National Coal Corp. (Nasdaq: NCOC)
Third Quarter 2008 Earnings Conference Call

November 19, 2008, 2:30 p.m. Eastern

Operator: Ladies and gentlemen, thank you for standing by. Welcome to the 3rd Quarter Earnings Conference Call. At this time, all participants are in a listen only mode, later there will be an opportunity for questions and instructions will be given at that time. I would now like to turn the conference call over to our host, Christine Pietryla, Director of Communications, Christine?

Christine: Good afternoon. Thank you for joining us. Today we're going to hear from our President and CEO, Dan Rolling, our CFO, Mike Castle and our COO, Bill Snodgrass. Their statements will be followed by a question and answer period. Before I begin, I want to remind everyone that we will be discussing forward-looking information on this call. Examples and forward-looking statements include, anticipated benefits of capital improvements and new mine and an anticipated strengthening or weakening within the coal market. Forwarded looking statements should not be read as a guarantee of future performance or results and are based on information currently available. Forwarding looking statements made on this call are based on management's good faith belief at this time with respect to future events and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward looking statements. These conditions are more fully described in the company's filing with the Securities and Exchange Commission including are most recently filed annual report on Form 10K and quarterly reports on form 10Q which should be read in conjunction with the information presented in this call. Further, we will also be referring to non-gap financial measures, which are reconciled both in our 3rd Quarter 10Q and earnings release located on our website. With that, I'd like to introduce you to National Coal's President and CEO, Dan Rolling.

Dan: Thank you Christine. Good afternoon and thank you for participation in this call. To begin, I know that Mike is going to specifically address our financial results and Bill will provide us with the discussion about operations. So, I'd like to start by discussing the steps we are taking to improve shareholder value in the midst of a challenging market and economic conditions as well as provide guidance on our cost, production, pricing and the overall health of the company. First and foremost, I want to address the recent volatility in our stock price. Even though the price of our stock has declined dramatically since our earnings release, the percent change performance has been in line with our peer group over the last twelve months when measured from the high to the low on a year to date basis. This is not rationalization on the performance of our stock. It's just an observation. We find this performance to be unacceptable and believe there is significant unrecognized value in the company that we are hoping to quantify and benchmark for our investors. I believe that the recent movement in our price this week is not indicative of the underlying value of the company but it is indicative of the uncertainty of the economic outlook for our economy, the financial markets and the political uncertainty surrounding the future use of coal. With that said, I am not dismissing the impact of my comments regarding a change in the outlook for our production targets for 2009 and 2010. We changed our production outlook to better reflect what is happening in the labor market and the coal market. Availability of skilled labor remains scarce and continues to impact our ability to expand production. Prices, which are still healthy by historical standards, have retreated from the record highs reached in June and demand two is healthy. But the near term outlook is somewhat less positive reflecting no growth in year on year electricity generation and a growing concern for weakening demand from the steel industry for metallurgical coal. The offset to these concerns is the realization that supply is not assured either. Production in the Appalachian region has declined about 80 million tons in the last decade and has shown no real ability to recover even with the record high prices realized so far this year. It is my view that the challenge facing National Coal as well as the coal industry in general is that we have to be able to meet demand for our customers and earn the cost of capital on our invested capital. Historically, the industry and National Coal have not done this. Thus, it is my objective to drive our company into profitability and then to earn its cost to capital. In order to achieve this, it is vital that we do not foster a belief that increased production at any price is acceptable. Accordingly, until it becomes clear that the outlook for coal demand and its relative prices become more positive, our decision to aggressively expand production has been scaled back. We are, however, continuing on a growth track with a compound annual growth rate of 26% over the period 2007 through 2010. Production during 2007 was 1.3 million tons. On a going forward basis, we are estimating production to be 1.9 million tons this year, 2.4 million in 2009 and 2.6 in a range of 2.4-2.7 during 2010. The revision store production forecast are as follows: 2008 from 2.3 million tons to 1.9 million tons. This revision was due to the loss of about 140,000 tons of production following our dragline situation, significant delays in receipts of permits to begin operations and as I said before, a shortage of labor. Looking forward to 2009, we lowered our forecast 11%, from 2.7 to 2.4 million tons. This reduction was driven by the anticipated tight labor market. The most significant reduction in our forecast was for 2010 where we reduced it 35% from an estimated 4 million tons to 2.6 million tons in a range of 2.4 to 2.7. This revision is driven by our belief that the labor market will remain exceedingly tight and that the current economic uncertainty and pricing environment will limit our ability to open new minds. Now, with that said, it is still our intention to aggressively increase our production organically. We still believe that our goal to reach four and then five million tons of annual production is achievable, however, we have pushed our goals into the future until we have better visibility on the key issue of labor, as well as the ongoing uncertainty surrounding economic activity. Nothing has changed since we previously stated our goals except that when we first stated them with investors in May, the economic incentives a stronger demand and prices were a consideration. Now we do not have the same environment to consider. Labor, which has always been a stated concern has gotten more expensive and remains in scarce supply. Our reserves, our resources, our infrastructure and our permits and planning remain capable of achieving the objectives we have discussed today and are still focused on achieving our previous goals of 4 and then 5 million tons of production. It is my belief that sticking readily to an aggressive increasing production profile in the face of a very tight market for skilled workers and a weakening coal market would not be in the best interest, best long term interest of stakeholders in National Coal. During the 3rd quarter, we were able to shore up production at 5 facilities across Alabama and Tennessee as well as put back into service our 42 mile line railroad and the adjacent preparation plant. We refer to that plant as Baldwin. We increased our coal sales from the new river track as a result of opening the new operations and re opening of previously idle facilities, including the Baldwin prep plant, its load out and the captive short line railroad. That helped control production and transportation cost. This is not to be overlooked. Our operations also showed improvement as the drag line came back into production at the new mine Poplar Springs North. This is also very significant to any discussion regarding cost controls. So, Bill will discuss this in more detail later. 3rd quarter also saw progress on future coal sales, including the signing of new coal supply agreements worth 15 million dollars in incremental revenue over the next two years. That's something that Mike will discuss shortly, but what I will say is that together, these milestones effectively leave us with increased flexibility moving forward by not having to sale a significant number of incremental tons at below market prices in order to achieve a meaningful price increase. We have been doing this across the board this year. Renegotiating existing coal supply agreements for better pricing and terms and signing new contracts. As a result, permitted sales for 2008 are 2.1 million tons at an average contracted price of $65.74, up from $62.25 as disclosed in our 10K earlier this year. For 2009, 2 million tons at an average contracted selling price of $70.40, up from $65.98. And for 2010, 700,000 tons an average contracted price of $77.35, up from $67.73, almost a $10 per ton increase and a pullback of almost 300,000 tons. In order to achieve these higher prices, we did in fact sign at least one contract at over $100 per ton along with some others in the 80's. We also reduced our committed tons at lower prices. The impact of these successes will be positive on our ability to generate cash flow. As for 2011 and 2012, we have no committed sales at this time. We do have an option agreement with a customer for 480,000 and 360,000 tons respectably at $72.90. At this time, I will hand it over to Mike Castle our CFO to talk more about the finances of the company.

