

UNITED STATES BANKRUPTCY COURT
FOR THE NORTHERN DISTRICT OF ALABAMA
SOUTHERN DIVISION

In re:

WALTER ENERGY, INC., *et al.*,¹

Debtors.

Chapter 11

Case No. 15-____(____)

Joint Administration Requested

THE DEBTORS’ MOTION FOR (I) (A) AN ORDER AUTHORIZING, BUT NOT DIRECTING, THE DEBTORS TO PAY CERTAIN PREPETITION WAGES, COMPENSATION, WORKERS COMPENSATION AND EMPLOYEE BENEFITS AND TO MAINTAIN EMPLOYEE BENEFIT PROGRAMS AND PAY RELATED ADMINISTRATIVE OBLIGATIONS AND (B) A SUPPLEMENTAL ORDER AUTHORIZING, BUT NOT DIRECTING, THE DEBTORS TO PAY CERTAIN BONUS AND SEVERANCE OBLIGATIONS; (II) AUTHORIZING AND DIRECTING APPLICABLE BANKS AND OTHER FINANCIAL INSTITUTIONS TO PROCESS AND PAY ALL CHECKS PRESENTED FOR PAYMENT AND TO HONOR ALL FUNDS TRANSFER REQUESTS MADE BY THE DEBTORS RELATING TO THE FOREGOING; AND (III) GRANTING RELATED RELIEF

Walter Energy, Inc. and its affiliated debtors and debtors-in-possession (each a “Debtor” and, collectively, the “Debtors” and, together with their non-Debtor subsidiaries, the “Company”) hereby move (the “Motion”), pursuant to sections 105(a), 363 and 507 of title 11 of the U.S. Code (the “Bankruptcy Code”) and rules 6003 and 6004 of the Federal Rules of Bankruptcy Procedure (the “Bankruptcy Rules”), for entry of an order, substantially in the form

¹ The Debtors in these cases, along with the last four digits of each Debtor’s federal tax identification number, are: Walter Energy, Inc. (9953); Atlantic Development and Capital, LLC (8121); Atlantic Leaseco, LLC (5308); Blue Creek Coal Sales, Inc. (6986); Blue Creek Energy, Inc. (0986); J.W. Walter, Inc. (0648); Jefferson Warrior Railroad Company, Inc. (3200); Jim Walter Homes, LLC (4589); Jim Walter Resources, Inc. (1186); Maple Coal Co., LLC (6791); Sloss-Sheffield Steel & Iron Company (4884); SP Machine, Inc. (9945); Taft Coal Sales & Associates, Inc. (8731); Tuscaloosa Resources, Inc. (4869); V Manufacturing Company (9790); Walter Black Warrior Basin LLC (5973); Walter Coke, Inc. (9791); Walter Energy Holdings, LLC (1596); Walter Exploration & Production LLC (5786); Walter Home Improvement, Inc. (1633); Walter Land Company (7709); Walter Minerals, Inc. (9714); and Walter Natural Gas, LLC (1198). The location of the Debtors’ corporate headquarters is 3000 Riverchase Galleria, Suite 1700, Birmingham, Alabama 35244-2359.



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annexed hereto as Exhibit A (the “Proposed Order”) (i) authorizing, but not directing, the Debtors to pay and honor their prepetition employee-related obligations and to continue their ordinary course programs related thereto, including by: (a) paying prepetition wage and other compensation-related obligations; (b) paying employee withholding taxes and employer taxes (including but not limited to federal, state, employment and other payroll and withholding taxes; (c) paying certain payroll deductions, including garnishments; (d) honoring holiday pay and other paid time off obligations; (e) paying prepetition reimbursable employee business and other expenses; (f) maintaining the Debtors’ workers’ compensation program and honoring prepetition obligations related thereto; (g) continuing certain of the Debtors’ employee health and welfare benefit programs and honoring obligations related thereto; (h) paying and maintaining the Debtors’ ordinary course bonus programs for non-insider Employees, in some cases subject to the entry of a supplemental order (substantially in the form annexed hereto as Exhibit B (the “Supplemental Order”)); (i) authorizing but not directing the Debtors to continue their ordinary course severance policy and to make payments thereunder (including for outstanding severance obligations and paid time off obligations), subject to entry of the Supplemental Order; and (j) paying prepetition amounts owed to third-party employee benefits administrators; (ii) authorizing and directing all applicable banks and other financial institutions to process and pay all checks presented for payment and to honor all funds transfer requests made by the Debtors relating to the foregoing; and (iii) granting related relief.

In support of this Motion, the Debtors rely on the *Declaration of William G. Harvey in Support of Chapter 11 Petitions and First Day Relief* (the “First Day Declaration”)² and respectfully state as follows:

JURISDICTION

1. This Court has jurisdiction to consider this matter pursuant to 28 U.S.C. §§ 157 and 1334. Venue is proper in this district pursuant to 28 U.S.C. §§ 1408 and 1409. This is a core proceeding under 28 U.S.C. § 157(b).

2. The statutory and legal predicates for the relief sought herein are sections 105(a), 363 and 507(a) of the Bankruptcy Code and Bankruptcy Rules 6003 and 6004.

BACKGROUND

3. On the date hereof (the “Petition Date”), each of the Debtors filed voluntary petitions for relief under chapter 11 of the Bankruptcy Code thereby commencing the instant cases (the “Chapter 11 Cases”). The Debtors continue to manage and operate their businesses as debtors-in-possession under sections 1107 and 1108 of the Bankruptcy Code.

4. No trustee, examiner or official committee has been appointed in the Chapter 11 Cases.

5. Information regarding the Debtors’ businesses, their capital and debt structure and the events leading to the filing of the Chapter 11 Cases is contained in the First Day Declaration.

THE EMPLOYEES

6. As of June 29, 2015, the Debtors employed approximately 2,300 employees, of which approximately 10 are part-time or seasonal employees, and most of whom work in

² The First Day Declaration has been filed contemporaneously with this Motion and is incorporated by reference herein. Capitalized terms used herein that are not defined shall have the meaning set forth in the First Day Declaration.

Alabama and West Virginia (the “U.S. Employees”). In addition, Walter Canada and Walter U.K. employ approximately ninety (90) and seven (7) employees, respectively (the “Canadian Employees” and “U.K. Employees,” respectively, and together with the BW Employees (defined below) and the U.S. Employees, the “Employees”). The Employees include about 700 salaried and 1,600 hourly individuals. Of these, approximately 1,285 and 160 hourly Employees are represented by the United Mine Workers of America (the “UMWA”) and the United Steelworkers (the “USW”), respectively. In aggregate, about 62% of the U.S. Employees are unionized.³ The Employees perform a variety of functions critical to the Debtors’ operations, including, but not limited to, coal and methane gas extraction, sales, marketing, accounting, administration and management.

7. The Debtors also make payments – for which they get reimbursed – on behalf of a dozen employees of two non-Debtor companies, Black Warrior Methane Corp. and Black Warrior Transmission Corp. (collectively, the “Black Warrior Companies”). The Black Warrior Companies are owned 50% by Jim Walter Resources, Inc. and 50% by ARP Production Company LLC, a subsidiary of Atlas Resource Partners, LP. The Black Warrior Companies work exclusively for the Debtors by extracting and selling to third parties coal bed methane gas from Jim Walter’s No. 4 and No. 7 mines. The Black Warrior Companies function as stand-alone corporations with their own boards of directors and for the most part, perform their own accounting, cash management, banking, procurement and logistics functions. However, for the sake of administrative convenience and to benefit from economies of scale, the Debtors perform certain back-office functions for the Black Warrior Companies, including administrating the payroll for their twelve employees (the “BW Employees”). The Black Warrior Companies

³ In Canada, non-Debtor subsidiaries Willow Creek Coal Partnership, Brule Coal Partnership and Wolverine Coal Partnership employ approximately 47 salaried Employees and 40 hourly Employees. Approximately five of the miners are represented by the Christian Labour Association of Canada.

reimburse the Debtors for such services. For similar reasons, the Debtors also administer payroll for the Canadian Employees, for which corresponding intercompany charges are recorded. Walter Canada, not the Debtors, however, pay the actual wages for the Canadian Employees.

