produce highly qualified, independent Board members. However, the Committee may choose, from time to time, to use additional resources (including independent third-party search firms) after determining that such resources could enhance a particular director search.

OWNERSHIP OF COMPANY SECURITIES

The following tables sets forth information as of March 5, 2008 with respect to persons or entities who are known to beneficially own more than 5% of the Company's outstanding Common Stock, each director, each executive officer named in the Summary Compensation Table below, and all directors and executive officers as a group.

Beneficial Owners of More Than Five Percent, Directors and Management

Name and Address of Beneficial Owners	Amount and Nature of Beneficial Ownership(1)	Percent of Class(2)
Chilton Investment Company, LLC(3)	3,966,032	14.821%
FMR LLC	1,525,981(4)	5.702%
Neuberger Berman, LLC	1,441,974(5)	5.388%
Capital World Investors	1,398,360(6)	5.225%
J. Joe Adorjan	—	
Joseph W. Bean	8,711	*
B.R. Brown	719	*
Charles A. Ebetino, Jr.	16,852	*
Irl F. Engelhardt	157,715(7)	*
John E. Lushefski	—	
Jiri Nemec	21,284	*
Michael M. Scharf	—	
Mark N. Schroeder	18,506	*
Robert O. Viets	1,600	*
Richard M. Whiting	80,712	*
All directors and executive officers as a group (13 people)	318,531	1.19%

(1) Amounts shown are based on the latest available filings on Form 13G or other relevant filings made with the Securities and Exchange Commission ("Commission"). Beneficial ownership is determined in accordance with the rules of the SEC and includes voting and investment power with respect to shares. Unless otherwise indicated, the persons named in the table have sole voting and sole investment control with respect to all shares beneficially owned; includes shares of restricted stock that remain unvested as of March 5, 2008 as follows: Mr. Joseph W. Bean, 5,500 shares; Mr. Charles A. Ebetino, Jr., 12,000 shares; Mr. Irl F. Engelhardt, 17,996 shares; Mr. Jiri Nemec, 17,500 shares; Mr. Mark N. Schroeder, 12,000 shares; Mr. Richard M. Whiting, 46,667 shares.

(2) An asterisk (*) indicates that the applicable person beneficially owns less than one percent of the outstanding shares.

(3) Chilton Investment Company, LLC is located at 1266 East Main St., 7 Floor, Stamford, CT 06902.

(4) FMR LLC, with an address at 82 Devonshire St., Boston, MA 02109, has the sole power to vote 474 shares and the sole power to dispose 1,525,981 shares.

(5) Neuberger Berman Inc. and affiliated entities, with an address at 605 Third Avenue, New York, NY 10158, reported sole and shared voting and dispositive power as follows: Neuberger Berman Inc., sole voting power with respect to 1,176,447 shares, shared power to dispose with respect to 1,441,974 shares; and Neuberger Berman LLC, sole voting power with respect to 1,176,447 shares, shared power to dispose with respect to 1,441,974 shares.

(6) Capital World Investors, with an address at 333 South Hope St., Los Angeles, CA 90071, has the sole power to vote 265,300 shares and the sole power to dispose 1,398,360 shares.

(7) Includes 1,952 shares of Common Stock held in Mr. Irl F. Engelhardt's 401(k) plan and 440 shares of Common Stock held by Mr. Irl F. Engelhardt's spouse.

Section 16 (a) Beneficial Ownership Reporting Compliance

The Company's executive officers and directors and persons beneficially holding more than ten percent of the Company's Common Stock are required under the Securities Exchange Act of 1934 to file reports of ownership and changes in ownership of Company Common Stock with the Commission. The Company files these reports of ownership and changes in ownership on behalf of its executive officers and directors. To the best of the Company's knowledge, based solely on its review of the copies of such reports furnished to the Company during the fiscal year ended December 31, 2007, filings with Commission and written representations from certain reporting persons that no additional reports were required, all required reports were timely filed.

EXECUTIVE COMPENSATION

COMPENSATION DISCUSSION AND ANALYSIS

Role of Peabody

The following is a discussion of the executive compensation programs adopted by Patriot in connection with our spin-off from Peabody on October 31, 2007.

- Prior to the spin-off, Patriot's executive compensation plans and agreements were reviewed and approved by Peabody's Compensation Committee and the independent members of Peabody's Board of Directors. At that time Peabody was Patriot's sole shareholder.
- Following the spin-off, Patriot's Compensation Committee assumed responsibility for Patriot's executive compensation plans.

Executive Compensation Program Objectives

The objectives of Patriot's executive compensation program are to attract, retain and motivate key executives to enhance long-term profitability and stockholder value. Compensation programs are designed to align incentives for executives with achievement of Patriot's business strategies, including:

- Maximizing operational excellence in the areas of safety, productivity and cost management and environmental stewardship;
- Capitalizing on organic growth opportunities as well as value-enhancing acquisitions and joint ventures; and
- Maximizing profitability and customer satisfaction by taking advantage of our diverse products and sourcing capabilities.

In order to meet our objectives, our executive compensation program is designed to:

- Provide competitive compensation based on the position and responsibility by using market data to successfully attract and retain highly-qualified executives with the leadership skills and experience necessary for our long-term success;
- Provide incentive compensation that places a strong emphasis on financial performance, with the flexibility to assess operational and individual performance; and
- Provide an appropriate link between compensation and the creation of shareholder value through awards tied to our long-term performance and share price appreciation.

With these objectives in mind, Peabody's Compensation Committee approved a compensation structure for our executive officers that incorporates four key components: base salary; an annual incentive plan; long-term incentive compensation consisting of restricted stock, stock options and restricted stock units; and retirement and other benefits.

Roles of the Compensation Committee & the Compensation Consultant

In anticipation of the spin-off, Peabody's Compensation Committee engaged Mercer Human Resource Consulting ("Mercer"), an outside compensation consultant, to provide guidance with respect to the development and implementation of Patriot's compensation programs. In its engagement, Mercer provided Peabody's Compensation Committee with advice concerning the types and levels of compensation to be paid to the Chief Executive Officer and the other senior executives. Mercer assisted by providing market compensation data on base pay, as well as annual and long-term incentives. In addition, Mercer advised Peabody's Compensation Committee on plan design for each element of executive compensation, including helping to identify: the appropriate mix of base salary and annual and long-term incentive compensation; the appropriate mix of long-term incentive compensation to be granted as restricted stock, stock options and restricted stock units; and the relevant industry comparator group. Since the spin-off, these matters fall within the responsibility of Patriot's Compensation Committee, as described below. Under its charter, Patriot's Compensation Committee has authority to engage the services of outside advisors, experts and others to assist the Compensation Committee in fulfilling these duties.

The Compensation Committee is comprised entirely of independent directors and has the ultimate responsibility for review and approval of the compensation of the Company's executive officers, excluding the Chief Executive Officer. The Committee has overall responsibility for monitoring the performance of the Company's executives and evaluating and approving the Company's executive compensation plans, policies and programs. The Committee also reviews and approves executive participation in any company-wide benefit plans. In addition, the Committee oversees the Company's annual and long-term incentive plans and programs.

With respect to the Chief Executive Officer, the Compensation Committee together with the other independent members of the Board of Directors, reviews and approves the Chief Executive Officer's compensation, including base salary, annual incentive and long-term incentive compensation, deferred compensation, perquisites, equity compensation, employment agreements, severance arrangements, retirement and other post-employment benefits and change-in-control benefits (in each case, as and when appropriate). In addition, the Compensation Committee and the other independent members of the Board of Directors review and approve corporate goals and objectives relevant to such compensation and evaluate the Chief Executive Officer's performance in light of those goals and objectives.

Benchmarking Process

In developing Patriot's executive compensation programs in connection with the spin-off, Peabody's Compensation Committee commissioned a compensation analysis conducted by its independent compensation consultant to ensure that Patriot's programs are competitive with those of other publicly held companies of similar size and in similar industries. For positions that require specific industry knowledge and experience, Peabody's Compensation Committee used both a mining comparator group and Mercer's general industry database for benchmarking purposes. This approach was designed to ensure that Patriot's executive compensation levels are competitive relative to the companies with which Patriot competes for industry-specific talent. The mining comparator group is composed of Peabody, CONSOL Energy, Inc., Arch Coal, Inc., Massey Energy Company, Alpha Natural Resources, Inc., Foundation Coal Holdings, Inc., International Coal Group, Inc., James River Coal Company, and Westmoreland Coal Company. Talent for other key roles in the organization can be acquired across a broader spectrum of companies. As such, Mercer also utilized published compensation surveys from companies based on similar size and scope.

For purposes of reviewing the competitiveness of Patriot's executive compensation program, Mercer used a combination of proxy data from the above peers and survey data to benchmark compensation for executive officers. Mercer utilized two published surveys which included the 2006 Mercer Benchmark Database and the 2006/2007 Watson Wyatt Survey on Top Management Compensation. The data from the published surveys was updated by 3.9%, the expected pay increase in 2007 for executives in the energy industry based on the Mercer 2006/2007 U.S. Compensation Planning Survey anticipating that the spin-off would occur in 2007.

The survey data consisted of general industry references for companies of comparable expected revenue size to Patriot and were averaged with the available proxy data to provide an overall market composite. Base salaries were determined by reference to both peer survey data and annual incentive opportunities by reference to broad industry survey data, and the resulting Patriot total cash opportunities were compared to the market total cash opportunities. For purposes of determining an executive's total direct compensation (i.e. base salary, annual bonus and annual long-term incentive), the Compensation Committee generally targeted the 50th percentile and then adjusted the executive's targeted compensation levels for factors such as experience, retention and responsibility.

With respect to the long-term incentive awards granted in connection with the spin-off, Peabody's Compensation Committee also reviewed data, provided by Mercer, regarding types and levels of initial grants of long-term incentive awards provided to executives who lead companies through initial public offerings, spin-offs and similar transactions.

Overall, Mercer determined that Patriot's executive compensation programs, as structured, are competitive relative to our peers and other companies who have engaged in similar transactions. Based upon the review of the compensation plans discussed below, peer group compensation levels, and general industry compensation levels, Peabody's Compensation Committee, assisted by its outside consultant, believed that the value and design of Patriot's executive compensation programs were appropriate for a spun-off company of its size, structure and business.

Employment Agreements

In connection with the spin-off and in consultation with Mercer, the Company entered into employment agreements with each of our named executive officers and with certain other key executives. The terms of those agreements, including the provision of post-termination benefits, as described in detail in the "Potential Payments Upon Termination or Change of Control" section, were structured to attract and retain persons believed to be key to Patriot's success as well as be competitive with compensation practices for executives in similar positions at companies of similar size and complexity. In assessing whether the terms of the employment agreements were competitive, Peabody's Compensation Committee received advice from its compensation consultant and reviewed salary surveys and industry benchmarking data, as discussed above. For more information regarding the terms of these agreements, see the "Potential Termination Upon Termination or Change of Control" section.

Annual Base Salary

Base salary represents the major fixed component of compensation for the named executive officers. Peabody's Compensation Committee reviewed the base salaries of the Chief Executive Officer and the executives who report directly to the Chief Executive Officer to ensure competitiveness in the marketplace. Mr. Whiting's employment agreement sets his base salary at $700,000.

Base salaries for the other named executive officers were determined based on a review for officers in their positions at peer companies and by reference to broad industry survey data discussed in the "Benchmarking Process" section and the individual executive's experience. Pursuant to the terms of their respective employment agreements entered into at the time of the spin-off, base salaries are as follows: Mr. Nemec, $375,000, Mr. Schroeder, $375,000, Mr. Ebetino, $375,000, and Mr. Bean, $275,000.

Patriot's Compensation Committee will continue to review the base salaries of the named executive officers at least annually to ensure that their salaries are competitive with companies of similar size and complexity. Any further salary increases may also be based on factors such as assessment of individual performance, experience, promotions and changes in level of responsibility.

Annual Incentive Plan

Patriot's executive officers and other designated key employees participate in an annual incentive compensation plan, which was approved by Peabody, in its capacity as our sole stockholder, prior to the spin-off. In general, our annual incentive plan provides opportunities for key executives to earn annual cash incentive payments tied to the successful achievement of pre-established objectives that support our business strategy.

Named executive officers are assigned threshold, target and maximum incentive payouts. If Patriot's performance does not meet the threshold level established by the Compensation Committee, no incentive bonus is earned. At threshold levels of Patriot performance, the incentive bonus that can be earned generally equals 50% of the target payout. Under the plan, the target payouts for the named executive officers were established through an analysis of compensation for comparable positions in industries of similar size and complexity, in order to provide a competitive level of compensation when participants, including the named executive officers, achieve their performance objectives with respect to Patriot performance.