Mike: Thank you, Dan. I will discuss 3rd quarter 2008 results, address the material items impacting the year to date, September 2008 results and review certain items within the balance sheet. In the 3rd quarter 2008 we sold 492,000 tons at $66.02 per ton, for total coals sales revenues of $32.5 million dollars compared to the sale if 405,000 tons at $50.68 per ton for total coal sales revenue of $20.6 million dollars for the 3rd quarter '07. That represents an increase of 30% on our average price per ton of 58% on total revenues from coal sales. These increases are primarily the result of the October 2007 purchase of Mansfield Products in Alabama that sold coal at an average sales price of $67.17 per ton in the quarter and the increase in sales price for our Tennessee mines to 61.08 per ton in the 3rd quarter 2008 from 52.52 per ton in the same quarter a year ago. We have also renegotiated several coal supply agreements this year that have continued to drive up our average sales price year to date. A trend we expect to continue through year end. One coal supply agreement that Dan has alluded to is actually recently been negotiated will increase revenues 15 million dollars through the end of 2010 on fewer tons than those required under the previous terms. We began shipping on that new agreement on November 1, 2008. In the 3rd quarter our cost to sell is with $62.58 compared to $50.54 in a 3rd quarter 2007 it's an increase of 23.8%. This net increase was primarily the result of the Mansfield acquisition in October 2007 and increases in mainly four cost components, labor, fuel, supplies and transportation. We have recently locked in forward contracts for approximately 80% of our diesel usage; this is a savings of approximately $1.25 to $1.50 per gallon from prices we experienced earlier this year. On our average uses of approximately 450,000 per month, this represents a significant savings to us through 2009. Our DD&A expenses have actually decreased in the 3rd quarter 2008 from the year ago quarter, however these same costs have gone up approximately $800,000 from the second quarter 2008 primarily due to bringing back into service previously idle assets in Tennessee and putting into service the mining equipment we've acquired in 2008. General and administrative expenses have increased approximately $800,000 or 49% in the 3rd quarter 2008 and as compared to the same quarter a year ago as a result of an increase in professional fees, options expense and the Mansfield Acquisitions. The next item I would like to review is interest expense. At September 30, 2008 we had approximately 103 million dollars in long term debt consisting of primarily two debt facilities. The 10.5% December 2010 credit facility with an outstanding balance of 42 million dollars which is secured by substantially all of our Tennessee assets and the 12% October 2012 debt facility that was used to acquire the Mansfield products acquisition with an outstanding balance of 60 million dollars. This is secured by all of the Alabama assets. There terms of these agreements do not provide for any cross collateralization or indemnification nor do they allow us to transfer cash to or from our Tennessee or Alabama operations. I will also note that we've reduced the 10.5 credit facility by 13 million dollars since the beginning of the year through a series of debt equity swaps. We've incurred 14 million dollars in interest expense through the 3rd quarter 2008 of which 3 million dollars is not cash accretion on these two note facilities. Adjusted betide for the quarter ended September 30, 2008 was $726,000 versus a negative adjusted betide of 1.9 million dollars in Q22008 and a negative $664,000 in Q12008. Our adjusted betide was negatively impacted by over $10 million dollars of lost revenue associated with the drag line being down in Alabama and an allowance for bad debt of $600,000 in the 2nd quarter 2008. In addition to the loss of approximately 30,000 tons of productions during Q32008 due to the drag line being down, we also incurred significant other costs related to getting the drag line back into normalized production. September 30, 2008, we had a negative working capital of approximately 1.5 million dollars compared to a positive working capital of 3.1 million dollars at June 30, 2008. Accounts payable and accrued expenses are 17.9 million dollars at September 30, 2008 vs. 14.4 million dollars at June 30, 2008 an increase of approximately 25%. The largest components of this change was an increase of approximately 1.9 million dollars in accounts payable and National Coal of Alabama and a reduction of approximately 1.5 million in accounts receivable on Tennessee sales. With the increase in sales price effective November 1, 2008 through December 2010 that would generate additional revenues of 15 million dollars for a large portion of our committed sales in Alabama and the expected increase in production now that the drag line is operational, we anticipate this trend to improve at National Coal of Alabama. Also, I'd like to talk about the recent filings. As you know, while we have been subject to the management reporting and internal control provisions of Section