THE EMPLOYEE OBLIGATIONS AND PROGRAMS

8. The Debtors request authority to pay and honor their prepetition obligations to the Employees and to continue their ordinary course employee programs related thereto, including by: (i) authorizing, but not directing, the Debtors to pay and honor their prepetition employee-related obligations and to continue their ordinary course programs related thereto, including by: (a) paying prepetition wage and other compensation-related obligations (the “Prepetition Wages”); (b) paying employee withholding taxes and employer taxes (including but not limited to federal, state, employment and other payroll and withholding taxes; (c) paying certain payroll deductions, including garnishments; (d) honoring holiday pay and other paid time off obligations; (e) paying prepetition reimbursable employee business and other expenses; (f) maintaining the Debtors’ workers’ compensation program and honoring prepetition obligations related thereto; (g) continuing certain of the Debtors’ employee health and welfare benefit programs and honoring obligations related thereto; (h) paying and maintaining the Debtors’ ordinary course bonus programs for non-insider Employees, in some cases subject to entry of the Supplemental Order; (i) authorizing, but not directing, the Debtors to continue their ordinary course severance policy and to make payments thereunder (including for outstanding severance obligations and paid time off obligations), subject to entry of the Supplemental Order; and (j) paying prepetition amounts owed to third-party employee benefits administrators (the

obligations and costs incident thereto set forth in (a) through (j) collectively, the “Employee Obligations” and the programs related thereto, collectively, the “Employee Programs”).⁴

9. The Debtors estimate that they owe approximately \$16 million on account of prepetition Employee Obligations, excluding accrued paid time off obligations.

10. The Debtors have reviewed the relief sought in this Motion with counsel to the Steering Committee, and such relief, including all payments and transfers authorized herein, shall be subject to and made in accordance with, the terms of the *Interim Order (A) Authorizing Postpetition Use of Cash Collateral, (B) Granting Adequate Protection to Prepetition Secured Parties, (C) Scheduling a Final Hearing Pursuant to Bankruptcy Rule 4001(b) and (D) Granting Related Relief* (the “Interim Cash Collateral Order”) and related final order.

A. Compensation and Compensation-Related Obligations

i. Wages

11. The Debtors seek authority to pay the Employees’ Prepetition Wages and to continue to pay their Employees postpetition compensation in the ordinary course of the Debtors’ business.⁵ Although the Debtors’ payroll obligations fall on a number of different pay cycles, the Debtors’ average monthly U.S. Employee payroll totals approximately \$23 million.⁶ The average monthly Canadian Employee and BW Employee payrolls total approximately \$1.1 million and \$117,000, respectively.⁷

⁴ The Debtors reserve the right to modify, change or discontinue any of their Employee Programs and to implement new programs, policies or benefits in the ordinary course of business without the need for further Court approval, subject to applicable law.

⁵ As noted above, the Debtors only administer the payroll for Canadian Employees and do not pay their wages. Accordingly, by this Motion, the Debtors are not seeking to pay any prepetition Canadian Employee wages.

⁶ Walter U.K. maintains its own payroll and HR functions. Accordingly, other than through intercompany funding for general corporate purposes, the Debtors do not pay for the U.K. Employees. The Debtors are seeking authority to continue intercompany transfers to Walter U.K. in the Cash Management Motion.

⁷ The amounts set forth in this paragraph include certain employer-funded taxes and costs.

12. The Debtors estimate that they have not yet paid certain of their Employees for up to eleven days of work performed prior to the Petition Date, depending on the relevant pay cycle, totaling in aggregate, approximately \$3.8 million in Prepetition Wages, including certain payroll deductions further described below. Of this amount, approximately \$650,000 constitutes Prepetition Wages for which the Debtors have issued checks to Employees but which checks have not yet been presented for payment. The Debtors anticipate that these payroll checks will be distributed to the applicable Employees on Wednesday, July 15 or Thursday, July 16, subject to obtaining approval by this Court for authority to pay the related Prepetition Wages they represent.

ii. Employer-Paid Payroll-Related Taxes and Government Fees

13. In addition to gross payroll paid to the Employees, the Debtors also pay certain employer-funded payroll taxes and obligations.⁸ These amounts include federal Medicare and Social Security taxes, and federal and state unemployment taxes. The Debtors remit these amounts to a third-party administrator or directly to the applicable taxing authority.

14. In addition to these employer funded payroll-taxes and obligations, the Debtors must pay certain reinsurance fees on their self-insured health plans to the U.S. government under the Affordable Care Act. These fees are due annually, and when due, the Debtors anticipate that the payment will include certain amounts accrued prior to the Petition Date.

⁸ The Debtors administer their own payroll and do not engage a third party payroll administrator. The Debtors are seeking authority to continue their cash management system in the ordinary course of business, including their payroll accounts, bank fees and any intercompany transfers related thereto, in the Cash Management Motion filed contemporaneously herewith.

15. The Debtors request authority to continue to pay the Employees' employer-paid payroll-related taxes in the ordinary course of business, as well as any reinsurance fees owed under the Affordable Care Act, including any amounts that accrued prior to the Petition Date.

iii. Employee Payroll Garnishments/Other Payroll Deductions

16. The Debtors are required to deduct from Employee paychecks certain taxes, such as payroll and social security taxes, required to be withheld by certain federal, state and local taxing authorities. The Debtors also may be presented with garnishment or child support orders requiring the withholding of Employee wages to satisfy such obligations of those Employees. Additionally, as noted above, certain Employees have voluntary deductions for items such as contributions to the health care and welfare programs and the savings plans described below. These amounts are referred to herein as "Payroll Deductions." Payments of these obligations are taken from gross payroll and are not an incremental cost obligation of the Debtors' estates. In certain instances, Payroll Deductions are required by law. The Debtors seek authority to continue Payroll Deductions and to cause such amounts to be paid to third parties in the ordinary course of business and as requested or required by law.

iv. Paid Time Off Policies, Sick Leave, Holiday Pay and Other Paid Time Off

17. PTO. The Debtors have historically offered Employees accrual-based paid time off ("PTO"). Generally, under the PTO policies, full-time and part-time Employees accrue PTO throughout any given year to be used in the current year. Upon termination, the Debtors pay Employees for unused PTO earned for use in the year of termination.

18. Sick Leave. The Debtors also provide sickness and accident benefits to the Employees (collectively, the "Illness Obligations"). Eligible non-unionized Employees can receive these benefits for up to six months for each absence due to illness or injury. Eligible

unionized Employees, after six months of classified employment, can receive sickness or benefits for disability resulting from an accident, either on or off the job, for a maximum of 52 weeks.

19. Holiday Pay and Other Paid Time Off. Non-unionized Employees and certain unionized Employees are entitled to 10 paid and 10 or 11 paid holidays, respectively, throughout the year. The Debtors also offer certain other paid time off, including but not limited to bereavement leave, participating in jury duty and other such events.

20. Accrued paid time off obligations, including PTO, holiday pay, sick leave and other paid time off obligations, generally do not constitute a current cash payment obligation of the Debtors. In fact, Employees are only paid for accrued and unused PTO obligations, and then, only upon termination of employment. Moreover, the Debtors anticipate that the Employees will utilize any accrued paid time off in the ordinary course of business, which will not create any material cash flow requirements beyond the Debtors' normal payroll obligations.

21. The Debtors seek authority, in their sole discretion, to continue to honor and pay as needed, the PTO obligations and other paid time off obligations described above.

v. Reimbursable Employee Business and Other Expenses

22. Business Expenses. As is customary with most large businesses, the Debtors reimburse their Employees who incur and pay a variety of approved business-related expenses in the ordinary course of performing their duties ("Employee Expense Obligations"). On an annual basis, the Debtors reimburse their eligible Employees approximately \$920,000 in Employee Expense Obligations, which includes, among other things, travel, mileage, car rentals, lodging, meals and entertainment. Most Employees initially incur and pay such expenses by using personal funds or credit cards, but are subsequently reimbursed by the Debtors after submission

and approval of expense reimbursement requests. Employees are required to submit requests for reimbursement of Employee Expense Obligations through the expense reimbursement system within 90 days after the Employee Expense Obligation is incurred. After approval by the appropriate manager, the Employees are reimbursed by check or direct deposit.