Pursuant to the terms of their respective employment agreements, the named executive officer's threshold, target and maximum incentive payouts, as a percent of their salaries, based on achievement of relevant Patriot performance objectives, are as follows:

Name	Threshold Payout as a % of Salary	Target Payout as a % of Salary	Maximum Payout as a % of Salary
Richard M. Whiting	50%	100%	175%
Jiri Nemec	40%	80%	140%
Mark N. Schroeder	40%	80%	140%
Charles A. Ebetino, Jr.	40%	80%	140%
Joseph W. Bean	30%	60%	105%

2007 Annual Incentive Payouts

Prior to the spin-off, Peabody's Compensation Committee approved an incentive plan design for Patriot's named executive officers with respect to the 2007 fiscal year with the following terms: 60% of the annual bonus would be nondiscretionary and based on Peabody's performance in accordance with the terms of Peabody's annual incentive plan, and 40% of the annual bonus would be discretionary based on successful achievement of individual performance objectives including, but not limited to, the successful completion of the spin-off of Patriot and its transition to a stand alone company.

In 2007, the Chief Executive Officer, the Chief Financial Officer and the other named executive officers earned annual incentive payouts, as reflected in the Non-Equity Incentive Plan Compensation column of the Summary Compensation Table on page 24 of this Proxy Statement.

For 2007, the nondiscretionary performance measures (60% of the award) included (i) goals for Peabody's Adjusted EBITDA (ii) Peabody's earnings per share, (iii) Peabody's leverage ratio and (iv) a measure for safety. Those results were certified by Peabody's Compensation Committee and provided to Patriot and corresponding bonus amounts were paid by Patriot for the period November 1, 2007 to December 31, 2007. Factors considered in determining the amount of the discretionary portion of the award (40% of the award) to each named executive officer related primarily to the spin-off and included (i) maintenance of normal course of business with regard to safety and productivity at coal mining operations, (ii) effective communication and transition activities with customers, vendors, regulators, lenders and other stakeholders, (iii) securing appropriate levels of staffing for the new organization and successful relocation to the new corporate headquarters and (iv) maintaining effective communications and relations with employees throughout the transition. Performance against these discretionary goals was assessed by Patriot's Compensation Committee in January 2008. In determining the discretionary portion of the award for 2007, Patriot's Chief Executive Officer made recommendations to the Compensation Committee for the other named executive officers, but final determinations were made by the Compensation Committee in its discretion. Patriot's Compensation Committee, together with the other independent members of the Board of Directors, determined and approved the discretionary portion of the Chief Executive Officer's 2007 incentive award for the two months ended December 31, 2007.

Long-Term Incentives

Prior to the spin-off, Peabody, as Patriot's sole stockholder, approved and Patriot's Board of Directors adopted, Patriot's long-term incentive plan. The long-term incentive plan provides opportunities for key executives to earn payments based upon successful achievement of pre-established long-term (greater than one year) objectives, increase in Patriot's stock price and service with Patriot. The one-time long-term incentive awards awarded in connection with the spin-off have terms specifically aimed at long-term retention, in addition to achievement of certain financial objectives discussed on page 19 of this Proxy Statement. Other than on death, disability or a change of control of Patriot, the time-based equity components of the one-time long-term incentive awards granted in connection with the spin-off will not vest prior to the fifth-year anniversary of their date of grant. In addition, the performance-based component of the one-time long-term incentive awards only vest if performance metrics are achieved and are otherwise forfeited, including for terminations of employment as a result of death, disability or a change of control. These vesting schedules are not commonplace and were designed to reinforce the commitment of the named executive officers to Patriot as a stand-alone public company.

One-Time Long-Term Incentive Awards

Upon consummation of the spin-off, a long-term incentive opportunity was granted to each of the named executive officers through a one-time award of stock options and restricted stock units. The targeted value of these awards was split evenly between stock options and restricted stock units.

The purpose of the initial long-term incentive grants is to:

- Build commitment to Patriot and promote retention during the transition period following the spin-off;
- Align executive and stockholder interests;
- Make a substantial portion of each named executive officer's compensation directly contingent on future stock price appreciation; and
- Complement the other components of our compensation program and provide competitive total compensation opportunities.

Stock Options

Initial awards were made as of November 1, 2007 in the form of nonqualified stock options. The stock options were granted at an exercise price equal to the closing market price of our common stock as reported on the New York Stock Exchange on the date of grant. Accordingly, those stock options will have intrinsic value to employees only if the market price of Patriot's common stock increases after that date. The Company uses a Black-Scholes valuation model to establish the expected value of all stock option grants.

The initial grant of stock options vest 50% on the fifth anniversary of the grant date, 25% on the sixth anniversary of the grant date and 25% on the seventh anniversary of the grant date. The options will immediately vest upon a change of control of Patriot or upon the holder's death or disability. If the holder's employment terminates for reasons other than death or disability, all unvested stock options will be forfeited. Stock options will expire ten years from the date of grant or following specified periods upon termination of employment, if earlier.

Restricted Stock Units

In connection with the spin-off, initial awards of time-vested restricted stock units were granted, on November 1, 2007, each representing one share of Patriot common stock. If certain super-performance metrics (described below) are met, additional restricted stock units may be earned. The award will time vest as follows and will be payable in shares of our common stock: 50% on the fifth anniversary of the grant date, 25% on the sixth anniversary of the grant date and 25% on the seventh anniversary of the grant date. Any additional restricted stock units will be payable subject to the achievement of performance goals at the conclusion of the vesting periods ended December 31, 2012, December 31, 2013 and December 31, 2014. Upon a change of control of Patriot or the holder's death, or disability, the vesting of the time-vested restricted stock units will accelerate. If the holder's employment terminates for any other reason, all unvested restricted stock units will be forfeited. The restricted stock units subject to the super-performance conditions do not accelerate vest for any reason, including change of control, or the holder's death or disability.

If the following performance metrics are met on each of the vesting dates, additional restricted stock units may be earned as follows:

- *Fifth anniversary of the grant date:* 50% of the initial award time vests with an opportunity to earn up to 1.5 x 50% of the initial award if the super-performance metrics are achieved;

- *Sixth anniversary of the grant date:* 25% of the initial award time vests with an opportunity to earn up to 3.0 x 25% of the initial award if the super-performance metrics are achieved; and
- *Seventh anniversary of the grant date:* 25% of the initial award time vests with an opportunity to earn up to 4.0 x 25% of the initial award if the super-performance metrics are achieved.

The super-performance metrics are designed to balance Patriot's growth goals with financial stability and capital efficiency. The metrics used to measure these objectives are: Adjusted EBITDA, Return on Invested Capital and a Leverage ratio. Each is equally weighted in determining payouts, if any.

The percentage of achievement as of the vesting dates for each year is determined as follows and is based on the targets outlined in the chart below:

- The percentage of the Adjusted EBITDA goal achieved multiplied by 1/3, plus
- The percentage of the ROIC goal achieved multiplied by 1/3, plus
- The percentage of the Leverage goal achieved, multiplied by 1/3.

One-Time Long-Term Incentive Award

Super-Performance Grid

	Achievement %	December 31, 2012	December 31, 2013	December 31, 2014
		($ in millions)		
Cumulative Adjusted EBITDA Goal (1/3 weight)	25%	$ 798.5	$1,028.5	$1,281.5
	62.5%	$ 871.1	$1,122.0	$1,398.0
	100%	$ 943.6	$1,215.5	$1,514.5
ROIC Goal (1/3 weight)	25%	12%	12%	12%
	62.5%	14%	14%	14%
	100%	16%	16%	16%
Leverage Goal (1/3 weight)	25%	< 2.50	< 2.50	< 2.50
	62.5%	< 2.00	< 2.00	< 2.00
	100%	< 1.50	< 1.50	< 1.50

Achievement between the 25% and 100% levels illustrated above will be interpolated, but achievement less than the 25% level for any goal will result in 0% vesting for that goal. Additionally, 100% achievement is the maximum level of vesting (i.e. achievement in excess of 100% does not result in vesting greater than 100%).

Peabody determined that the grant levels for the spin-off were in line with typical market practices for similar transactions, and they provide a significant equity stake in Patriot to key executives. Pursuant to their respective employment agreements, the named executive officers received, in connection with the spin-off, a one-time long-term incentive grant as follows:

Name	Stock Options(#)	Restricted Stock Units(#)
Richard M. Whiting	186,425	79,335
Mark N. Schroeder	55,810	23,751
Jiri Nemec	55,810	23,751
Charles A. Ebetino, Jr.	55,810	23,751
Joseph W. Bean	31,450	13,384

The Cumulative Adjusted EBITDA performance measure is a key metric in assessing operating performance and is also an indicator of Patriot's ability to meet debt service and capital expenditure requirements. Adjusted EBITDA is defined as net income (loss) before deducting net interest expense, income taxes, minority interests, asset retirement obligation expense and depreciation, depletion and amortization.

The Return on Invested Capital is intended to measure financial stability over the five, six and seven year periods and will be calculated as follows:

- For the five-year measurement period ending December 31, 2012: Five-year cumulative Adjusted EBITDA divided by the five-year (2008-2012) Total Invested Capital amount.
  - Total Invested Capital includes total debt, total stockholder's equity and legacy liabilities.
- For the six-year measurement period ending December 31, 2013: Six-year cumulative Adjusted EBITDA divided by the six-year (2008-2013) Total Invested Capital amount.
- For the seven-year measurement period ending December 31, 2014: Seven-year cumulative Adjusted EBITDA divided by the seven-year (2008-2014) Total Invested Capital amount.

The Leverage ratio will be calculated as debt divided by EBITDA and will be measured as of December 31, 2012, December 31, 2013 and December 31, 2014.

Annual Long-Term Incentive Grants

A long-term incentive opportunity is available to each of our named executive officers and certain other key employees through annual awards and is designed to be competitive and based on actual Patriot performance. The first of these annual awards was granted to the named executive officers in the form of restricted shares that will cliff vest three years from November 1, 2007. Restricted stock is designed to attract and retain the executive team, align executive and stockholder interests, and provide executives with stock ownership in Patriot. The timing, form and amount of future annual awards will be determined by Patriot's Compensation Committee and, with respect to the Chief Executive Officer, the independent members of the Board of Directors. Under the terms of their respective employment agreements, the named executive officers received annual long-term incentive awards with a value at least equal to the percentage of their base salaries set forth below:

Name	As a% of Salary	Restricted Stock(#)
Richard M. Whiting	250%	46,667
Mark N. Schroeder	120%	12,000
Jiri Nemec	175%	17,500
Charles A. Ebetino, Jr.	120%	12,000
Joseph W. Bean	75%	5,500

The shares will immediately vest upon a change of control of Patriot or upon the holder's death or disability. If the holder's employment is terminated for reasons other than death or disability, all unvested restricted shares will be forfeited.

Retirement Benefits

Defined Contribution Plan

Patriot maintains a defined contribution retirement plan and other health and welfare benefit plans for its employees. Named executive officers participate in these plans on the same terms as other eligible employees, subject to any legal limits on the amounts that may be contributed by or paid to executives under the plans.

Excess Defined Contribution Retirement Plan

The Company maintains one excess defined contribution plan that provides retirement benefits to executives whose pay exceeds legislative limits for qualified benefit plans, which includes the named executive officers.

Other Benefits Provided by the Company

The named executive officers receive the same welfare and fringe benefits as all other employees of Patriot.

Perquisites

Patriot does not provide any perquisites in excess of $10,000 per individual per year to its named executive officers or other senior executives.

Policy on Grant of Equity-Based Compensation

In January 2008, the Committee approved a policy for granting equity-based compensation. The Committee makes grants of equity-based compensation to attract, motivate, compensate and retain executives and other key employees and to align their interests with the interests of stockholders. The timing of grants of equity-based compensation is designed to achieve these purposes. The following describes the regular process for making grants.

At the regularly scheduled meeting of the Compensation Committee of the Board of Directors held in December of each year, the Committee reviews the performance of the Company and senior management during the fiscal year. Based upon that review and such other factors as the Committee determines are relevant, including the recommendations of the Committee's compensation consultant, the Committee grants equity-based compensation to senior management by approving either (i) the terms of specific grants or (ii) a specific formula for determination of the terms of the grants. Such grants are made effective the first business day in January of the following year and may be determined based on the closing price of the Company's common stock as reported on the New York Stock Exchange (or the principal stock exchange or market on which the Common Stock is then traded) on such day or the last preceding day on which a sale was reported ("the fair market value").

The Compensation Committee also approves all grants of equity-based compensation to newly-hired or promoted eligible employees, or made under or in connection with retention agreements or for other valid business purposes, that were not made at the foregoing scheduled meeting of the Committee. Such grants must be approved at a regular or special meeting of the Committee that occurs on or prior to the date on which the award is considered to be granted.