404 for some time now, we will be required to have our auditors independently (inaudible) upon our internal control beginning with the 2008 audit. The audit extent is required that a sufficient amount of audit evidence be available in order to reach the conclusions that a control environment is effective and for quarterly controls that it is typically two quarters worth. As such, we have essentially needed to ensure that the majority of our controls were in place and functioning as of September 30, 2008. As many larger accelerated filers experienced in the first go round, this process took some time to ensure that all of our documentation was in place and as a result we filed our form 10Q one day late. I am now going to turn it over to Bill Snodgrass who's going to go through some of the operating activities.

Bill: Thank you, Mike. Good afternoon everyone. Well, as Dan said, we opened three new mines in Alabama. Only one of which incremental new tonnage and two mines and one plant in Tennessee. With the opening of the Baldwin plant we also started shipments on our short line railroad. You know, this year we've started out with high expectations as the coal prices increased and as a result, we accelerated plans for increasing production after having idled a number of facilities in '07. When the market was not strong enough to continue using them while trying to sell coal at a profit, idling these allowed us to preserve our coal reserves with the hope that future increases and demand would require us to tap back into them. Unfortunately, the first two quarters of this year and even a bit of this 3rd quarter were disrupted by significant and unexpected equipment failure. In late February, our drag line went down on our El (inaudible) mine in Alabama; it was down for a number of months and didn't come back into full production until October. This led us to move this piece of equipment from its then current location to the Poplar Springs North facility which is better suited for the drag line was longer kept. During the move, we did regular and preventative maintenance and at the new location installed a new back up barring. Now the machine is fully operational. Also on the 3rd quarter, the National Coal of Alabama, new Davis Creek and Crescent Valley surface mines began production. Crescent Valley production will replace production from our Hickory Grove North mind which was depleted in the first quarter of this year. Our other Alabama facility, Davis Creek, is hitting its stride. It came online in the 3rd quarter and is expected to come full term in the 4th quarter. This is a significant facility for us in that we expect to produce for steam and metallurgical coal at this location. It is a high volume metallurgical property and we know we can sell that production on the metallurgical market for at least $135 a ton give or take. In addition we are also, are a majority joint venture owner in a barge loading facility on the Warrior River in north Alabama. This has been exceeding beneficial for us as we receive equity income from this joint venture. All in all our Alabama operations are running well and moving forward will remain a significant contribution to our financial results. In Tennessee we opened mines number 17, 14 as well as Baldwin prep facilities and the railroad. Mine 5, an additional underground mine is in the process of being opened at present. The production from the new mine number 5 will be fully realized in the first quarter of next year, it will be processed through the Baldwin and shipped on a short line rail which as Dan already mentioned, will allow us to streamline production costs quite a bit. To facilitate this and other Tennessee operational goals, we will require new equipment at an approximate investment of $2,600,000 in the fourth quarter which will be for opening of Mine 5; we will also need less than a half million to maintain existing assets.