23. It would be inequitable to require Employees to personally bear any approved business-related expenses they incurred in furtherance of their responsibilities to the Debtors. Accordingly, the Debtors request authority, in their discretion and in the exercise of their business judgment, to continue to honor all of their Employee Expense Obligations in the ordinary course of business, regardless of when such obligations arose.

24. Relocation Expenses. The Debtors provide certain of their Employees with reimbursement for relocation expenses. Honoring their commitments under these programs is appropriate to avoid undue hardship to Employees who have expended their own funds for relocation expenses based on the expectation of reimbursement. As of the Petition Date, approximately \$100,000 is outstanding in connection with reimbursable relocation expenses. The Debtors request authority to make payments for reimbursable relocation expenses, including any amounts related to prepetition periods, in the ordinary course of business as such obligations become due.

25. Other Reimbursable Amounts. The Debtors also offer certain other reimbursable benefits to eligible Employees. Under the Debtors' tuition reimbursement policy, for example, the Debtors will reimburse Employees for qualified education programs. The Debtors preapprove the education programs and Employees are reimbursed after successful completion of the education program. The Debtors seek authority, in their sole discretion, to continue and honor all benefits to the Employees related to the Debtors' reimbursable benefit programs in

accordance with their prepetition practices, including honoring any amounts related to prepetition periods, in the ordinary course of business as such obligations become due.

B. Workers' Compensation Programs and Benefits

26. The Debtors are required to maintain workers' compensation liability insurance and to provide Employees with workers' compensation coverage for claims arising from or related to their employment with the Company. The Debtors provide workers' compensation benefits (the "Workers' Compensation Obligations") through (a) three self-insured retention policies at various Debtors (collectively, the "SIR Policies") and (b) two primary workers' compensation policies placed with third-party insurers: one policy for Walter Minerals, WBWB and Walter Energy, and one policy for the Black Warrior Companies (collectively, the "Primary WC Policies").

27. With respect to the SIR Policies, the self-insured retention policy limit for Jim Walter is \$2 million per accident. For Walter Coke, Walter Energy, Inc. and the Debtors located in West Virginia, the SIR Policy limit is \$1 million per accident. With respect to the Primary WC Policies, the Debtors pay approximately \$145,000 in aggregate annual premiums. The Primary WC Policies are scheduled to expire on March 1, 2016 and November 1, 2015, respectively.

28. The Debtors also maintain three excess workers' compensation policies administered by Rockwood Casualty for the benefit of Jim Walter, Walter Coke and the Debtors located in West Virginia (collectively, the "Excess WC Policies" and, together with the Primary WC Policies, the "WC Policies"). The Excess WC Policies are scheduled to expire on March 1, 2016. As of the Petition Date, the Debtors owe approximately \$760,000 in the aggregate for accrued and unpaid premiums owed on account of their WC Policies.

29. The Debtors maintain approximately \$5.7 million in letters of credit and have posted \$4.7 million in surety bonds and cash as collateral on account of the SIR Policies and claims under the WC Policies. In addition, the Debtors pay approximately \$367,000 in the aggregate in certain annual and quarterly assessments to regulatory agencies in Alabama and West Virginia on account of the SIR Policies. The Debtors are current on all amounts owed for such assessments.

30. In 2014, the Debtors paid approximately \$5.7 million in the aggregate on account of claims under the SIR Policies and WC Policies. For the first quarter of 2015, the Debtors paid approximately \$1.4 million in the aggregate on account of such claims. As of December 31, 2014, the Debtors have approximately 700 open claims and have reserved approximately \$44 million in the aggregate on account of accrued and unpaid claims under the WC Policies and SIR Policies. Claims under the WC Policies and SIR Policies are administered by Lumbermens, Gallagher Bassett and Rockwood (the “WC Administrators”). As of the Petition Date, the Debtors estimate that the accrued and unpaid amount owed to the WC Administrators totals approximately \$100,000.

31. Failure to maintain workers’ compensation insurance could result in the institution of administrative or legal proceedings and material fines against the Debtors and their officers and directors. The Debtors therefore seek authority to continue paying or contesting in good faith, as appropriate in the Debtors’ business judgment, all outstanding amounts related to their Workers’ Compensation Obligations and to fully administer and comply with the Debtors’ workers’ compensation programs, as such amounts become due in the ordinary course of the Debtors’ businesses. The Debtors also seek the authority, but not the direction, to post cash collateral to secure their obligations to governmental regulators and agencies under the

SIR Policies or otherwise to maintain the Debtors' workers' compensation policies, provided however, that the Debtors' will not post any cash collateral without the Steering Committee's consent, such consent not to be unreasonably withheld.

C. Employee Health and Welfare Benefit Programs

32. The Debtors have established various plans and policies to provide current and certain former Employees and U.S. retirees (the "Retirees") with medical, prescription drug, dental, life insurance, disability, retirement savings and other benefits (collectively, the "Employee Benefits," and amounts owed under these plans, the "Employee Benefit Obligations"). The Debtors seek the authority, but not the direction, to satisfy their Employee Benefit Obligations in the manner discussed below, in the ordinary course of the Debtors' business, including those that arose prior to and were unpaid as of the Petition Date.⁹

The Employee Benefits include, but are not limited to, the following:

i. Health Care Programs

33. The Debtors offer several health care and related benefit programs to Employees including medical, prescription, dental, vision, life, short-term and long-term disability, accidental death and dismemberment, mental health and substance abuse, health flexible spending accounts and dependent care flexible spending accounts, business travel and accident insurance, long-term care insurance, other voluntary insurance programs and employee assistance programs (collectively, the "Health Care and Welfare Programs" and all amounts owed under such Programs, the "Health Care and Welfare Obligations"). The Debtors pay

⁹ Nothing contained in this Motion or any order granting the relief requested herein shall constitute an assumption or postpetition reaffirmation of any of the Health Care and Welfare Programs or Obligations. The Debtors expressly reserve their rights to seek to modify or terminate any benefits provided under any agreements in any manner permitted by law, including, as applicable, pursuant to sections 1113 and 1114 of the Bankruptcy Code or otherwise.

certain third parties to administer certain Health Care and Welfare Programs, including processing claims and seeking reimbursement for compensable claims from the Debtors. Due to the manner in which such claims and expenses are incurred and processed under the Health Care and Welfare Programs, it is difficult for the Debtors to determine the extent of their obligations under such Programs at any given time.

34. In 2014, the Company's aggregate claims pay-out under the Health Care and Welfare Programs totaled approximately \$82.4 million in the U.S., including premiums and fees of third-party providers. Accordingly, the Debtors estimate that the monthly cost of the Health Care and Welfare Programs, including administrative payments to third-party administrators, totals approximately \$7.3 million, of which approximately \$5 million is paid pursuant to collective bargaining agreements, \$530,000 is paid pursuant to the Coal Industry Retiree Health Benefit Act of 1992, 26 U.S.C. § 9701 *et seq.*, approximately \$400,000 is paid on account of the Canadian Employees, and the balance on account of non-unionized U.S. Employee Health Care and Welfare Programs.

35. The Debtors request authority to pay any unpaid prepetition amounts due with respect to the Health Care and Welfare Obligations and to continue to provide the Health Care and Welfare Programs in the ordinary course of business during these Chapter 11 Cases.

ii. Savings Plans, Pension Plans and Retirement Obligations

36. The Debtors maintain numerous savings, pension and retirement plans for their Employees and Retirees. At this time, the Debtors request authority to maintain such plans and continue to pay related obligations, including prepetition amounts outstanding. The Debtors expressly reserve their rights to seek to modify or terminate any benefits provided under any

agreements in any manner permitted by law, including, as applicable, pursuant to sections 1113 and 1114 of the Bankruptcy Code or otherwise.

37. Savings Plan. The Debtors maintain two savings plans for non-unionized Employees that meet the requirements of Section 401(k) of the Internal Revenue Code of 1986, both administered by Wells Fargo, N.A. (“Wells Fargo” and the plans, together, the “Savings Plans”). Generally, the Debtors either match voluntary contributions or make defined contributions to the Savings Plans up to specified levels (collectively, the “Contributions”). Contributions from participating Employees are withheld from gross pay during each payroll cycle and the Debtors transfer those contributions into the Savings Plan as directed by the Employees. By this Motion, the Debtors request authority to pay Contributions that comprise part of the current payroll cycle and that have already been processed for such cycle. The Debtors intend to suspend all other Contributions as soon as practicable post-petition.