All stock options must be granted at an option price not less than the fair market value. The grant date of any award is the date of the meeting of the Committee approving the grant or, if so approved by the Committee and reflected in the minutes of such meeting, any later date the Committee approves.

Stock Ownership Guidelines

Stock Ownership Guidelines

Both Management and the Board of Directors believe the Company's executives should acquire and retain a significant amount of Company Common Stock in order to further align their interests with those of stockholders.

Under the Company's share ownership guidelines, the Chief Executive Officer is encouraged to acquire and retain Company stock having a value equal to at least five times his or her base salary. Other named executive officers are encouraged to acquire and retain Company stock having a value equal to at least three times their base salary. All such executives are encouraged to meet these ownership levels within five years after assuming their executive positions.

The following table summarizes the named executive officers' ownership of Company Common Stock as of December 31, 2007.

Named Executive Officer Stock Ownership

Name	Share Ownership (#)(1)	Share Ownership ($)(2)	Ownership Guidelines, Relative to Base Salary	Ownership Relative to Base Salary
Richard M. Whiting(3)	160,046	6,680,320	5x	9.5x
Mark N. Schroeder(4)	42,256	1,763,765	3x	4.7x
Jiri Nemec(5)	45,036	1,879,803	3x	5.0x
Charles A. Ebetino, Jr.(6)	40,602	1,694,727	3x	4.5x
Joseph W. Bean(7)	22,095	922,245	3x	3.4x

(1) Includes shares acquired as a result of Peabody's spin-off of Patriot through a stock dividend; through the open market, time-vested restricted stock granted on November 1, 2007, through the Annual Long-Term Incentive Award and time-vested restricted stock units through the Extended Long-Term Incentive Award.

(2) Calculated based on the Company's closing market price per share on the last trading day of 2007, $41.74.

(3) Includes 79,334 time-vested restricted stock units granted to Mr. Whiting on November 1, 2007 under the terms of his Extended Long-Term Incentive Award.

(4) Includes 23,750 time-vested restricted stock units granted to Mr. Schroeder on November 1, 2007 under the terms of his Extended Long-Term Incentive Award.

(5) Includes 23,750 time-vested restricted stock units granted to Mr. Nemec on November 1, 2007 under the terms of his Extended Long-Term Incentive Award.

(6) Includes 23,750 time-vested restricted stock units granted to Mr. Ebetino, Jr. on November 1, 2007 under the terms of his Extended Long-Term Incentive Award.

(7) Includes 13,384 time-vested restricted stock units granted to Mr. Bean on November 1, 2007 under the terms of his Extended Long-Term Incentive Award.

Deductibility of Compensation Expenses

Pursuant to Section 162(m) under the Internal Revenue Code, certain compensation paid to executive officers in excess of $1 million is not tax deductible, except to the extent such excess constitutes performance-based compensation. While Patriot is operating under transition rules under Section 162(m) until its 2009 annual meeting, our Committee has and will continue to carefully consider the impact of Section 162(m) when establishing incentive compensation plans and making awards. At the same time, the Committee considers its primary goal to design compensation strategies that further the economic interests of the Company and its stockholders. In certain cases, the Compensation Committee may determine that the amount of tax deductions lost is insignificant when compared to the potential opportunity a compensation program provides for creating stockholder value. The Compensation Committee therefore retains the ability to evaluate the performance of the Company's executive officers and to pay appropriate compensation, even if it may result in the non-deductibility of certain compensation.

REPORT OF THE COMPENSATION COMMITTEE

The Compensation Committee has reviewed and discussed with management the Company's disclosures under "Compensation Discussion and Analysis" on page 15 of this Proxy Statement.

Based on such review and discussion, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement and incorporated by reference in the Company's annual report on Form 10-K for the fiscal year ended December 31, 2007 for filing with the Securities and Exchange Commission.

MEMBERS OF THE COMPENSATION COMMITTEE:

JOHN E. LUSHEFSKI, CHAIR
J. JOE ADORJAN
B. R. BROWN

SUMMARY COMPENSATION TABLE

The following table summarizes the total compensation paid to the Chief Executive Officer, the Chief Financial Officer and the three other most highly compensated executive officers for their service to the Company for the period November 1, 2007 through December 31, 2007.

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)(2)	Option Awards ($)(2)	Non-Equity Incentive Plan Compensation ($)(3)	Change in Pension Value and Non-Qualified Deferred Compensation Earnings ($)(4)	All Other Compensation ($)(5)	Total ($)
Richard M. Whiting(1) . . President & Chief Executive Officer	2007	116,667	—	182,993	79,303	125,413	—	8,397	512,772
Mark N. Schroeder(1) . . . Senior Vice President & Chief Financial Officer	2007	62,500	—	50,800	23,741	53,748	—	4,538	195,326
Jiri Nemec(1) . . . . Senior Vice President & Chief Operating Officer	2007	62,500	—	61,914	23,741	37,702	—	4,538	190,395
Charles A. Ebetino, Jr.(1). . Senior Vice President - Corporate Development	2007	62,500	—	50,800	23,741	51,708	—	4,668	193,416
Joseph W. Bean(1) . . . . . Senior Vice President, General Counsel & Secretary	2007	45,833	—	26,076	13,378	29,562	—	3,286	118,135

(1) Each of the above-named executives began employment with Patriot effective with the November 1, 2007 spin-off. Therefore, the amounts reflected in the Summary Compensation Table represent compensation for the period November 1, 2007 to December 31, 2007.

(2) Long-term incentive awards to the named executive officers consist of restricted stock and restricted stock units (reflected in the "Stock Award" column above) and stock options (reflected in the "Option Awards" column above). The value of stock awards and option awards is the compensation charge dollar amount recognized for financial statement reporting purposes for 2007 in accordance with FAS 123R. The grant date fair value of stock awards and option awards for financial statement reporting purposes in accordance with FAS 123R is included in the Grants of Plan-Based Awards Table on page 25 of this Proxy Statement. A discussion of the relevant fair value assumptions is set forth in Note 22 to the Company's consolidated financial statements on pages F-33 through F-35 of the Annual Report on Form 10-K for the year ended December 31, 2007. The Company cautions that the amount ultimately realized by the named executive officers from the stock and option awards will likely vary based on a number of factors, including the Company's actual operating performance, stock price fluctuations and the timing of exercises (in the case of options only) and sales.

(3) The material terms of these awards are described under the caption "Annual Incentive Plan" in the Compensation Discussion and Analysis section on page 17 of this Proxy Statement.

(4) The Company does not have a pension plan or a deferred compensation plan.

(5) Amounts included in this column are described in the All Other Compensation Table on page 25 of this Proxy Statement.

All Other Compensation

The following table sets forth detail of the amounts reported in the All Other Compensation column of the Summary Compensation Table.

Name	Year	Group Term Life Insurance	Annual 401(K) Matching and Performance Contributions	Total
		($)	($)	($)
Richard M. Whiting	2007	207	8,190	8,397
Mark N. Schroeder	2007	150	4,388	4,538
Jiri Nemec	2007	150	4,388	4,538
Charles A. Ebetino, Jr.	2007	280	4,388	4,668
Joseph W. Bean	2007	68	3,218	3,286

GRANTS OF PLAN-BASED AWARDS IN 2007

The following table sets forth information concerning the grant of plan-based awards to each of the Company's named executive officers for the period November 1, 2007 through December 31, 2007. Each named executive officer received restricted stock, restricted stock units and stock option awards on November 1, 2007.

		Estimated Possible Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards(1)								
Name	Grant Date	Threshold ($)	Target ($)	Maximum ($)	Threshold (#)	Target (#)	Maximum (#)	Equity Incentive Plan Awards: Grant Date Fair Value ($)(2)	All Other Stock Awards: Number of Shares of Stock or Units (#)(3)	All Other Stock Awards: Grant Date Fair Value ($)(2)	All Other Option Awards: Number of Securities Underlying Options (#,(2)(4)	Exercise or Base Price of Option Awards ($/Sh) (2)(5)	Option Awards: Grant Date Fair Value ($)(2)
Richard M. Whiting	11/1/2007	58,333	116,667	204,167									
	11/1/2007				79,334	79,334	198,334	2,999,802					
	11/1/2007								46,667	1,697,512			
	11/1/2007										186,425	37.50	2,682,458
Mark N. Schroeder	11/1/2007	25,000	50,000	87,500									
	11/1/2007				23,750	23,750	59,375	898,047					
	11/1/2007								12,000	436,500			
	11/1/2007										55,810	37.50	803,047
Jiri Nemec	11/1/2007	25,000	50,000	87,500									
	11/1/2007				23,750	23,750	59,375	898,047					
	11/1/2007								17,500	636,563			
	11/1/2007										55,810	37.50	803,047
Charles A. Ebetino, Jr.	11/1/2007	25,000	50,000	87,500									
	11/1/2007				23,750	23,750	59,375	898,047					
	11/1/2007								12,000	436,500			
	11/1/2007										55,810	37.50	803,047
Joseph W. Bean	11/1/2007	13,750	27,500	48,125									
	11/1/2007				13,384	13,384	33,460	506,083					
	11/1/2007								5,500	200,063			
	11/1/2007										31,450	37.50	452,532

(1) The restricted stock unit awards are included in the "Estimated Future Payouts Under Equity Incentive Plan Awards" column above. Performance unit awards granted in 2007 will be earned based on achievement of performance objectives for the period November 1, 2007 to December 31, 2012, November 1, 2007 to December 31, 2013 and November 1, 2007 to December 31, 2014. The material terms of these awards, including payout formulas, are described under the caption "Restricted Stock Units" in the Compensation Discussion and Analysis section on page 19 of this Proxy Statement.

(2) The value of stock awards, option awards and restricted stock unit awards is the grant date fair value determined under FAS 123R for financial statement reporting purposes. A discussion of the relevant fair value assumptions is set forth in Note 22 to the Company's consolidated financial statements on pages F-33 through F-35 of the

Annual Report on Form 10-K for the year ended December 31, 2007. The Company cautions that the amount ultimately realized by the named executive officers from the stock, unit and option awards will likely vary based on a number of factors, including the Company's actual operating performance, stock price fluctuations and the timing of exercises (in the case of options only) and sales.

(3) Restricted stock awards are reflected in the "All Other Stock Awards" column above. Restricted stock cliff vests on the third anniversary of the date of grant.

(4) The options vest fifty percent on the fifth anniversary of the date of grant, 25% on the sixth anniversary of the grant date and the remaining 25% on the seventh anniversary of the grant date. Other material terms of these awards are described under the caption "Stock Options" in the Compensation Discussion and Analysis section on page 19 of this Proxy Statement.

(5) The exercise price for all options is equal to the closing market price per share of the Company's Common Stock on the date of grant.

OUTSTANDING EQUITY AWARDS AT 2007 FISCAL YEAR END

The following table sets forth detail about the outstanding equity awards for each of the named executive officers as of December 31, 2007. The Company cautions that the amount ultimately realized by the named executive officers from the outstanding equity awards will likely vary based on a number of factors, including the Company's actual operating performance, stock price fluctuations and the timing of exercises and sales.

All unexercisable options and unvested shares or units of stock reflected in the table below are subject to forfeiture by the holder if the holder terminates employment without good reason (as defined in the holder's employment agreement).

	Option Awards				Stock Awards			
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)(1)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)(2)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)(3)
Richard M. Whiting							198,334(6)	8,278,461
					46,667(5)	1,947,881		
		186,425(4)	37.50	11/1/2017				
Total		186,425			46,667	1,947,881	198,334	8,278,461
Mark N. Schroeder							59,375(6)	2,478,313
					12,000(5)	500,880		
		55,810(4)	37.50	11/1/2017				
Total		55,810			12,000	500,880	59,375	2,478,313
Jiri Nemec							59,375(6)	2,478,313
					17,500(5)	730,450		
		55,810(4)	37.50	11/1/2017				
Total		55,810			17,500	730,450	59,375	2,478,313
Charles A. Ebetino, Jr.							59,375(6)	2,478,313
					17,500(5)	730,450		
		55,810(4)	37.50	11/1/2017				
Total		55,810			17,500	730,450	59,375	2,478,313
Joseph W. Bean							33,460(6)	1,396,620
					5,500(5)	229,570		
		31,450(4)	37.50	11/1/2017				
Total		31,450			5,500	229,570	33,460	1,396,620

(1) The market value was calculated based on the closing market price per share of the Company's Common Stock on the last trading day of 2007, $41.74 per share.

(2) The number of restricted stock units disclosed includes both the time-vested and performance-based awards and is based on the assumption that all super-performance goals were achieved.

(3) The payout value was calculated based on the closing market price per share of the Company's Common Stock on the last trading day of 2007, $41.74 per share, and the assumption that all time-based awards vest and all super performance goals were achieved.

(4) The options were granted on November 1, 2007 and vest 50 percent on the fifth anniversary of the date of grant, 25 percent on the sixth anniversary of the grant date and the remaining 25 percent on the seventh anniversary of the grant date.

(5) The restricted stock was granted on November 1, 2007 and cliff vests on November 1, 2010.

(6) The restricted stock units were granted on November 1, 2007 and vest 50 percent on the fifth anniversary of the date of grant, 25 percent on the sixth anniversary of the grant date and the remaining 25 percent on the seventh anniversary of the grant date, with opportunities to earn additional units if super-performance targets are achieved by December 31, 2012, December 31, 2013 and December 31, 2014. The super-performance targets are described under "One-Time Long-Term Incentive Awards" in the Compensation Discussion and Analysis on page 19 of this Proxy Statement.

OPTIONS EXERCISED AND STOCK VESTED IN 2007

None of the named executive officers exercised any stock options or had any stock awards that vested during 2007.

POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE OF CONTROL

In connection with the spin-off and in consultation with Mercer, the Company entered into employment agreements with each of our named executive officers and with certain other key executives. The terms of those agreements, including the provision of post-termination benefits, as described in detail below, were structured to attract and retain persons believed to be key to Patriot's success as well as be competitive with compensation practices for executives in similar positions at companies of similar size and complexity.

The Chief Executive Officer's employment agreement will extend from day-to-day so that there is at all times remaining a term of three years. Following a termination without cause or resignation for good reason, the Chief Executive Officer would be entitled to a payment equal to three years' base salary and three times the higher of (1) the target annual bonus for the year of termination or (2) the average of the actual annual bonuses we paid in respect of the three prior years. One-third of this severance payment would be payable in twelve equal monthly installments commencing on the date of termination, with the remainder payable in a lump sum on the first anniversary of termination. Upon termination, the CEO would also be entitled to a one-time prorated bonus for the year of termination (based on our actual performance for that year multiplied by a fraction, the numerator of which is the number of calendar days he was employed during the year of termination, and the denominator of which is the total number of calendar days during that year), payable when bonuses, if any, are paid to other executives. He would also be entitled to receive qualified and nonqualified retirement, life insurance, medical and other benefits for three years following termination. If the CEO is terminated without cause or resigns for good reason following a change of control, he would be entitled to all benefits described above, and all outstanding equity awards would accelerate as a result of the change of control and would not be forfeited upon subsequent termination of the CEO's employment. If the CEO is terminated without cause or resigns for good reason absent a change of control, he would be entitled to all benefits described above, but all outstanding unvested equity awards would not accelerate and would be forfeited.

The employment agreements for the Senior Vice President & Chief Operating Officer and the Senior Vice President & Chief Financial Officer will extend from day-to-day so that there is at all times a remaining term of one year. Following a termination without cause or resignation for good reason, each would be entitled to a payment equal to one year of base salary plus (1) the target annual bonus for the year of termination or (2) the average of the actual annual bonuses we paid in respect of the three prior years. This amount would be payable in twelve equal monthly installments commencing on the date of termination. In addition, each would be entitled to a one-time prorated bonus for the year of termination (based on our actual performance for that year multiplied by a fraction, the numerator of which is the number of calendar days the executive officer was employed during the year of termination, and the denominator of which is the total number of calendar days during that year), payable when bonuses, if any, are paid to our other executives. Each of these officers would also be entitled to receive qualified and nonqualified retirement, life insurance, medical and other benefits for one year following termination. If any of these officers is terminated without cause or resigns for good reason following a change of control, he would be entitled to all benefits described above, and all outstanding equity awards would accelerate as a result of the change of control and would not be forfeited upon subsequent termination of any of these officer's employment. If any of these officers is terminated without cause or resigns for good reason absent a change of control, he would be entitled to all benefits described above, but all outstanding unvested equity awards would not accelerate and would be forfeited.

The employment agreements for the other named executive officers will have an initial two-year term. During the initial two-year term, following a termination without cause or resignation for good reason, each would be entitled to a payment equal to the product of (1) one year of base salary plus the greater of (a) the target annual bonus for the year of termination or (b) the average of the actual annual bonuses we paid in respect of the three prior years, multiplied by (2) the greater of (a) one or (b) the number of calendar days following the termination date remaining in the initial two-year term divided by 365. In addition, the other named executive officers would be entitled to a one-time prorated bonus for the year of termination (based on our actual performance for that year multiplied by a fraction, the numerator of which is the number of calendar days the executive officer was employed during the year of termination, and the denominator of which is the total number of calendar days during that year), payable when bonuses, if any, are paid to our other executives. Each other named executive officer would also be entitled to receive qualified and nonqualified retirement, life insurance, medical and other benefits for the greater of one year following the date of termination or the remainder of the agreement's initial two-year term. If the other named executive officer is terminated without cause or resigns for good reason following a change of control during the term of the employment agreement, he would be entitled to all benefits described above, and all outstanding equity awards would accelerate as a result of the change of control and would not be forfeited upon subsequent termination of any of these named executive officer's employment. If any of these other named executive officers is terminated without cause or resigns for good reason absent a change of control, he would be entitled to all benefits described above, but all outstanding unvested equity awards would not accelerate and would be forfeited.

If an employment agreement for any of the other named executive officers is not extended by mutual consent of the parties, the executive will no longer be entitled to receive any special termination benefits; *provided, however*, if that executive is thereafter terminated by Patriot other than for cause, disability or death, he would be entitled to receive a one-year severance payment, pro-rated bonus and continuation benefits for one year as described above.

If any of the named executive officers is terminated for cause or resigns without good reason, the compensation due to that officer would only include accrued but unpaid salary and payment of accrued and vested benefits and unused vacation time. If that officer is terminated due to death or disability, he would be entitled to receive accrued but unpaid salary and payment of accrued and vested benefits and unused vacation time. He also would receive a pro-rated bonus for the year of termination, as described above.

Under all executives' employment agreements, Patriot would not be obligated to provide any benefits under tax qualified plans that are not permitted by the terms of each plan or by applicable law or that could jeopardize the plan's tax status. Continuing benefit coverage would terminate to the extent an executive is offered or obtains comparable coverage from any other employer. The employment agreements will provide for confidentiality during and following employment, and will include noncompetition and nonsolicitation covenants that will be effective during and for one year following employment. If an executive breaches any of his or her confidentiality, noncompetition or nonsolicitation covenants, the executive will forfeit any unpaid amounts or benefits. To the extent that excise taxes are incurred by an executive as a result of "excess parachute payments," as defined by IRS regulations, Patriot will pay additional amounts so that the executive would be in the same financial position as if the excise taxes were not incurred.

Under the executives' employment agreements, "Good reason" is defined as (i) a reduction by Patriot in the executive's base salary, (ii) a material reduction in the aggregate program of employee benefits and perquisites to which the executive is entitled (other than a reduction that generally affects all executives), (iii) a material decline in the executive's bonus or long-term incentive award opportunities, (iv) relocation of the executive's primary office by more than 50 miles from the location of the executive's primary office in Saint Louis, Missouri or (v) any material diminution or material adverse change in the executive's title, duties, responsibilities or reporting relationships. Resignation "without good reason" is not only voluntary termination by the employee, but also any other reason that is not included in the definition of good reason.

Under the executives' employment agreements, a "change of control" is defined as (a) a person (with certain exceptions) becoming the direct or indirect beneficial owner of securities of the Company representing 50% or more of the combined voting power of the Company, (b) if, during any period of twelve months, the constitution of Patriot's Board of Directors changes such that individuals who were directors at the beginning of that period, and new directors (other than directors nominated by a person who has entered into an agreement with Patriot that would constitute a "change of control" or by any person who has announced an intention to take or to consider taking actions which if consummated would constitute a "change of control") whose election by Patriot's Board of Directors or nomination for election by the Company's stockholders was approved by a vote of the Company's stockholders or at least three-fourths of Patriot's directors who were either directors at the beginning of such period or whose election or nomination for election was previously so approved, cease to constitute a majority of Patriot's Board of Directors, (c) the consummation of any merger, consolidation, plan of amalgamation, reorganization or similar transaction or series of transactions in which the Company is involved, unless the stockholders of the Company immediately prior thereto continue to own more than 50% of the combined voting power of the Company or the surviving entity in substantially the same proportions or (d) the consummation of a sale or disposition by the Company of all or substantially all of its assets (with certain exceptions).

In connection with the spin-off, the Company also entered into an employment agreement with Irl F. Engelhardt to serve as Chairman of the Board and Executive Advisor at a base salary of $250,000 per year and a target annual bonus of 50 percent of base salary. He also received a one time grant of restricted shares valued at $650,000 based on the fair market value of Company's common stock on the date of the spin-off. The restricted stock cliff vests three years from the date of the grant and will accelerate vest upon death, disability or a change of control (as defined above). Mr. Engelhardt's agreement has a term expiring December 31, 2010, which may be extended by mutual agreement. The Company may only terminate his employment as Executive Advisor for cause, disability or death. The Board of Directors may terminate his service as Chairman of the Board at any time for any reason. Mr. Engelhardt may terminate his employment at any time; however, if he terminated employment for good reason, he would be entitled to his base salary through December 31, 2010, a one-time prorated bonus for the year of termination (based on the Company's actual performance multiplied by a fraction, the numerator of which is the number of business days he was employed during the year of termination, and the denominator of which is the total number of business days during that year), payable when bonuses, if any, are paid to other executives. He would also receive qualified and nonqualified retirement, life insurance, medical and other benefits through December 31, 2010.

For purposes of Mr. Engelhardt's agreement, "good reason" is defined as (i) reduction by Patriot in the executive's base salary, (ii) a material reduction in the aggregate program of employee benefits and perquisites to which the executive is entitled (other than a reduction that generally affects all executives), or (iii) any material diminution or material adverse change in the executive's title, duties, responsibilities or reporting relationship as Executive Advisor. The removal of Mr. Engelhardt as Chairman of the Board will not constitute good reason. If Mr. Engelhardt is terminated for cause or resigns without good reason, the compensation due would only include accrued but unpaid salary and payment of accrued and vested benefits and unused vacation time. If Mr. Engelhardt is terminated due to death or disability, he would be entitled to receive accrued but unpaid salary and payment of accrued and vested benefits and unused vacation time. He also would receive a pro-rated bonus for the year of termination, as described above. Resignation "without good reason" is not only voluntary termination by Mr. Engelhardt, but also any other reason that is not included in the definition of good reason.

In structuring the terms of Mr. Engelhardt's employment agreement, Peabody's Compensation Committee considered his extensive experience and relationships in the coal industry, and designed a compensation package it believed necessary to retain his services for the benefit of Patriot and its stockholders. In consultation with the independent compensation consultant and based on its assessment of Mr. Engelhardt's future contributions to Patriot, the Committee deemed the magnitude and structure of Mr. Engelhardt's employment agreement to be appropriate and recommended it to Peabody's Board of Directors (acting as Patriot's Board of Directors prior to the spin-off) for approval. Peabody's Board of Directors, excluding Mr. Engelhardt, who was Chairman at the time, approved Mr. Engelhardt's employment agreement based on the Compensation Committee's recommendation.

The tables below reflect the amount of compensation that would have been payable to each of the named executive officers in the event of termination of such executives' employment, per the terms of their employment agreements and long-term incentive agreements. The amount of compensation payable to each named executive officer upon Retirement, "For Cause" Termination, Death or Disability, Voluntary Termination, Involuntary Termination "Without Cause" or "For Good Reason", and Involuntary Termination as a Result of Change of control is shown below. The amounts shown assume that termination was effective as of December 31, 2007, and are estimates of the amounts that would have been paid to the executives upon their termination. The actual amounts that would be payable can be determined only at the time of the executives' termination.

Estimated Incremental Value Upon Termination

Name	Retirement ($)(1)	"For Cause" Termination ($)(2)	Death or Disability ($)(3)	Voluntary Termination ($)(4)	Involuntary Termination "Without Cause" or "For Good Reason" ($)(5)	Involuntary Termination as a Result of Change in Control ($)(6)
Richard M. Whiting	—	134,038	6,883,762	134,038	5,223,492	11,273,216
Mark N. Schroeder	—	0	2,028,839	0	1,011,057	3,437,606
Jiri Nemec	—	39,276	2,297,685	39,276	1,053,684	3,012,093
Charles A. Ebetino, Jr.	—	0	2,028,839	0	1,608,161	4,401,583
Joseph W. Bean	—	0	1,086,566	0	1,030,552	2,604,734

(1) None of the named executive officers was eligible for retirement (age 55, with 5 years of service) as of December 31, 2007.