38. Pension Plans. The Debtors also have three single employer pension plans with Wells Fargo as the trustee (the “Single Employer Pension Plans”): one for eligible unionized Employees of Walter Coke; one for eligible salaried Employees of Walter Energy and certain subsidiaries; and one for eligible BW Employees. The Single Employer Pension Plans are funded by periodic payments to the Walter Energy, Inc. Subsidiaries Master Pension Trust. The Debtors have no contributions planned for any of the Single Employer Pension Plans for 2015 and by this Motion, are not seeking to modify or otherwise affect these plans at this time.

39. SERPs. Walter Energy also maintains two supplemental executive retirement plans (together, the “WEI Retirement Plans”), one that is self-administered and one administered by Wells Fargo. For the self-administered WEI Retirement Plan, payments are made in a lump sum on the first day of the seventh month following retirement or separation from the Company.

The Debtors estimate that the earliest date a payment could be due under the self-administered WEI Retirement Plan is November 2015. For the second WEI Retirement Plan, annual discretionary payments are made each March on account of the prior year into a deferred compensation account. Accordingly, no amounts are due to be paid under such Plan until March 2016 and by this Motion, are not seeking to modify or otherwise affect these plans at this time; provided, however, that the Debtors will seek the approval of this Court prior to making any payments to beneficiaries under the WEI Retirement Plans.

40. UMWA 1974 Pension Plan. Certain of the Debtors participate in a defined benefit multi-employer pension plan (the "UMWA 1974 Pension Plan") pursuant to the 2007 National Bituminous Coal Wage Agreement (as may have been amended or modified by the 2011 National Bituminous Coal Wage Agreement and/or various memoranda of understanding with respect to certain of the Debtors, the "NBCWA"). In addition to the UMWA 1974 Pension Plan, the Debtors also participate in a deferred cash savings plan (the "Deferred Cash Savings Plan") administered by the UMWA Health and Retirement Funds and Prudential for certain UMWA-represented Employees. By this Motion, the Debtors are not seeking to modify or affect their obligations under the UMWA 1974 Pension Plan or any union-related benefit.

41. OPEB. Certain of the Debtors also have additional payment obligations related to five other post-employment benefit plans (the "OPEB Plans"), one of which covers non-unionized Retirees and four of which cover unionized Employees and Retirees pursuant to the NBCWA (collectively, the "Non-Medical Retirement Obligations"). The Debtors estimate that the annual cash cost of their Non-Medical Retirement Obligations totals approximately \$31 million. Of this amount, approximately \$120,000 is on account of Non-Medical Retirement

Obligations for non-unionized Retirees. By this Motion, the Debtors are not seeking to modify or affect their Non-Medical Retirement Obligations or any union-related benefit.

D. Bonus Programs and Long-Term Incentive Plan

42. The Debtors have several bonus plans to incentivize and motivate Employees. By this Motion, the Debtors seek authority to continue their ordinary course bonus programs and to honor their obligations to non-insider Employees thereunder, subject to entry of the Supplemental Order with respect to the Quarterly Bonus Program described below. The Debtors will seek separate approval from the Court to the extent that the Debtors propose to make post-petition incentive payments to, or implement an incentive plan for, any insider (as defined in section 101(31) of the Bankruptcy Code).

i. Safety Bonus Plan

43. The Debtors' primary bonus program rewards eligible hourly Employees based on their ability to meet various productivity and safety criteria (the "Safety Bonus Program"). Approximately 1,670 Employees are eligible to participate in the Safety Bonus Program and payments thereunder range from \$50 to \$500 per eligible Employee. Payments are made monthly, quarterly or annually. While labeled a "bonus" program, the Debtors consider the Safety Bonus Program an ordinary course component of Employee wages, and by this Motion, request authority (but not the direction) to honor and continue to honor all obligations thereunder immediately upon entry of the order approving this Motion.

ii. Quarterly Bonus Program

44. The Debtors also have a bonus program set quarterly that is tied to an annual individual objective and, among other things, achieving targets related to EBITDA, production volume, safety and cost per ton set (the "Quarterly Bonus Program"). The Quarterly Bonus

Program covers the Debtors' entire salaried workforce (approximately 730 Employees in total) and salaried Canadian Employees, including certain of the Debtors' senior management. Payments are made on a quarterly basis, with the most recent payment of approximately \$1.5 million having been made on July 10, 2015. The Debtors anticipate that the next payment will be due in October 2015.¹⁰ The Quarterly Bonus Program constitutes an ordinary course business expense consistent with other similar programs maintained by companies of the Debtors' size and complexity, and accordingly, the Debtors do not believe that court authorization is required to continue the program post-petition. However, out of an abundance of caution, the Debtors seek the authority (but not the direction) to continue to honor the Quarterly Bonus Program (including any amounts that arguably accrued prepetition) with respect to eligible Employees who are not senior executives in the ordinary course of their business, subject to entry of an order at the final hearing on this Motion.

E. Severance Program

45. In the ordinary course of business, the Debtors provide severance payments ("Severance Program") to certain Employees, commensurate with their tenure, who have been terminated. At the final hearing scheduled on this Motion, the Debtors request authority to continue to perform their obligations to Employees in connection with the Severance Program, including for former Employees who were terminated prior to the Petition Date, in the ordinary course of their business.

¹⁰ The Debtors also maintain a long-term employee incentive plan that has both a cash and equity-based component (the "Long Term Incentive Plan"). Approximately 130 eligible Employees, including Canadian Employees and U.K. employees, participate in the Long Term Incentive Plan. The Debtors are not seeking authority in this Motion for continued payment of amounts owed under the Long Term Incentive Plan.

46. Typically, a terminated Employee is entitled to Severance equal to one payroll period (one week, two weeks or half a month depending on the pay cycle of the Employee) of his or her gross base wages, before any withholdings or deductions, plus one week for every year of his or her employment, with certain age premiums (if applicable), up to a maximum of 26 weeks. Certain of the Debtors' senior management are entitled to Severance of one year, according to the terms of their employment agreements.¹¹

47. Health benefits are generally provided to Employees who are terminated through the period they receive severance under the Severance Program. Following the receipt of their final payment, eligible Employees may continue to participate in the Debtors' medical, dental and vision benefits provided that he or she pays the entire cost of coverage (plus up to a two (2) percent administration fee, as allowed by state law), under the federal law known as the Consolidated Omnibus Reconciliation Act ("COBRA"). COBRA services are currently provided by Conexis Benefits Administrators, LP.

48. Severance payments are paid in installments,¹² less withholdings as required by law, based on the current pay schedule of the eligible Employee at the time of separation, beginning generally within seven days following the latest of (a) the date of termination or (b) the last day of the first pay period immediately following the pay period in which the eligible Employee returns a fully and properly executed release or separation agreement. As of the Petition Date, the Debtors had approximately \$800,000 in outstanding severance obligations

¹¹ In addition to the severance agreements, Debtors also have approximately 25 management change-of-control agreements in place with certain of the Debtors' senior management. These agreements provide that certain payments shall be paid to the applicable Employee if such Employee is terminated following a change of control. By this Motion, the Debtors are not seeking any relief in connection with employment or change in control agreements. To the extent such Employees will not receive severance under these agreements, however, they will remain eligible for compensation under the general Severance Program.

¹² Canadian Employees are entitled to elect a lump-sum payment in lieu of installments.

under the Severance Program.¹³ Subject to entry of an order at the final hearing on this Motion, the Debtors request authority (but not the direction) to honor and make payments under their Severance Program in the ordinary course of their business, including for prepetition severance obligations and cash payment of PTO obligations (to the extent accrued) for any Employee terminated post-petition and all such payments would comply with and be subject to section 503(c) of the Bankruptcy Code.

F. Other Employee-Related Service Providers

49. To support their businesses, the Debtors have also engaged a variety of employee-related third-party service providers (the “Service Providers”). The Service Providers perform a wide range of services in connection with the Debtors’ workforce and Human Resources department, including but not limited to, hiring-related services such as posting open positions, drug testing and performing background checks; maintaining Employee records; booking travel arrangements; preparing payroll tax returns and remitting funds; and performing job assessments. As of the Petition Date, the Debtors do not owe any amounts to the Service Providers. The Debtors seek authorization, but not direction, to continue to honor all obligations to the Service Providers in the ordinary course of business as such obligations become due.