(2) "For Cause" means (i) any material and uncorrected breach by the executive of the terms of their employment agreement, including but not limited to engaging in disclosure of secret or confidential information, (ii) any willful fraud or dishonesty of the executive involving the property or business of the Company, (iii) a deliberate or willful refusal or failure to comply with any major corporate policies which are communicated in writing or (iv) the executive's conviction of, or plea of no contest to any felony if such conviction shall result in imprisonment. Compensation payable to an executive would include only accrued but unused vacation.

(3) For all named executive officers, compensation payable upon Death or Disability would include a) accrued but unused vacation, b) prorated annual incentive for year of termination, c) 100% payout of the time-vested portion of outstanding restricted stock units, and d) the value an executive could realize as a result of the accelerated vesting of any unvested stock option awards and restricted stock, per the terms of the executive's respective grant agreements. For 2007, the prorated annual incentive was equal to 100% of the non-equity incentive plan compensation, as shown in the Summary Compensation Table on page 24 of this Proxy Statement, and payout of restricted stock units reflects the values for the 2007 restricted stock units as shown in the Outstanding Equity Awards Table on page 26 of this Proxy Statement. Amounts do not include life insurance payments in the case of death.

(4) For all named executive officers, the compensation payable would include accrued but unused vacation.

(5) For Mr. Whiting, the compensation payable would include a) severance payments of three times base salary, b) a payment equal to three times the higher of (1) the target annual incentive or (2) the average of the actual annual incentives paid in the three prior years, c) prorated annual incentive for year of termination, d) continuation of benefits for three years.

For Mr. Schroeder and Mr. Nemec, the compensation payable would include a) severance payments of one times base salary, b) a payment equal to one times the higher of (1) the target annual incentive or (2) the average of the actual annual incentives paid in the three prior years, c) prorated annual incentive for year of termination and d) continuation of benefits for one year.

For Mr. Ebetino and Mr. Bean, the compensation payable would include a) severance payments of 1.83 times (22 months) base salary, b) a payment equal to 1.83 times the higher of (1) the target annual incentive or (2) the average of the actual annual incentives paid in the three prior years, c) prorated annual incentive for year of termination and d) continuation of benefits for 22 months.

(6) Reflects total estimate of compensation payable as a result of both a change of control and a termination of employment, as detailed in the Estimated Current Value of Change of Control Benefits Table on page 31 of this Proxy Statement. This includes the value of stock options, restricted stock and the time-vested portion of restricted stock units granted on November 1, 2007.

The named executive officers would be entitled to receive certain benefits upon a change of control of the Company under the terms of their individual employment agreements and long-term incentive agreements. The actual value of these benefits would be known only if and when they become eligible for payment. The following table provides an estimate of the value that would have been payable to each named executive officer assuming a change of control of the Company had occurred on December 31, 2007, including a gross-up for certain taxes in the event that any payment made in connection with the change of control was subject to the excise tax imposed by Section 4999 of the Internal Revenue Code.

Estimated Current Value of Change of Control Benefits

Name	Severance Amount ($)(1)	Estimated Tax Gross Up ($)(2)	Accelerated Vesting of Unvested LTIP Awards ($)(3)			Total ($)
			Restricted Stock	Stock Options	Restricted Stock Units	
Richard M. Whiting	5,223,492	—	1,947,881	790,442	3,311,401	11.273,216
Mark N. Schroeder	1,011,057	697,710	500,880	236,634	991,325	3,437,606
Jiri Nemec	1,053,684	—	730,450	236,634	991,325	3,012,093
Charles A. Ebetino, Jr.	1,608,161	1,064,583	500,880	236,634	991,325	4,401,583
Joseph W. Bean	1,030,552	652,616	229,570	133,348	558,648	2,604,734

(1) The severance amount is equal to the amount shown in the "Involuntary Termination 'Without Cause' or 'For Good Reason" column in the Estimated Incremental Value Upon Termination Table on page 30 of this Proxy Statement.

(2) Includes excise tax, plus the effect of 35% federal income taxes, 6% state income taxes, and 1.45% FICA-HI taxes on the excise tax. Excise tax is equal to 20% times the excess parachute payment subject to excise tax. An excess parachute payment is triggered when the change of control amount is greater than the safe harbor amount (equal to 3x the base amount less $1; base amount is the average of the previous 5 years' W-2 earnings); actual excess parachute payment is equal to the difference between the preliminary change of control amount and the base amount. The gross up calculation assumes no allocation of any amounts to the covenant not to compete provision in each executive's employment agreement, notwithstanding that such allocation is permissible in certain circumstances under applicable tax rules. Such an allocation may have the effect of reducing or eliminating any gross up payment.

(3) Reflects the value an executive could realize as a result of the accelerated vesting of any unvested stock option awards, based on the stock price on the last business day of 2007, $41.74. The value realized is not and would not be a liability of the Company.

2007 ANNUAL COMPENSATION OF DIRECTORS

DIRECTOR COMPENSATION

Annual compensation of non-employee directors for 2007 was comprised of cash compensation, consisting of annual retainer and committee fees, and equity compensation, consisting of deferred stock units. Each of these components is described in more detail below. The total 2007 compensation of the Company's non-employee directors is shown in the following table.

Annual Board/Committee Fees

In 2007, non-employee directors received a pro-rata portion of an annual cash retainer of $60,000. Non-employee directors who served on more than one committee received an additional pro-rata portion of an annual $10,000 cash retainer. The Audit Committee Chairperson received an additional pro-rata portion of an annual $15,000 cash retainer, and the other Audit Committee members received additional pro-rata portions of annual $5,000 cash retainers. The Chairpersons of the Compensation and Nominating & Governance Committees each received an additional pro-rata portion of the annual $10,000 cash retainer.

The Company pays travel and accommodation expenses of directors to attend meetings and other corporate functions. Directors do not receive meeting attendance fees.

Annual Equity Compensation

In 2007, non-employee directors received annual equity compensation valued at $65,000, awarded in the form of deferred stock units. Non-employee directors also received an initial deferred stock unit award valued at $75,000 upon joining the Board of Directors. Deferred stock unit awards will vest on the first anniversary of the grant date and will be distributed in common shares three years after grant. In the event of a change of control of Patriot (as defined in Patriot's Long-Term Equity Incentive Plan), all restrictions related to the deferred stock units will lapse. The deferred stock units will provide for vesting in the event of death or disability or termination of service without cause with consent of our Board of Directors.

Director Compensation

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)(1)(2)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Non-qualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Total ($)
Chairman							
Irl F. Engelhardt(3)	—	—	—	—	—	—	—
Non-Employee Directors							
J. Joe Adorjan	35,000	23,338	—	—	—	—	58,338
B.R. Brown	35,000	23,338	—	—	—	—	58,338
John E. Lushefski	42,500	23,338	—	—	—	—	65,838
Michael M. Scharf	42,500	23,338	—	—	—	—	65,838
Robert O. Viets	42,500	23,338	—	—	—	—	65,838

(1) The value of the deferred stock units was the 2007 compensation charge dollar amount recognized for financial statement reporting purposes in accordance with FAS 123R. For all non-employee directors, the grant date fair values for deferred stock units determined under FAS 123R for financial reporting purposes was $60,000 for annual equity compensation and $75,000 for the initial award given upon joining the Board of Directors. A discussion of the relevant fair value assumptions is set forth in Note 22 to the Company's consolidated financial statements on pages F-33 through F-35 of the Annual Report on Form 10-K for the year ended December 31, 2007. The Company cautions that the amount ultimately realized by the non-employee directors from the deferred stock unit awards will likely vary based on a number of factors, including the Company's actual operating performance, stock price fluctuations and the timing of sales.

(2) As of December 31, 2007, the aggregate number of deferred stock units outstanding for each non-employee director was as follows: Mr. Adorjan, 3,734; Mr. Brown, 3,734; Mr. Lushefski, 3,734; Mr. Scharf, 3,734; and Mr. Viets, 3,734.

(3) Mr. Engelhardt, Chairman of the Board and Executive Advisor of the Company, continues to serve as an executive officer of the Company and receives a salary and other compensation pursuant to the terms of an employment agreement with the Company, which is discussed in detail on page 29 of this document. He receives no additional compensation for serving as director.

Director Stock Ownership

Under the Company's share ownership guidelines for directors, directors are encouraged to acquire and retain Company stock having a value equal to at least three times their annual retainer. Directors are encouraged to meet these ownership levels within three years after joining the Board.

The following table summarizes the director ownership of Company Common Stock as of December 31, 2007.

Name(1)	Share Ownership (#)(2)	Share Ownership ($)(3)	Ownership Guidelines, Relative to Annual Retainer (4)	Ownership Relative to Annual Retainer (5)
Chairman				
Irl F. Engelhardt	157,715	6,583,024	—	—
Non-Employee Directors				
J. Joe Adorjan	3,734	155,857	3x	2.6x
B.R. Brown	4,453	185,868	3x	3.1x
John E. Lushefski	3,734	155,857	3x	2.6x
Michael M. Scharf	3,734	155,857	3x	2.6x
Robert O. Viets	5,334	222,641	3x	3.7x

(1) Mr. Whiting's stock ownership is shown on the Named Executive Officer Stock Ownership Table.

(2) Includes shares acquired through open market purchases and deferred stock units granted on November 1, 2007 in accordance with the non-employee Board of Director compensation ownership guidelines.

(3) Value is calculated based on the closing market price per share of the Company's Common Stock on the last trading day of 2007, $41.74.

(4) Based on base annual retainer. For 2007, the base annual retainer was $60,000.

(5) Represents current ownership, shown as a multiple of the base annual retainer of $60,000.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Our Relationship with Peabody

In connection with the spin-off, we and Peabody entered into a Separation Agreement and several ancillary agreements to complete the separation of our businesses and to distribute Patriot's common stock. Several of these agreements govern the ongoing relationship between Peabody and us. The agreements were prepared before the spin-off and reflect agreement between then affiliated parties established without arms-length negotiation. However, we believe the terms of these agreements will equitably reflect the benefits and costs of our ongoing relationship with Peabody. The ancillary agreements include the following:

- Various coal supply agreements;
- Tax Separation Agreement;
- Coal Act Liability Assumption Agreement;

- NBCWA Liability Assumption Agreement;
- Salaried Employee Liability Assumption Agreement;
- Administrative Services Agreement;
- Transition Services Agreement;
- Employee Matters Agreement;
- Various real property agreements;
- Throughput and Storage Agreement for a coal transloading facility;
- Master Equipment Sublease Agreement;
- Software License Agreement; and
- Common Interest Agreement.

Separation Agreement, Plan of Reorganization and Distribution

The Separation Agreement, Plan of Reorganization and Distribution, which we refer to as the Separation Agreement, sets forth the agreement between us and Peabody with respect to the principal corporate transactions required to spin-off from Peabody and other agreements governing the relationship between Peabody and us following the separation, including certain litigation matters.

Releases and Indemnification

The Separation Agreement generally provides for a full and complete mutual release and discharge as of the date of the spin-off of all liabilities existing or arising from all acts and events occurring or failing to occur or alleged to have occurred or have failed to occur and all conditions existing or alleged to have existed on or before the separation, between or among Peabody or its affiliates, on the one hand, and us or our affiliates, on the other hand, except as expressly set forth in the Separation Agreement. The liabilities released or discharged include liabilities arising under any contractual agreements or arrangements existing or alleged to exist between or among any such members on or before the separation, other than the Separation Agreement, the ancillary agreements described below and the other agreements referred to in the Separation Agreement.

Subject to certain exceptions, we agree to indemnify Peabody and its affiliates, and each of their directors, officers and employees, from and against all liabilities relating to, arising out of or resulting from:

- The business, operations, contracts, assets and liabilities of Patriot and its affiliates, whether arising before or after the spin-off;
- Liabilities or obligations associated with the Patriot business, as defined in the Separation Agreement, or otherwise assumed by us pursuant to the Separation Agreement, including liabilities associated with litigation related to the Patriot business;
- Any breach by us of the Separation Agreement or any of the ancillary agreements entered into in connection with the Separation Agreement; and
- Any untrue statement or alleged untrue statement of any material fact contained in our information statement dated October 24, 2007 filed on Form 8-K or any amendment or supplement thereto or the omission or alleged omission to state therein a material fact required to be stated, except for information for which Peabody will agree to indemnify us as described below.

Subject to certain exceptions, Peabody agrees to indemnify us and our affiliates, and each of our directors, officers and employees, from and against all liabilities relating to, arising out of or resulting from:

- The business, operations, contracts, assets and liabilities of Peabody and its affiliates (other than the Patriot business), whether arising before or after the spin-off;

- Liabilities or obligations of Peabody or its affiliates other than those of an entity forming part of the Patriot business or otherwise assumed by us pursuant to the Separation Agreement, including liabilities associated with litigation that is not related to the Patriot business;
- Any breach by Peabody of the Separation Agreement or any of the ancillary agreements entered into in connection with the Separation Agreement;
- Certain retiree healthcare costs, as described under Liability Assumption Agreements and Administrative Services Agreement below; and
- Any untrue statement or alleged untrue statement of any material fact regarding Peabody included in certain sections of our information statement dated October 24, 2007 filed on Form 8-K.