BASIS FOR RELIEF REQUESTED

50. The Debtors request authority to pay Prepetition Wages, honor their Employee Obligations (subject to entry of the Supplemental Order with respect to the Quarterly Bonus Program and the Severance Program) and maintain their Employee Programs in the ordinary course of their business during the pendency of these Chapter 11 Cases. Efficient coal mining that uses modern techniques and equipment requires skilled laborers with mining experience and

¹³ By this Motion, the Debtors are not seeking to pay severance obligations arising under employment contracts.

proficiency, as well as qualified managers and supervisors. The Debtors' employees' knowledge and understanding of the Debtors' products, operations, customer relations and infrastructure are essential to preserving the value of the Debtors' businesses.

51. Preserving and maximizing the value of the Debtors' estates depends upon a stable and skilled workforce. Thus, any significant number of Employee departures or deterioration in morale at this time may substantially and adversely impact the Debtors' efforts in chapter 11, causing immediate and irreparable harm to the Debtors' estates and their creditors. There is a real, immediate risk that if the Debtors are not authorized to continue to satisfy their Employee Obligations and maintain their Employee Programs in the ordinary course, Employees would no longer support and maintain the operations of the Debtors, thereby crippling the Debtors' ability to successfully maximize the value of their assets. Indeed, due to the uncertainty surrounding the Debtors' financial condition, the Debtors have already lost key employees, including their chief accounting officer. Consequently, the Debtors must be authorized to continue, in the ordinary course, the Employee Programs that were in effect prior to the Petition Date, for all of their Employees.

A. Sections 105(a) and 363(b) of the Bankruptcy Code Authorize the Requested Relief

52. Sections 105(a) and 363(b) of the Bankruptcy Code authorize the requested relief. Pursuant to section 105(a) of the Bankruptcy Code, the Court may "issue any order, process, or judgment that is necessary or appropriate to carry out the provisions of [the Bankruptcy Code.]" 11 U.S.C. § 105(a). This permits a bankruptcy court to take whatever action "is appropriate or necessary in aid of the exercise of [its] jurisdiction." 2 COLLIER ON BANKRUPTCY ¶ 105.01 (15th rev. ed. 2008). Similarly, section 363(b)(1) of the Bankruptcy Code authorizes a debtor to use

property of the estate other than in the ordinary course of business after notice and a hearing. 11 U.S.C. § 363(b)(1).

53. Relying upon these provisions, courts have long recognized the “necessity of payment” doctrine, which permits a debtor to honor certain prepetition obligations when payment thereof is essential to the debtor’s chapter 11 efforts and will preserve or enhance the value of a debtor’s estate for the benefit of all creditors. See, e.g., Miltenberger v. Logansport, C. & S.W.R. Co., 106 U.S. 286, 311 (1882) (articulating a legal theory later termed the “doctrine of necessity” or the “necessity of payment doctrine” and holding that payment of pre-receivership claims prior to reorganization were permitted to prevent stoppage of crucial business relations); In re Boston and Maine Corp., 634 F.2d 1359, 1382 (1st Cir. 1980) (recognizing the existence of a judicial power to authorize trustees to pay claims for goods and services that are indispensably necessary to the debtors’ continued operation); S. Ry. Co. v. Flournoy, 301 F.2d 847, 852 (4th Cir. 1962) (“The principle of necessity of payment [espoused in Miltenberger] has since been carried into different factual surroundings as the basis for granting superiority to business-operating accounts.”); Mich. Bureau of Workers’ Disability Comp. v. Chateaugay Corp. (In re Chateaugay Corp.), 80 B.R. 279, 289 (S.D.N.Y. 1987) (affirming a bankruptcy court authorizing the debtor to pay prepetition wages, salaries and various employee benefits); In re Columbia Gas Sys., Inc., 171 B.R. 189, 191–92 (Bankr. D. Del. 1994) (noting that debtors may pay prepetition claims that are essential to continued operation of business); In re Just For Feet, Inc., 242 B.R. 821, 826 (D. Del. 1999) (granting approval to pay prepetition claims of certain trade vendors which were critical to the debtors’ reorganization).

54. Debtors frequently invoke the necessity of payment doctrine early in a case when preservation of the estate proves most critical. For that reason, bankruptcy courts routinely

invoke their equitable powers to authorize a debtor to pay certain critical prepetition claims under section 105(a) if “authorizing the payment of the prepetition debt creates ‘the greatest likelihood of . . . payment of creditors in full or at least proportionately.’” In re Structurelite Plastics Corp., 86 B.R. 922, 932 (Bankr. S.D. Ohio 1988); see also In re Eagle-Picher Indus., Inc., 124 B.R. 1021, 1023 (Bankr. S.D. Ohio 1991) (stating that “to justify payment of a prepetition unsecured creditor, a debtor must show that the payment is necessary to avert a serious threat to the Chapter 11 process”); In re Ionosphere Clubs, Inc., 98 B.R. 174, 176 (Bankr. S.D.N.Y. 1989) (“[T]he ‘doctrine of necessity’ . . . rule recognizes the existence of the judicial power to authorize a debtor in a reorganization case to pay prepetition claims where such payment is essential to the continued operation of the debtor.”).

55. Paying Prepetition Wages, honoring the Employee Obligations and maintaining the Employee Programs is necessary and appropriate under the circumstances. Any delay in paying any of their Employees could severely disrupt the Debtors’ relationship with their Employees and irreparably harm their morale at the very time that Employee dedication, confidence, support and cooperation are most critical. If the Debtors do not obtain immediate authority to pay their Employee Obligations and Prepetition Wages, the Debtors’ operations may be severely impaired. At this critical stage, the Debtors cannot risk the substantial disruption of their business operations that would attend any decline in workforce morale attributable to the Debtors’ failure, or worse, inability to pay, the Prepetition Wages and Employee Obligations.

56. Moreover absent payment of the Prepetition Wages and the ability to honor the Debtors’ Employee Obligations, Employees would suffer hardship and, in many instances, financial duress. The Debtors’ workforce depends on its employment income to meet personal

financial obligations. The Employees should not be forced to bear the costs of the Chapter 11 Cases.

57. With respect to the Employee Obligations other than Unpaid Compensation, including the severance owed under the Severance Program, it is also necessary and appropriate under the circumstances to permit the Debtors to continue to honor such obligations during the pendency of the Chapter 11 Cases. The Employee Programs, including the Severance Program, are customary benefits that the Debtors have provided to the Employees that are consistent with benefits provided by other employers throughout the country. Notably, as part of on-going cost reduction initiatives and in response to headwinds in the commodity markets, the Debtors have engaged in recent layoffs affecting many of their employees, and may continue reduction-in-force initiatives. Severed employees depend and rely on their severance payments to survive the transition to new employment or unemployment. It would be inequitable and arbitrary to honor only post-petition severance obligations under the circumstances here. In many instances, the Employees also depend on the other Employee Programs, which include, among other things, health and dental coverage and it would cause a significant hardship for the Employees if the Debtors ceased to provide the Employee Programs. Indeed, failure to continue the Employee Programs may result in Employees departing the Debtors' employ in favor of employers who can provide the Employees with such benefits. Such departures would imperil the Debtors' efforts in the Chapter 11 Cases to preserve their business and to maximize the value of their estates.

58. In light of such factors, courts have routinely authorized debtors to pay prepetition wage and employee claims pursuant to sections 105(a) and 363 of the Bankruptcy Code where such payment was necessary to ensure the debtor's continued, uninterrupted operation. See, e.g.,

In re Bruno's Supermarkets, LLC, Case No. 09-00634 (BGC), ECF No. 44 (Bankr. N.D. Ala. Feb. 6, 2009) (order authorizing debtors to pay prepetition wages, salaries and other compensation); In re Citation Corp., Case No. 04-08130 (TOM), ECF No. 61 (Bankr. N.D. Ala. Sept. 20, 2004) (same); In re Sch. Specialty, Inc., Case No. 13-10125 (KJC), ECF No. 75 (Bankr. D. Del. Jan. 30, 2013) (same); In re THQ Inc., Case No. 12-13398 (MFW), ECF No. 39 (Bankr. D. Del. Dec. 20, 2012) (same); In re B456 Sys., Inc., Case No. 12-12859 (KJC), ECF No. 77 (Bankr. D. Del. Oct. 18, 2012) (same); In re Bicent Holdings LLC, Case No. 12-11304 (KG), ECF No. 27 (Bankr. D. Del. Apr. 24, 2012) (same). The circumstances of these Chapter 11 Cases warrant granting similar relief and that doing so is in the best interests of the Debtors, their estates and creditors.

B. Sections 363(c), 363(b) and 503(c) of the Bankruptcy Code Also Authorize the Requested Relief with Respect to the Ordinary Course Bonus Programs

59. Section 363(c)(1) of the Bankruptcy Code authorizes a debtor-in-possession to enter into transactions “in the ordinary course without notice or hearing, and may use the property of the estate in the ordinary course of business without notice or a hearing.” 11 U.S.C. § 363(c)(1). As described herein, the Safety Bonus Program and the Quarterly Bonus Program are comparable to those offered by the Debtors’ competitors and constitute ordinary course transactions under section 363(c)(1) of the Bankruptcy Code. See, e.g., Mesa Air Grp., 2010 WL 3810899, at *3-4 (Bankr. S.D.N.Y. Sept. 24, 2010) (treating as ordinary course transactions incentive plans that were “consistent with past practices and clearly tied the performance of the Debtors”). Accordingly, the Debtors do not believe that court authorization is required to continue these Bonus Programs post-petition.

60. Even if the payments under the Safety Bonus Program and Quarterly Bonus Program are considered to be “outside” the ordinary course of business, these Bonus Programs should still be approved pursuant to sections 363(b)(1) and 503(c)(3) of the Bankruptcy Code as a sound exercise of the Debtors’ business judgment. In re Velo Holdings, Inc., 2012 WL 2015870, at *9 (Bankr. S.D.N.Y. June 6, 2012) (“Courts have held that the ‘facts and circumstances’ language of section 503(c)(3) creates a standard no different than the business judgment standard under section 363(b).”). The Debtors’ foremost concern is to ensure the safety and well-being of their Employees, and the Safety Bonus Program rewards eligible Employees based on their ability to meet productivity and safety criteria. Likewise, the Quarterly Bonus Program rewards Employees for meeting specific performance metrics, including production volume and safety, and is consistent with the practices within the Debtors’ industry. Accordingly, the Safety Bonus Program and the Quarterly Bonus Program satisfy the business judgment test as they are demonstrably in the best interests of the Debtors’ estates.

61. Courts routinely approve similar bonus programs under similar circumstances. See, e.g., In re James River Coal Co., Case No. 14-31848 (KRH), ECF No. 299 (Bankr. E.D. Va. June 18, 2014) (authorizing debtors to implement incentive and safety plan); In re Patriot Coal Corp., Case No. 12-51502-659, ECF No. 2819 (Bankr. E.D. Mo. May 16, 2013) (order authorizing debtors to implement compensation plans); see also In re Buffets Restaurants Holdings, Inc., Case No. 12-10237 (MFW), ECF No. 268 (Bankr. D. Del. Mar. 15, 2012) (same).

C. The Prepetition Wages and Severance Are Likely Entitled to Priority Status

62. Pursuant to section 507(a)(4) of the Bankruptcy Code, each Employee may be granted a priority claim for:

allowed unsecured claims, but only to the extent of \$12,475 for each individual or corporation, as the case may be, earned within 180 days before the date of the filing of the petition or the date of the cessation of the debtor's business, whichever occurs first, for –

- (A) wages, salaries, or commissions, including vacation, severance and sick leave pay earned by an individual; or
- (B) sales commissions earned by an individual or by a corporation with only 1 employee, acting as an independent contractor in the sale of goods or services, for the debtor in the ordinary course of the debtor's business if and only if, during the 12 months preceding that date, at least 75 percent of the amount that the individual or corporation earned by acting as an independent contractor in the sale of goods or services was earned from the debtor . . .

11 U.S.C. § 507(a)(4).

63. Nearly all of the Prepetition Wages and prepetition severance may be entitled to priority status under sections 507(a)(4) and 507(a)(5) of the Bankruptcy Code. The Debtors would therefore be required to pay these priority claims in full to confirm any plan of reorganization. See 11 U.S.C. § 1129(a)(9)(B) (requiring payment of certain allowed unsecured claims for wages, salaries and commissions and certain allowed unsecured claims for contributions to an employee benefit plan). As a result, payment of the Prepetition Wages now presents mostly a matter of timing and does not impose greater administrative expenses on the Debtors' estates than they would otherwise have to pay. Moreover, given the large number of Employees and certain variables, including the timing of payments and claims for reimbursement, distinguishing between priority and non-priority claims will be administratively burdensome. Consequently, payment of the Employee Obligations and Prepetition Wages at this time will maximize the value of the Debtors' estates by reducing the administrative burden on the Debtors' estates.

D. Applicable Non-Bankruptcy Law Mandates that the Debtors Maintain Certain of Their Employee Programs

64. Maintaining the Employee Programs and paying amounts thereunder is, in many instances, required under applicable non-bankruptcy law. For example, applicable state law mandates that the Debtors maintain a workers' compensation policy. Similarly, failure to pay payroll taxes could result in tax liabilities and penalties for both the Employees and the Debtors and potentially the Debtors' directors and officers as well. Likewise, the failure to transmit garnishments and other similar deductions can cause hardship to certain Employees and could result in liabilities for the Debtors in instances where applicable law mandates employer deductions. Thus, if the Debtors were prohibited from transmitting such deductions, the Debtors would expect inquiries from garnishors regarding the Debtors' failure to submit, among other things, child support and alimony payments that are not the Debtors' property, but, rather, have been withheld from Employees' paychecks on such parties' behalf. And, if the Debtors could not continue to remit such amounts, the Employees could face legal action.

65. Accordingly, as authorized by sections 105(a) and 363(b) of the Bankruptcy Code, the Debtors seek authority to pay the Employee Obligations that become due and owing during the pendency of these Chapter 11 Cases and to continue their Employee Programs with respect to their Employees as such practices, programs and policies were in effect as of the Petition Date. The relief requested herein is essential to their ability to maximize value for their creditors.

66. Notably, however, the Debtors do not seek to alter their compensation or benefit policies at this time. This Motion is intended only to permit the Debtors, in their discretion, to make payments consistent with their prepetition policies to the extent that, without the benefit of an order approving this Motion, such payments would be inconsistent with the Bankruptcy Code.

**APPLICABLE BANKS SHOULD BE AUTHORIZED TO HONOR
AND PAY CHECKS ISSUED AND MAKE OTHER TRANSFERS
TO PAY THE PREPETITION EMPLOYEE OBLIGATIONS**

67. The Debtors further request that the Court authorize applicable banks and other financial institutions (collectively, the “Disbursement Banks”) to honor and pay all prepetition and postpetition checks issued or to be issued and fund transfers requested or to be requested, by the Debtors on account of the Employee Obligations regardless of whether such checks were presented or fund transfer requests were submitted prior to or after the Petition Date. The Debtors also seek authority to issue new postpetition checks, or effect new fund transfers, on account of the Employee Obligations to replace any prepetition checks or fund transfer requests that may be dishonored or rejected.

68. As a result of the commencement of the Chapter 11 Cases and in the absence of an order of the Court providing otherwise, the Debtors’ checks or other transfers on account of the Employee Obligations may be dishonored or rejected by the Disbursement Banks. Each of these checks or transfers can be identified as relating directly to payment of the Employee Obligations and properly honored.

**SATISFACTION OF BANKRUPTCY RULE 6003
AND WAIVER OF BANKRUPTCY RULE 6004**

69. The Debtors seek immediate authorization for the relief contemplated by this Motion notwithstanding Bankruptcy Rules 6003 and 6004. Specifically, Bankruptcy Rule 6003(b) provides that the Court shall not, within twenty-one (21) days after filing a petition, grant “a motion to use, sell, lease or otherwise incur an obligation regarding property of the estate, including a motion to pay all or part of a claim that arose before the filing of the petition” unless the relief is “necessary to avoid immediate and irreparable harm.” Fed. R. Bankr. P. 6003(b). Likewise, Bankruptcy Rule 6004(h) provides that “[a]n order authorizing the use, sale,

or lease of property other than cash collateral is stayed until the expiration of 14 days after entry of the order, unless the court orders otherwise.”