Non-solicitation of employees

Except with the written approval of the other party and subject to certain exceptions provided in the Separation Agreement, we and Peabody agree not to, for a period of 12 months following the spin-off, directly or indirectly solicit or hire employees of the other party or its subsidiaries.

Expenses

Peabody paid all costs and expenses incurred in connection with the spin-off and the transactions contemplated by the Separation Agreement, and all costs and expenses incurred in connection with the preparation, execution, delivery and implementation of the Separation Agreement and the ancillary agreements. Peabody also paid other expenses of the transaction, including the legal, filing, accounting, printing, and other expenses incurred in connection with the preparation, printing, and filing of the registration statement on Form 10. Peabody also funded a portion of our credit facility origination fees and various legal fees related to the spin-off totaling $7.1 million.

Litigation Matters

The Separation Agreement provides that we will diligently conduct, at our sole cost and expense, the defense of any actions related to the Patriot business, that we will notify Peabody of any material developments related to such litigation, and that we will agree not to file cross claims against Peabody in relation to such actions. Peabody made corresponding agreements with respect to actions that are not related to the Patriot business. We and Peabody have agreed to share the cost and expense of certain actions that we cannot currently identify as being related to the Patriot or Peabody businesses, until they can be so classified. Furthermore, the Separation Agreement requires us and Peabody to cooperate to, among other matters, maintain attorney-client privilege and work product doctrine in connection with litigation against us or Peabody, as further set forth in the common interest agreement described below.

Amendments and Waivers; Further Assurances

The Separation Agreement provides that no provisions of it or any ancillary agreement will be deemed waived, amended, supplemented or modified by any party unless the waiver, amendment, supplement or modification is in writing and signed by the authorized representative of the party against whom that waiver, amendment, supplement or modification is sought to be enforced.

Peabody and Patriot agree to use their respective reasonable efforts to:

- Execute and deliver any additional instruments and documents and take any other actions the other party may reasonably request to effectuate the purposes of the Separation Agreement and the ancillary agreements and their terms; and
- To take all actions and do all things reasonably necessary under applicable laws and agreements or otherwise to consummate and make effective the transactions contemplated by the Separation Agreement and the ancillary agreements.

Dispute Resolution

The Separation Agreement contains provisions that govern, except as otherwise provided in any ancillary agreements, the resolution of disputes, controversies or claims that may arise between us and Peabody. These provisions contemplate that efforts will be made to resolve disputes, controversies or claims by escalation of the matter to senior management, independent Board committees or other representatives of us or Peabody. If those efforts are not successful, the parties may by mutual agreement submit the dispute, controversy or claim to arbitration, subject to the provisions of the Separation Agreement.

Consummation of Spin-off Transaction

On October 31, 2007, Patriot received a net contribution from Peabody of $781.3 million, which reflected the following:

- retention by Peabody of certain retiree healthcare liabilities of $615.8 million;
- the forgiveness of the outstanding intercompany payables to Peabody on October 31, 2007 of $81.5 million;
- the retention by Patriot of trade accounts receivable at October 31, 2007, previously recorded through intercompany receivables, of $68.6 million;
- a $30.0 million cash contribution;
- the retention by Peabody of assets and asset retirement obligations related to certain Midwest mining operations of a net $8.1 million;
- less the transfer of intangible assets of $22.7 million related to purchased contract rights for a supply contract retained by Peabody.

Coal Supply Agreements

Following the spin-off, a majority of the coal produced by Patriot's operations is sold to Peabody pursuant to coal supply agreements. Patriot will continue to supply coal pursuant to the Master Coal Supply Agreements and two other coal supply agreements discussed below. As of February 29, 2008, Patriot's obligations under these contractual arrangements are as follows: 18.9 million tons in 2008, 10.6 million tons in 2009, 6.7 million tons in 2010, 6.5 million tons in 2011 and 2.8 million tons in 2012.

Patriot maintains a separate sales and marketing subsidiary, and enters into its own coal supply arrangements for new business. As Peabody's underlying coal supply agreements expire, Peabody and Patriot may separately compete with each other and other coal suppliers for future business.

Master Coal Supply Agreements

To ensure continuity of supply to certain customers of Peabody, Patriot's sales and marketing subsidiary entered into a total of three Master Coal Supply Agreements with Peabody subsidiaries, including separate agreements with each of the following: (1) COALSALES, LLC, (2) COALSALES II, LLC and (3) COALTRADE INTERNATIONAL, LLC. Under these contracts, the Patriot subsidiary continues to supply coal sourced from Patriot operations directly to customers who have existing contracts with these Peabody subsidiaries. The Master Coal Supply Agreements incorporate the terms and conditions of individual contracts between the Peabody subsidiaries and customers supplied by Patriot operations. Patriot undertakes to perform Peabody's obligations with respect to the underlying coal supply contracts, and indemnifies Peabody for Patriot's unexcused failure to perform. In turn, Patriot is entitled to the benefits that Peabody has under such contracts. Payments to Patriot are due within five days following the invoice date for end customer payments. Under the terms of the Master Coal Supply Agreements, the Patriot subsidiary bears the risk of default, non-performance and termination by the third party customers. However, the applicable Peabody subsidiary must use commercially reasonable efforts to defend its contract rights toward the customer so that Patriot continues to maintain the benefits of the pass-through agreement.

In the course of defending its rights, the Peabody subsidiary must also exercise commercially reasonable efforts to avoid actions that are detrimental to Patriot.

The Master Coal Supply Agreements involve sales of approximately $965 million in the aggregate. They do not apply to coal sold pursuant to Coal Supply Agreement I or Coal Supply Agreement II (which are discussed below) or coal sales agreements entered into directly by Patriot with third party customers.

The Master Coal Supply Agreements cover a total of 41 contracts which Peabody had with 36 customers as of February 29, 2008. None of these contracts individually is material to our financial condition or results of operations. The material terms and conditions of these contracts are summarized below.

Peabody Counterparty	No. of Underlying Contracts	No. of Underlying Customers	Weighted Avg. Remaining Term	Remaining Term (Range)	Price Range (per ton)	Weighted Avg. Price	Remaining Tons (Millions)
COALSALES, LLC . .	32	27	20 months	1-34 months	$30-80	$56.27	10.2
COALSALES II, LLC.	3	3	1 month	1 month	$20-40	$37.76	0.1
COALTRADE International, LLC.	6	6	13 months	1-18 months	$67-86	$76.30	1.8
TOTAL	41	36					12.1

The terms and conditions of each underlying customer contract (other than term, price and quantity, as described in the above table) are substantially similar. Coal shipped under the contracts to domestic customers is typically sold and delivered to the customer at the mine, while export coal is typically sold and delivered to the customer after loading in ocean-going vessels. Payment terms vary by customer but typically range from 15-30 days from receipt of invoice. The contracts contain provisions requiring us to deliver coal meeting quality thresholds for characteristics such as Btu, sulfur, ash, moisture and size. Failure to meet these specifications could result in economic penalties, including price adjustments, the rejection of deliveries or termination of the contracts. In some cases, the underlying contracts also provide for a price premium if the coal quality exceeds contractual specifications.

Some customer contracts contain provisions that allow for price adjustments due to new laws or changes in law that affect our cost of production.

The customer contracts generally contain force majeure provisions allowing temporary suspension of performance by us or the customer for the duration of specified events caused by Acts of God or other circumstances beyond the control of the affected party. In some cases, an extended force majeure could lead to contract termination.

In addition to the termination events described above, the customer contracts are generally terminable by the non-defaulting party for any material uncured breach.

Coal Supply Agreement I

COALSALES II, LLC, a Peabody affiliate (COALSALES II), currently supplies approximately 2.9 million tons per year of coal to steam coal customers with coal produced from Patriot's Rocklick and Big Mountain operations. To ensure continuity of supply to its customers, COALSALES II entered into a new coal supply agreement with Patriot (Coal Supply Agreement I). Sales under Coal Supply Agreement I as of February 29, 2008 are estimated to be approximately $737 million over the remaining term of the contract.

The material terms and conditions of Coal Supply Agreement I are as follows:

- Patriot will generally be responsible for coordinating shipments and the delivery of the coal into railcars for COALSALES II customers.
- Patriot will supply from 1,412,500 to 1,600,250 tons of coal per contract half-year to COALSALES II through December 31, 2012.

- Conforming coal must be provided from pre-approved Patriot production sources and shipping origins to meet specific quality parameters in accordance with specific sampling, weighing and analysis requirements. Non-conforming deliveries may be rejected by COALSALES II, which could lead to suspension and agreement termination if not remedied.

- For Patriot coal shipments during the period from January 1, 2008 through December 31, 2011, to entitle COALSALES II to a first priority right of production, COALSALES II will make a monthly prepayment to Patriot, ten (10) days prior to the beginning of each month, in the amount of $1,041,666 per month plus any applicable taxes and royalties related thereto.

- The unadjusted price for coal supplied under the agreement (also known as the Base Price) ranges from $45.00 to $52.08 per ton through December 31, 2012 and will be adjusted (within certain limits and on certain conditions) to reflect changes in cost due to new laws or regulations or changes in existing laws or regulations.

- To determine the Selling Price for coal, the Base Price is adjusted upward or downward for sulfur and calorific value quality variances from the agreement's coal quality specifications.

- Payment terms are within 22 days after the end of each half-month and COALSALES II must pay Patriot regardless of whether or not the ultimate customer has paid COALSALES II.

- The agreement contains force majeure provisions allowing for the temporary suspension of performance by us or the customer for the duration of specified events beyond the control of the affected party. Any shortfall in coal deliveries is generally required to be made up within twelve months.

- In general, COALSALES II will bear the risk of default, non-performance and termination by its customers unless caused by or attributable to Patriot. Should a COALSALES II customer fail to perform under its agreement with COALSALES II and damage Patriot, COALSALES II will have the obligation to pursue its rights and remedies against such customer for the benefit of Patriot, as applicable.

Coal Supply Agreement II

COALSALES, LLC, a Peabody affiliate (COALSALES), supplies coal to the Tennessee Valley Authority pursuant to a coal supply agreement that runs through December 31, 2011 (Underlying Contract). COALSALES currently sources the Underlying Contract with 3.5 million tons per year of coal produced from Patriot's Highland operation. To ensure continuity of supply to its customer, COALSALES entered into a new coal supply agreement with Patriot (Coal Supply Agreement II) for deliveries from Highland. Sales under Coal Supply Agreement II as of February 29, 2008 are estimated to be approximately $448 million over the remaining term of the contract.

The material terms and conditions of Coal Supply Agreement II are as follows:

- Patriot will supply coal to COALSALES through December 31, 2011 and unless otherwise agreed to among the parties, COALSALES will have no right to extend the agreement beyond such date.

- Should the ultimate coal customer voluntarily elect to terminate its contract with COALSALES early, COALSALES may continue to take full delivery under its agreement with Patriot or elect to terminate the agreement and pay to Patriot the liquidated damages (25% of the Base Price, see below) it receives from the ultimate coal customer. COALSALES may also terminate the agreement with Patriot if the ultimate coal customer terminates its agreement with COALSALES due to specified increases in transportation costs, and no liquidated damages apply.

- Coal is to be shipped in relatively equal monthly shipments of 290,000 tons per month with allowed variances of five (5%) percent per month should the ultimate coal customer so elect. The volume of coal to be shipped under the agreement may be reduced by COALSALES, if the ultimate coal customer reduces shipments of coal due to new environmental laws or regulations.

- Patriot will generally be responsible for coordinating shipments and the delivery of the coal into barges provided by the ultimate coal customer.

- Conforming coal must be provided from Patriot's Highland Mine (unless other production sources are approved by the ultimate coal customer) to meet specific quality parameters. Patriot is responsible for performing all sampling, weighing and analysis requirements. Non-conforming deliveries may be rejected by COALSALES and/or the ultimate coal customer, which could lead to suspension and agreement termination if not remedied.

- The Base Price for coal supplied under the agreement ranges from $31.62 to $34.23 per ton through December 31, 2011 and may be adjusted (within certain limits) to reflect changes in cost due to new laws or regulations or changes in existing law or regulation.

- Payment terms are within 30 days after the unloading of coal by the ultimate customer, or if later, the receipt of Patriot's invoice. Should there be any dispute of the invoiced amount by the ultimate coal customer, COALSALES will have the right to make a partial payment to Patriot excluding such disputed amount.