70. Obtaining immediate authorization to maintain all Employee Programs and honor all Employee Obligations is necessary to avoid immediate and potentially irreparable harm to the estates and the Employees. As set forth above, maintaining the Employee Programs and satisfying all Employee Obligations is necessary and appropriate under the circumstances. Accordingly, the requirements of Bankruptcy Rule 6003(b) are met and ample cause exists to justify a waiver of the fourteen (14) day stay imposed by Bankruptcy Rule 6004(h).

NOTICE

71. Notice of this Motion will be provided to: (i) the Office of the Bankruptcy Administrator for the Northern District of Alabama; (ii) counsel to the administrative agent for the Debtors’ prepetition secured credit facility; (iii) the indenture trustee for each of the Debtors’ outstanding bond issuances; (iv) counsel to the steering committee of first lien debt holders; (v) the Internal Revenue Service; (vi) the Securities and Exchange Commission; (vii) the U.S. Environmental Protection Agency; (viii) the U.S. Attorney for the Northern District of Alabama; (ix) counsel to the UMWA; (x) the USW; (xi) the holders of the fifty (50) largest unsecured claims against the Debtors, on a consolidated basis; and (xii) all persons and entities that have filed a request for service of filings in these Chapter 11 Cases pursuant to Bankruptcy Rule 2002. In light of the nature of the relief requested herein, no other or further notice is necessary.

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WHEREFORE, the Debtors respectfully request the entry of the Proposed Order and the Supplemental Order granting the relief requested herein and such other and further relief as is just and proper.

Dated: July 15, 2015
Birmingham, Alabama

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*Proposed Counsel to the Debtors and
Debtors-in-Possession*

EXHIBIT A
PROPOSED ORDER

**UNITED STATES BANKRUPTCY COURT
FOR THE NORTHERN DISTRICT OF ALABAMA
SOUTHERN DIVISION**

In re:

WALTER ENERGY, INC., *et al.*,¹

Debtors.

Chapter 11

Case No. 15-____(____)

Joint Administration Requested

Docket Ref. No. __

ORDER (A) AUTHORIZING, BUT NOT DIRECTING, THE DEBTORS TO PAY CERTAIN PREPETITION WAGES, COMPENSATION, WORKERS COMPENSATION AND EMPLOYEE BENEFITS AND TO MAINTAIN EMPLOYEE BENEFIT PROGRAMS AND PAY-RELATED ADMINISTRATIVE OBLIGATIONS; (B) AUTHORIZING AND DIRECTING APPLICABLE BANKS AND OTHER FINANCIAL INSTITUTIONS TO PROCESS AND PAY ALL CHECKS PRESENTED FOR PAYMENT AND TO HONOR ALL FUNDS TRANSFER REQUESTS MADE BY THE DEBTORS RELATING TO THE FOREGOING; AND (C) GRANTING RELATED RELIEF

Upon consideration of the motion (the "Motion")² of the Debtors, seeking entry of an order pursuant to sections 105(a), 363 and 507 of the Bankruptcy Code and Bankruptcy Rules 6003 and 6004: (i) authorizing, but not directing, the Debtors, in accordance with their stated policies and in the ordinary course of business, to: (a) pay all prepetition employee wages, salaries and certain other payments owed to Employees, including amounts owed under the Safety Bonus Program, holiday pay and other paid time off obligations; (b) honor workers' compensation obligations; (c) make all contributions to prepetition benefit programs and

¹ The Debtors in these cases, along with the last four digits of each Debtor's federal tax identification number, are: Walter Energy, Inc. (9953); Atlantic Development and Capital, LLC (8121); Atlantic Leaseco, LLC (5308); Blue Creek Coal Sales, Inc. (6986); Blue Creek Energy, Inc. (0986); J.W. Walter, Inc. (0648); Jefferson Warrior Railroad Company, Inc. (3200); Jim Walter Homes, LLC (4589); Jim Walter Resources, Inc. (1186); Maple Coal Co., LLC (6791); Sloss-Sheffield Steel & Iron Company (4884); SP Machine, Inc. (9945); Taft Coal Sales & Associates, Inc. (8731); Tuscaloosa Resources, Inc. (4869); V Manufacturing Company (9790); Walter Black Warrior Basin LLC (5973); Walter Coke, Inc. (9791); Walter Energy Holdings, LLC (1596); Walter Exploration & Production LLC (5786); Walter Home Improvement, Inc. (1633); Walter Land Company (7709); Walter Minerals, Inc. (9714); and Walter Natural Gas, LLC (1198). The location of the Debtors' corporate headquarters is 3000 Riverchase Galleria, Suite 1700, Birmingham, Alabama 35244-2359.

² Capitalized terms not otherwise defined herein shall have the meanings ascribed to such terms in the Motion.

continue such programs; (d) make all payments for which prepetition payroll withholding deductions (including, but not limited to, payroll taxes) were made; and (e) reimburse all prepetition employee business expenses; (ii) authorizing, but not directing, the Debtors to continue payment of wages, compensation and employee benefit programs in the ordinary course of business and to pay other costs and expenses relating to the foregoing as described more fully below; (iii) authorizing and directing applicable banks and other financial institutions to honor and pay all checks and transfers drawn on the Debtors' bank accounts to make the foregoing payments; and (iv) granting related relief, all as described more fully in the Motion; and the Court having heard the evidence and statements of counsel regarding the Motion and having determined that the legal and factual bases set forth in the Motion and attested to in the First Day Declaration establish just cause for the relief granted herein and the Court having found and concluded that the relief requested in the Motion is necessary to avoid immediate and irreparable harm to the Debtors and their estates; and the Court having jurisdiction to consider the Motion and the relief requested therein in accordance with 28 U.S.C. §§ 157 and 1334; and due notice of the Motion having been provided; and it appearing that no other or further notice of the Motion need be provided; and the Court having determined that the relief sought in the Motion is in the best interests of the Debtors, their estates and all parties in interest; and after due deliberation and sufficient cause appearing therefor, it is hereby ORDERED, ADJUDGED and DECREED that:

1. The Motion is GRANTED to the extent provided herein.
2. Except as otherwise set forth herein, the Debtors are authorized, pursuant to sections 105(a) and 363(b) of the Bankruptcy Code, but not obligated or directed, in the reasonable exercise of their business judgment and in the ordinary course of business, to pay and honor the Employee Obligations.

3. The Debtors are authorized, but not obligated or directed, to continue and maintain the Employee Programs (other than payments under the Quarterly Bonus Program and the Severance Program) during the Chapter 11 Cases, in their sole discretion.

4. The Debtors are authorized, but not the directed, to post cash collateral to secure their obligations to governmental regulators and agencies under the SIR Policies or otherwise to maintain the Debtors' workers' compensation policies, provided however, that the Debtors' will not post any cash collateral without the Steering Committee's consent, such consent not to be unreasonably withheld.

5. The Debtors are authorized, but not obligated or directed, in the reasonable exercise of their business judgment and in the ordinary course of business, to pay and honor the Employee Obligations and Employee Programs (other than payments under the Quarterly Bonus Program and the Severance Program), including any associated costs and fees.

6. Former Employees shall retain the right to coverage under the Debtors' Health Plans in accordance with the requirements of COBRA and the Debtors are authorized, but not directed, to pay any portion of the amounts due under the Health Plans, if any, with respect to such former Employees.

7. All applicable Disbursement Banks are authorized, when requested by the Debtors and in the Debtors' sole discretion, to receive, process, honor and pay any and all checks, drafts or electronic funds transfer requests drawn on the Debtors' accounts to the Employees whether issued or presented prior to or after the Petition Date; provided that sufficient funds are available in the applicable accounts, whether deposited prepetition or postpetition, to make the payments. The terms of this Court's Order approving the Cash Management Motion (among other relief granted therein) shall be applicable to any payments made by the Disbursement Banks pursuant to this Order.

8. Nothing in this Order shall be deemed to authorize payment of any amounts that are subject to section 503(c) of the Bankruptcy Code.

9. Authorization to pay all amounts on account of Employee Obligations shall not affect the Debtors' right to contest the amount or validity of any Employee Obligation, including without limitation, any amounts that may be due to any taxing authority and all related rights are fully reserved.

10. Authorizations given to the Debtors in this Order empower but do not direct the Debtors to effectuate the payments specified herein and the Debtors shall retain the business judgment to make or not make such payments, in all instances subject to the condition that funds are available to effect any payment. In no event shall any person (director, creditor, officer, manager, member, Employee or otherwise of the Debtors) be personally liable for any amounts authorized for payment herein but not paid and nothing in this Order shall be deemed to increase, reclassify, elevate to administrative expense status or otherwise effect such claims.

11. Nothing in the Motion or this Order, nor as a result of any payment made pursuant to this Order, shall be deemed or construed as an admission as to the validity or priority of any claim against the Debtors, an approval or assumption of any agreement, contract or lease pursuant to section 365 of the Bankruptcy Code, or a waiver of the right of the Debtors, or shall impair the ability of the Debtors, or any other party in interest, to the extent applicable, to contest the validity and amount of any payment made pursuant to this Order.

12. Any payment made or to be made under this Order, and any authorization contained in this Order, shall be subject to the terms of the Interim Cash Collateral Order and related final order.

13. The Debtors are authorized and empowered to take all actions necessary to implement the relief granted in this Order.

14. Notwithstanding Bankruptcy Rule 6003, this Order shall be effective and enforceable upon entry hereof.

15. Notwithstanding Bankruptcy Rule 6004(h), this Order shall be effective and enforceable immediately upon entry hereof.

16. This Court shall retain jurisdiction with respect to all matters arising from or related to the implementation of this Order.

Dated: July [], 2015
Birmingham, Alabama

UNITED STATES BANKRUPTCY JUDGE

EXHIBIT B

PROPOSED SUPPLEMENTAL ORDER

**UNITED STATES BANKRUPTCY COURT
FOR THE NORTHERN DISTRICT OF ALABAMA
SOUTHERN DIVISION**

In re:

WALTER ENERGY, INC., *et al.*,¹

Debtors.

Chapter 11

Case No. 15-____(____)

Joint Administration Requested

Docket Ref. No. __

**ORDER (A) AUTHORIZING, BUT NOT DIRECTING,
THE DEBTORS TO PAY CERTAIN BONUS AND SEVERANCE
OBLIGATIONS AND (B) GRANTING RELATED RELIEF**

Upon consideration of the motion (the “Motion”)² of the Debtors, seeking, among other things, entry of an order (a) authorizing, but not directing, the Debtors to pay (i) amounts owing to non-insiders under the Debtors’ Severance Program and Quarterly Bonus Program and (ii) cash payments with respect to unpaid PTO upon termination and (b) granting related relief; and the Court having heard the evidence and statements of counsel regarding the Motion and having determined that the legal and factual bases set forth in the Motion and attested to in the First Day Declaration establish just cause for the relief granted herein and the Court having found and concluded that the relief requested in the Motion is necessary to avoid immediate and irreparable harm to the Debtors and their estates; and the Court having jurisdiction to consider the Motion and the relief requested therein in accordance with 28 U.S.C. §§ 157 and 1334; and

¹ The Debtors in these cases, along with the last four digits of each Debtor’s federal tax identification number, are: Walter Energy, Inc. (9953); Atlantic Development and Capital, LLC (8121); Atlantic Leaseco, LLC (5308); Blue Creek Coal Sales, Inc. (6986); Blue Creek Energy, Inc. (0986); J.W. Walter, Inc. (0648); Jefferson Warrior Railroad Company, Inc. (3200); Jim Walter Homes, LLC (4589); Jim Walter Resources, Inc. (1186); Maple Coal Co., LLC (6791); Sloss-Sheffield Steel & Iron Company (4884); SP Machine, Inc. (9945); Taft Coal Sales & Associates, Inc. (8731); Tuscaloosa Resources, Inc. (4869); V Manufacturing Company (9790); Walter Black Warrior Basin LLC (5973); Walter Coke, Inc. (9791); Walter Energy Holdings, LLC (1596); Walter Exploration & Production LLC (5786); Walter Home Improvement, Inc. (1633); Walter Land Company (7709); Walter Minerals, Inc. (9714); and Walter Natural Gas, LLC (1198). The location of the Debtors’ corporate headquarters is 3000 Riverchase Galleria, Suite 1700, Birmingham, Alabama 35244-2359.

² Capitalized terms not otherwise defined herein shall have the meanings ascribed to such terms in the Motion.

due notice of the Motion having been provided; and it appearing that no other or further notice of the Motion need be provided; and the Court having previously entered the *Order (A) Authorizing, But Not Directing, the Debtors to Pay Certain Prepetition Wages, Compensation, Workers Compensation and Employee Benefits and to Maintain Employee Benefits Programs and Pay-Related Administrative Obligations; (B) Authorizing and Directing Applicable Banks and Other Financial Institutions to Process and Pay All Checks Presented for Payment and to Honor All Funds Transfer Requests Made by the Debtors Relating to the Foregoing and (C) Granting Related Relief* [Docket No.] (the “Order”) with respect to the Motion; and the Court having determined that the relief sought in the Motion is in the best interests of the Debtors, their estates and all parties in interest; and upon the Motion and the First Day Declaration; and all of the proceedings held before the Court; and after due deliberation and sufficient cause appearing therefor, it is hereby ORDERED, ADJUDGED and DECREED that:

1. The Motion is GRANTED to the extent provided herein.
2. The Debtors are authorized, but not directed, to continue the Severance Program and to make payments to Employees and former employees in the ordinary course of the Debtors’ business. The Debtors are also authorized to pay in cash all other obligations owed to such severed Employees under the Debtors’ PTO policy upon their termination with respect to unused PTO in excess of the cap set forth in section 507(a)(4) of the Bankruptcy Code. All such payments shall comply with and be subject to section 503(c) of the Bankruptcy Code.
3. The Debtors are authorized, but not directed, to continue the Quarterly Bonus Program for non-insider Employees and to make payments to such Employees in the ordinary course of the Debtors’ business.

4. Nothing in this Order shall be deemed to authorize payment of any amounts that are subject to section 503(c) of the Bankruptcy Code.

5. All applicable Disbursement Banks are authorized and directed, when requested by the Debtors and in the Debtors' sole discretion, to receive, process, honor and pay any and all checks or drafts drawn on the Debtors' accounts to the Employees whether those checks were issued or presented prior to or after the Petition Date and make other transfers, provided that sufficient funds are available in the applicable accounts, whether deposited prepetition or postpetition, to make the payments. The terms of this Court's Order approving the Cash Management Motion (among other relief granted therein) shall be applicable to any payments made by the Disbursement Banks pursuant to this Order.

6. Authorization to pay all amounts on account of Employee Obligations shall not affect the Debtors' right to contest the amount or validity of any Employee Obligation, including without limitation, the Payroll Deductions that may be due to any taxing authority.

7. Authorizations given to the Debtors in this Order empower but do not direct the Debtors to effectuate the payments specified herein and the Debtors shall retain the business judgment to make or not make such payments, in all instances subject to the condition that funds are available to effect any payment. In no event shall any person (director, creditor, officer, manager, member, Employee or otherwise of the Debtors) be personally liable for any amounts authorized for payment herein but not paid and nothing in this Order shall be deemed to increase, reclassify, elevate to administrative expense status or otherwise effect such claims.

8. Nothing in the Motion or this Order, nor as a result of any payment made pursuant to this Order, shall be deemed or construed as an admission as to the validity or priority of any claim against the Debtors, an approval or assumption of any agreement, contract or lease

pursuant to section 365 of the Bankruptcy Code, or waiver of the right of the Debtors, or shall impair the ability of the Debtors or any other party in interest, to the extent applicable, to contest the validity and amount of any payment made pursuant to this Order.

9. Any payment made or to be made under this Order, and any authorization contained in this Order, shall be subject to the terms of the Interim Cash Collateral Order and related final order.

10. Notwithstanding Bankruptcy Rule 6004(h), this Order shall be effective and enforceable immediately upon entry hereof.

11. This Court shall retain jurisdiction with respect to all matters arising from or related to the implementation of this Order.

Dated: August [], 2015
Birmingham, Alabama

UNITED STATES BANKRUPTCY JUDGE