- Sixty (60) days after the end of each calendar quarter, COALSALES will invoice Patriot for quality variances from the coal specifications contained in the agreement. Such invoice will include upward or downward price adjustments for moisture, ash, sulfur and calorific value.

- The agreement contains force majeure provisions allowing for the temporary suspension of performance by us or the customer for the duration of specified events beyond the control of the affected party. Any shortfall in coal deliveries will be made up at Patriot's election, subject to mutual agreement on scheduling with the ultimate coal customer.

- The Underlying Contract is generally terminable by the non-defaulting party for any material uncured breach. In general, COALSALES will bear the risk of default, non-performance and termination by the end customer unless caused by or attributable to Patriot. Should the ultimate coal customer fail to perform under its agreement with COALSALES and damage Patriot, COALSALES will have the obligation to pursue its rights and remedies against the ultimate coal customer for the benefit of Patriot, as applicable.

Tax Separation Agreement

The tax separation agreement sets forth the responsibilities of Peabody and Patriot with respect to, among other things, liabilities for federal, state, local and foreign taxes for periods before and including the spin-off, the preparation and filing of tax returns for such periods and disputes with taxing authorities regarding taxes for such periods. Peabody is generally responsible for federal, state, local and foreign income taxes of Patriot for periods before and including the spin-off. Patriot is generally responsible for all other taxes relating to its business. Peabody and Patriot are each generally responsible for managing those disputes that relate to the taxes for which each is responsible and, under certain circumstances, may jointly control any dispute relating to taxes for which both parties are responsible. The tax separation agreement also provides that Patriot will have to indemnify Peabody for some or all of the taxes resulting from the transactions related to the distribution of Patriot common stock if it takes certain actions and if the distribution does not qualify as tax-free under Sections 355 and 368 of the Internal Revenue Code of 1986, as amended (the Code).

To maintain the qualification of the distribution as tax-free under sections 368(a)(1)(D) and 355 of the Code, there are material limitations on transactions in which Patriot may be involved during the two-year period following the distribution date. Specifically, during this two-year period, Patriot has agreed to refrain from engaging in any of the transactions listed below unless it first obtains a private letter ruling from the Internal Revenue Service (IRS) or an opinion reasonably acceptable in substance to Peabody from a tax advisor reasonably acceptable to Peabody providing that the transaction will not affect the tax-free treatment of the distribution and the preceding contributions of capital.

Patriot is restricted from entering into any negotiations, agreements or arrangements with respect to transactions or events that may cause the spin-off to be treated as part of a plan pursuant to which one or more persons acquire directly or indirectly stock of Patriot representing a "50-percent or greater interest" therein within the meaning of Section 355(d)(4) of the Code, including such transactions or events described below (and, for this purpose, including any redemptions made pursuant to open market stock repurchase programs), stock issuances pursuant to the exercise of options or otherwise, option grants, capital contributions or acquisitions, entering into any partnership or joint venture arrangements or a series of such transactions or events, but not including the spin-off.

- Merging or consolidating with or into another corporation;
- Liquidating or partially liquidating;
- Selling or transferring all or substantially all of its assets in a single transaction or series of related transactions, or selling or transferring any portion of its assets that would violate certain continuity requirements imposed by the Code; and
- Redeeming or otherwise repurchasing any of its capital stock other than pursuant to open market stock repurchase programs meeting certain IRS requirements.

If Patriot enters into any of these transactions, with or without the required private letter ruling or opinion from tax counsel, Patriot will be responsible for, and will indemnify Peabody from and against, any tax liability resulting from any such transaction.

Liability Assumption Agreements and Administrative Services Agreement

In connection with the spin-off, a subsidiary of Peabody agreed to pay certain retiree healthcare liabilities of Patriot and its subsidiaries arising under the Coal Industry Retiree Health Benefit Act of 1992 (Coal Act) and the 2007 National Bituminous Coal Wage Agreement (2007 NBCWA) and predecessor agreements, as well as retiree healthcare liabilities relating to certain salaried employees. The terms governing such assumptions are set forth in a Coal Act Liability Assumption Agreement, a NBCWA Liabilities Assumption Agreement and a Salaried Employee Liability Assumption Agreement, each entered into among the Peabody subsidiary and the applicable Patriot subsidiaries. Peabody guarantees the performance of its subsidiary under these liability assumption agreements. Patriot is secondarily liable if Peabody fails to meet the 2007 NBCWA obligations and the salaried employee obligations.

As of December 31, 2007, the present value of the estimated retiree healthcare liabilities to be paid by Peabody totaled $603.4 million, including Coal Act liabilities, 2007 NBCWA contractual liabilities and liabilities relating to salaried employees of one of our subsidiaries. As a result of Peabody's agreement to pay these liabilities, Patriot's retiree healthcare expense and related cash payments were reduced significantly from historical levels following the spin-off.

Under the Coal Act Liability Assumption Agreement, the Peabody subsidiary agreed to pay all retiree healthcare liabilities of Patriot and its subsidiaries under the Coal Act for employees retiring on or after January 1, 1976 and prior to October 1, 1994. Under the NBCWA Liability Assumption Agreement, the Peabody subsidiary agreed to pay certain retiree healthcare liabilities of Peabody Coal Company (a Patriot subsidiary signatory to the 2007 NBCWA and predecessor agreements) for employees retiring after September 30, 1994 and on or before December 31, 2006. In certain circumstances, the Peabody subsidiary would not be responsible for increases in retiree healthcare benefits associated with future labor agreements entered into by us. Under the Salaried Employee Liability Assumption Agreement, the Peabody subsidiary agreed to pay certain retiree healthcare liabilities of Peabody Coal Company for employees retiring on or prior to December 31, 2006.

Patriot administers the retiree healthcare benefits assumed by the Peabody subsidiary, pursuant to an Administrative Services Agreement entered into effective as of October 31, 2007. The Peabody subsidiary pays Patriot a fee equal to the fair market value of the administration of such benefits. The Administrative Services Agreement shall remain in effect until the termination of all of the liability assumption agreements.

Transition Services Agreement

Peabody and Patriot entered into a transition services agreement pursuant to which Peabody provides certain administrative and other services to Patriot, including in the following areas: information technology, purchasing and materials management, accounting services, payroll, human resources, engineering, geology, land management and environmental services. For each of these areas, a transition service schedule summarizes the services to be provided and the responsibilities of Peabody and Patriot. The cost to Patriot for these services is an estimate of fair market value rates. Patriot has the right to terminate the transition services agreement or any class of services provided thereunder on 60 days' prior notice. The agreement has an initial term of six months, and Patriot has the option to extend for an additional term of three months and, under certain circumstances, for another term of three months. We paid $0.9 million to Peabody in November and December 2007 for transition services.

Employee Matters Agreement

General

In connection with the spin-off, we and Peabody entered into an employee matters agreement, which provides for the transition of our employees and retirees from Peabody's employee plans and programs to employee plans and programs at Patriot. The agreement also allocates responsibility for certain employee benefit matters and liabilities after the distribution date, including benefits for certain former employees of Patriot's subsidiaries. In general, and except as described below or under the section captioned Liability Assumption Agreements and Administrative Services Agreement, we and Peabody are responsible for all obligations and liabilities relating to our respective current and former employees and their dependents and beneficiaries.

Treatment of Peabody Equity Awards held by Patriot Employees

In connection with the spin-off, each Peabody stock option that was outstanding immediately prior to the distribution date was adjusted based on a formula determined by Peabody's Compensation Committee in accordance with the terms of the applicable stock incentive plan. Certain Peabody employees who became Patriot executives following the spin-off held adjusted Peabody stock options that were scheduled to vest on or before January 3, 2008. These options continued to vest based on such optionees' continued employment with Patriot through January 3, 2008. Such optionees have six months after the earlier of January 3, 2008 or their termination from Patriot to exercise vested options in accordance with the terms of the applicable stock incentive plan and option agreement.

Certain Peabody employees who became Patriot executives following the spin-off held restricted shares of Peabody common stock. On October 22, 2007, those restricted stockholders received the Patriot stock dividend on the same basis as all other Peabody stockholders. In addition, restricted shares held by these Patriot employees that were scheduled to vest on or before January 3, 2008 continued to vest based on continued employment with Patriot through January 3, 2008. These restricted shares remained subject to the terms and conditions of the applicable stock incentive plan and award agreement as in effect immediately prior to October 31, 2007. Restricted shares held by these Patriot employees that were scheduled to vest after January 3, 2008 accelerated and became fully vested on October 31, 2007.

Peabody's Board of Directors approved certain amendments to Peabody's existing long term incentive stock plans, effective as of October 31, 2007, to permit the treatment of equity awards as outlined above.

For all other Peabody employees who hold Peabody equity awards and became Patriot employees, an amendment to Peabody's long-term stock incentive plans was implemented to allow for continued vesting under these plans.

Certain Real Property Arrangements

Following the spin-off, Patriot and its affiliates controlled approximately 1.3 billion tons of proven and probable coal reserves and related surface property in West Virginia, western Kentucky and Illinois through various means, including fee ownership, coal leases and option agreements. Except for certain easements, rights of access and similar rights due to the adjacent ownership of real property in western Kentucky, no continuing real property relationships exist between Peabody and Patriot subsequent to the spin-off. In the future, Patriot and Peabody may enter into other commercial real property agreements from time to time, the terms of which will be determined at those relevant times.

Pursuant to a Conveyance and Assumption Agreement between a subsidiary of Patriot and several subsidiaries of Peabody, these Peabody subsidiaries assumed certain reclamation obligations at sites in Indiana, Illinois, Kentucky and Ohio in exchange for equipment owned by Patriot's subsidiary having an aggregate book value of approximately $1.2 million as of October 31, 2007.

Throughput and Storage Agreement

Since 1985, Patriot's operations have transloaded coal for seaborne markets through Dominion Terminal Associates (DTA), a coal transloading and ground storage facility in Newport News, Virginia. Peabody owns a 30% interest in DTA. In connection with the spin-off, Patriot entered into a five-year Throughput and Storage Agreement with Peabody pursuant to which Patriot continues to utilize the DTA facility for transloading seaborne shipments from Central Appalachia which originate on the CSX railroad at an agreed fair value rate. Payments under the Throughput and Storage Agreement are estimated to be $17.3 million over the term of the contract.

Master Equipment Sublease Agreement

Certain mining equipment and facilities used in the Patriot business are leased from third parties by various Peabody affiliates. Following the spin-off, Patriot subleases this equipment and facilities from Peabody on terms and conditions substantially similar to the third-party lease agreements. The sublease payments will be approximately $17 million in 2008 and decline to $2.2 million per year by 2011 assuming exercise of certain buy-out options related to such equipment and facilities. After the spin-off, all new equipment and facilities leases have been entered into by Patriot without Peabody involvement. Upon expiration of an underlying equipment lease, Patriot shall have the right to exercise any applicable buy-out rights or return the respective equipment to the lessor in accordance with the terms of such lease. Patriot shall indemnify, defend and hold Peabody harmless from and against any and all claims, damages, costs and expenses related to the subleased equipment or any breach by Patriot of the master sublease agreement or its underlying lease agreements. Subject to the foregoing, Patriot is responsible for acquiring and maintaining all equipment and facilities used in the operation of its businesses following the spin-off.

Guarantees

Patriot and its subsidiaries were guarantors with respect to Peabody's public debt. At spin-off, Patriot was released from all such guarantee obligations.

Peabody currently does not guarantee any outstanding debt obligations of Patriot or its subsidiaries. In the normal course of business, Peabody has guaranteed the performance of Patriot and its subsidiaries under various arrangements, including real property leases, equipment and fixture leases, coal supply agreements and other contracts. Those obligations which can be quantified include payments under premises leases, equipment leases and maintenance contracts. The total amount of such guarantee obligations was approximately $72 million as of December 31, 2007. Peabody also has guarantees in place with respect to certain of Patriot's Federal Black Lung Benefits Act and workers' compensation liabilities. The total amount of such guaranteed obligations was approximately $215 million as of December 31, 2007. For other obligations, including guarantees of mineral and real property leases and performance guarantees under coal supply agreements, Peabody's potential exposure depends upon future production and market prices, which cannot be determined at this time.

Software License Agreement

Pursuant to the software license agreement, Peabody granted to Patriot a non-exclusive license, solely in connection with Patriot's operation of the Patriot business, to install, copy and distribute internally, use and create improvements, enhancements and modifications to certain proprietary software applications. The license was conditioned upon Patriot's prior acquisition, at Patriot's expense, of a license to all third party software applications, code or other proprietary data or information which must be on the same platform in order for the licensed software to run. Peabody also granted the right to copy and distribute internally, use and create improvements, enhancements or modifications to any related documentation developed by Peabody that pertains to the operation of the licensed software applications.

The software license agreement continues indefinitely, subject to certain termination rights, such as upon a change of control of Patriot. The agreement also provides that Peabody may, but is under no obligation to, provide Patriot with improvements, enhancements or modifications it makes to the licensed software applications and related documentation after the date of the spin-off. Patriot may make its own improvements, enhancements or modifications to the licensed software applications and related documentation, but all intellectual property rights therein are owned by Peabody and licensed to Patriot under this agreement. Peabody does not provide support and maintenance services to Patriot in connection with the licensed software applications other than under the Transition Services Agreement. As consideration for the license granted under the software license agreement, Patriot paid Peabody a non-refundable upfront license fee of $1.2 million. We do not currently anticipate that Peabody will provide us with updates, enhancements or modifications to the licensed software applications during the term of the software license agreement.

Common Interest Agreement

In connection with the spin-off, we and Peabody entered into a common interest agreement, which sets forth the terms under which we will cooperate with Peabody with respect to claims, suits, investigations or other proceedings that have been, or that in the future could be, initiated against us or Peabody. With the exception of situations where a conflict of interest arises between us and Peabody, under the common interest agreement, the attorney-client privilege and the work product doctrine will apply to all privileged information and work product exchanged between us and Peabody.

The common interest agreement provides that the parties will share such information and documents as they deem appropriate under the law with the other parties and their officers, directors, employees, advisors or agents, so long as such person is informed by the applicable party of the confidential nature of the shared information and documents and is obligated to treat such information and documents in accordance with the provisions of the common interest agreement. If any third party requests, by summons, subpoena or otherwise, the production of any privileged documents from any party to the common interest agreement, the recipient of such demand will immediately notify the other party and will take all reasonable steps to permit the assertion of all applicable rights and privileges with respect to the documents and information subject to the request.

Policy for Approval of Related Person Transactions

The Nominating & Governance Committee is responsible for reviewing and approving all transactions between the Company and certain "related persons," such as its executive officers, directors and owners of more than 5% of the Company's voting securities in accordance with our written policy. Such transactions are generally reviewed before entry into the related person transaction. In addition, if any of our specified officers becomes aware of a related party transaction that has not been previously approved or ratified, such related person transaction will be promptly submitted thereafter to the Committee for its review. In reviewing a transaction, the Committee considers the relevant facts and circumstances, including the benefits to the Company, any impact on director independence and whether the terms are consistent with a transaction available on an arms-length basis. Only those related person transactions that are determined to be in (or not inconsistent with) the best interests of the Company and stockholders are permitted to be approved. No member of the Committee may participate in any review of a transaction in which the member or any of his or her family members is the related person. A copy of the policy can be found on the Company's website (www.patriotcoal.com) by clicking on "Investors," then "Corporate Governance," and then "Related Party Transactions" and is available in print to any stockholder who requests it. Information on our website is not considered part of this Proxy Statement.

RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM (ITEM 2)

The Board of Directors has, upon the recommendation of the Audit Committee, appointed Ernst & Young LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2008, subject to ratification by the Company's stockholders. While the Audit Committee is responsible for the appointment, compensation, retention, termination and oversight of the independent registered public accounting firm, the Audit Committee and the Board are requesting, as a matter of policy, that the stockholders ratify the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm. The Audit Committee is not required to take any action as a result of the outcome of the vote on this proposal. However, if the Company's stockholders do not ratify the appointment, the Audit Committee may investigate the reasons for stockholder rejection and may consider whether to retain Ernst & Young LLP or to appoint another independent registered public accounting firm. Furthermore, even if the appointment is ratified, the Audit Committee in its discretion may appoint a different independent registered public accounting firm at any time during the year if it determines that such a change would be in the best interests of the Company and the Company's stockholders.

Representatives of Ernst & Young LLP are expected to be present at the Annual Meeting. Such representatives will have an opportunity to make a statement, if they so desire, and will be available to respond to appropriate questions by stockholders. For additional information regarding the Company's relationship with Ernst & Young LLP, please refer to "Report of the Audit Committee" and "Fees Paid to Independent Registered Public Accounting Firm" on page 10 of the Proxy Statement.

The Board of Directors recommends that you vote "For" Item 2, which ratifies the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2008.

ADDITIONAL INFORMATION

Information About Stockholder Proposals

If you wish to submit a proposal for inclusion in next year's Proxy Statement and proxy, we must receive the proposal on or before December 7, 2008, which is 120 calendar days prior to the anniversary of this year's mailing date. Upon timely receipt of any such proposal, the Company will determine whether or not to include such proposal in the proxy statement and proxy in accordance with applicable regulations governing the solicitation of proxies. Any proposals should be submitted in writing to: Corporate Secretary, Patriot Coal Corporation, 12312 Olive Boulevard, Suite 400, Saint Louis, Missouri 63141.

Under the Company's by-laws, if you wish to nominate a director or bring other business before the stockholders at the 2009 Annual Meeting without having your proposal included in next year's proxy statement:

- You must notify the Corporate Secretary in writing at the Company's principal executive offices between January 12, 2009 and February 11, 2009; however, if the Company advances the date of the meeting by more than 20 days or delays the date by more than 70 days, from May 12, 2009, then such notice must be received not earlier than 120 days before the date of the annual meeting and not later than the close of business on the 90th day before such date or the 10th day after public disclosure of the meeting is made; and
- Your notice must contain the specific information required by the Company's by-laws regarding the proposal or nominee, including, but not limited to, name, address, shares held, a description of the proposal or information regarding the nominee and other specified matters.

You can obtain a copy of the Company's by-laws without charge by writing to the Corporate Secretary at the address shown above or by accessing the Company's website (www.patriotcoal.com) and clicking on "Investors," and then "Corporate Governance." Information on our website is not considered part of this Proxy Statement. These requirements are separate from and in addition to the requirements a stockholder must meet to have a proposal included in the Company's proxy statement. The foregoing time limits also apply in determining whether notice is timely for purposes of rules adopted by the SEC relating to the exercise of discretionary voting authority.

Householding of Proxies

The SEC has adopted rules that permit companies and intermediaries such as brokers to satisfy delivery requirements for annual reports and proxy statements with respect to two or more shareholders sharing the same address by delivering a single annual report and/or proxy statement addressed to those shareholders. This process, which is commonly referred to as "householding," potentially provides extra convenience for shareholders and cost savings for companies. The Company and some brokers household annual reports and proxy materials, delivering a single annual report and/or proxy statement to multiple stockholders sharing an address unless contrary instructions have been received from the affected stockholders.

Once you have received notice from your broker or the Company that your broker or the Company will be householding materials to your address, householding will continue until you are notified otherwise or until you revoke your consent. If, at any time, you no longer wish to participate in householding and would prefer to receive a separate annual report and/or proxy statement in the future, please notify your broker if your shares are held in a brokerage account or the Company if you hold registered shares and we will deliver those documents to you promptly upon receiving the request. If, at any time, you and another stockholder sharing the same address wish to participate in householding and prefer to receive a single copy of the Company's annual report and/or proxy statement, please notify your broker if your shares are held in a brokerage account or the Company if you hold registered shares.

You may request to receive at any time a separate copy of our annual report or proxy statement, or notify the Company that you do or do not wish to participate in householding, by sending a written request to the Corporate Secretary at 12312 Olive Boulevard, Suite 400, Saint Louis, Missouri 63141, (314) 275-3600.

Additional Filings

The Company's Forms 10-K, 10-Q and 8-K and all amendments to those reports are available without charge through the Company's website on the Internet as soon as reasonably practicable after they are electronically filed with, or furnished to, the Commission. They may be accessed at the Company's website (www.patriotcoal.com) by clicking on "Investors," and then "SEC Filings." Information on our website is not considered part of this Proxy Statement.

In accordance with SEC rules, the information contained in the Report of the Audit Committee on page 9, and (ii) the Report of the Compensation Committee on page 23 shall not be deemed to be "soliciting material," or to be "filed" with the SEC or subject to the SEC's Regulation 14A, or to the liabilities of Section 18 of the Securities Exchange Act of 1934, as amended, except to the extent that the Company specifically requests that the information be treated as soliciting material or specifically incorporates it by reference into a document filed under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

Costs of Solicitation

The Company is paying the cost of preparing, printing and mailing these proxy materials. The Company has engaged Georgeson Inc. to assist in distributing proxy materials, soliciting proxies and in performing other proxy solicitation services for a fee of $6,500 plus their out-of-pocket expenses. Proxies may be solicited personally or by telephone by regular employees of the Company without additional compensation as well as by employees of Georgeson. The Company will reimburse banks, brokerage firms and others for their reasonable expenses in forwarding proxy materials to beneficial owners and obtaining their voting instructions.

OTHER BUSINESS

The Board of Directors is not aware of any matters requiring stockholder action to be presented at the Annual Meeting other than those stated in the Notice of Annual Meeting. Should other matters be properly introduced at the Annual Meeting, those persons named in the enclosed proxy will have discretionary authority to act on such matters and will vote the proxy in accordance with their best judgment.

The Company will provide to any stockholder, without charge and upon written request, a copy (without exhibits unless otherwise requested) of the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 31, 2007 as filed with the Commission. Any such request should be directed to Patriot Coal Corporation, Investor Relations, 12312 Olive Boulevard, Suite 400, Saint Louis, Missouri 63141; telephone (314) 275-3600.

By Order of the Board of Directors.

Joseph W. Bean
Senior Vice President, General
Counsel & Corporate Secretary

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SHAREHOLDER INFORMATION

STOCK EXCHANGE LISTING

Patriot Coal stock is traded on the New York Stock Exchange (NYSE) under the ticker symbol "PCX".

COMPANY INFORMATION

Patriot Coal Corporation
12312 Olive Boulevard, Suite 400
Saint Louis, Missouri 63141
(314) 275-3600
www.patriotcoal.com

ANNUAL MEETING

Patriot Coal will hold its annual stockholder meeting at the Donald Danforth Plant Science Center, Saint Louis, Missouri, at 10 a.m. on May 12, 2008.

AUDITORS

Ernst & Young LLP
190 Carondelet Plaza, Suite 1300
Clayton, MO 63105
Phone: (314) 290-1000

TRANSFER AGENT

If you have questions regarding your PCX account, please contact your broker or our transfer agent, American Stock Transfer & Trust Company (AST), at (800) 937-5449 for residents of the U.S. or Canada, or (718) 921-8156 for residents outside the U.S. and Canada. AST may also be contacted at www.amstock.com. AST can help with lost certificates, transfer of stock to another person and additional services.

FORM 10-K

Stockholders may obtain a copy of Patriot Coal's Annual Report on Form 10-K and related financial statement schedules for the year ended December 31, 2007, filed with the Securities and Exchange Commission, by writing Patriot Coal's Investor Relations Department or by calling (314) 275-3600.

PATRIOT COAL AND ITS AFFILIATES

The use of the words "Patriot Coal," "the company," and "our" relate to Patriot Coal, our subsidiaries and our majority-owned affiliates.

FORWARD-LOOKING STATEMENTS

Some of the information included in this report contains 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 is intended to come within the safe harbor protection provided by those sections. These statements relate to future events or our future financial performance. When considering these forward-looking statements, you should keep in mind the cautionary statements in our documents filed with the SEC.

PATRIOT COAL MINING COMPLEXES

Northern Appalachia – Federal

Central Appalachia – Big Mountain, Kanawha Eagle, Rocklick, Wells

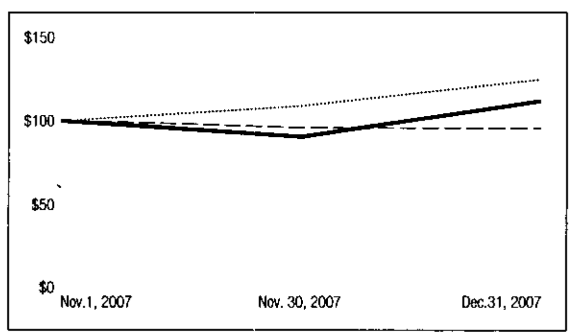
Illinois Basin – Bluegrass, Dodge Hill, Highland

STOCK PERFORMANCE

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© 600 Stock Index and (ii) the Custom Composite Index comprised of Alpha Natural Resources, Inc., Arch Coal, Inc., CONSOL Energy, Inc., Foundation Coal Holding Inc., International Coal Group Inc., James River Coal Co., Massey Energy Company, Peabody Energy Corp. 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 the common stock.

CUMULATIVE TOTAL RETURN

Based upon an initial investment of $100 on November 1, 2007 with dividends reinvested



	Nov. 1, 2007	Nov. 30, 2007	Dec. 31, 2007
▬ Patriot Coal Corp	$100	$ 90	$111
– – S&P 600	$100	$ 97	$ 96
...... Custom Composite Index (9 Stocks)	$100	$109	$125

END