Dan: Thank you, Bill. And thank you Mike for your comments. Thus, in conclusion, our operating plan moving forward includes cash receipts from the sales committed under contract, open purchase order arrangements with long term customers. As I've mentioned and the release of restricted cash. Looking forward, we believe that the market will stabilize or improve which will allow us to increase our production and anticipation of greater demand. Accordingly it is our objective to sign new contracts for 2009, 10 and 11 that will earn our cost of capital or better. Also, I will point out that our committed contract sales that I discussed earlier do not include any sales of our metallurgical coal from our new Davis Creek Mine. At present, we are beginning to sell some of that high vol metallurgical coal for about $135 a ton. We hope to increase sales significantly over the next two years. I'm confident that we'll get there. I am confident that we will earn our cost of capital or better as we go forward. As we said in the release, the strength of the domestic coal market as well as dramatic shortage of skilled labor is the largest obstacles we are facing in meeting our future production goals. However, we are highly confident that we will have the labor force in place to meet our current production goals. What are we doing to solve these issues? Well, we administered a more aggressive hiring and training program and we are recruiting contractors. The availability of skilled labor, particularly in the Appalachian region is extremely tight and not at all reflective of increasing unemployment rates across the country. Regarding production, we are going to leverage what we've already invested in, the Baldwin plant, short line railroad, and new and re-opened mines to help strengthen our production mix. Lastly, upfront, I want to address another question I've received quite often over the last few days. Why is our coal late or called late? We scheduled it in order to have time to prepare for this conference call which is our first one. All that said, this quarter we experienced a number of achievements that support our positive outlook. Thank you for your attention, I will turn this conference call back over to Christine who will coordinate the question and answer period.

Christine: Thank you. The operator should have given you directions on how to submit your questions.

Operator: If you would like to ask a question, please press start 1 on your telephone keypad. Once again, if you would like to ask a question, press start 1 one your telephone keypad now.

Christine: Okay, our first question will come from Bret Levy, Jeffries and Company.

Operator: Go ahead, Mr. Levy.

Bret: Yeah, hey Dan, hey Mike. I'm wondering what is the tap X number going to be in the fourth quarter in total, you mentioned 2.6 million of equipment and then what do you at this point envision 2009 cap X number being?

Bill: I'll take the, the fourth quarter, the 2.6 million equipment, underground equipment that had been ordered earlier in the year. It's going to be put into Mine #5 here in Tennessee, it is financed. We're still waiting on the mine to be ready for delivery of that equipment and we're estimating approximately $450,000 in just maintenance cap X in this fourth quarter.

Dan: For 2009, we have arranged, Bret, somewhere around 5 to 10 million at this point with our revised plans, we will ramp that up depending on the outlook for the market and the economy but right now, for 2009, we're in the range of 5 to 10 million dollars.

Bret: And are there some specific projects on that? You mentioned ramping up the met coal production.

Dan: We may have to add a little more equipment on the met coal production should the demand be what we expected, but it's mainly just equipment across the existing mines and stuff we already had in place or plans that were already in place.

Bret: And then I saw that you guys swapped some of your 10 ½ % notes into equity, should we anticipate seeing more of that?

Dan: We have been offered more of our debt for equity swap. The management's philosophy in concurrent with the board has been very straight forward. If the debt equity swap is beneficial to the company long term we will accept it and we would love to do it. We do not solicit the debt equity swap. They've all been solicited of us. We have not accepted all debt equity swaps that have been offered to us, we felt the terms were not in the long term best interest of the company. But we are open to that.

Bret: And then in terms of the percentages of year 2009 production that you've locked up, is there any sort of level loading of it? Is it more first quarter, fourth quarter oriented?

Dan: I evenly spread throughout the year. I don't think there's any real change in volumes or prices as we pass through the year.

Bret: And are there any idle assets or sale lease backs that can be done?

Mike: Yes there is, we've not really explored that recently, but there is that opportunity.

Bret: Can you be a little bit more clear on what those opportunities might be? Or quantify them a little bit?

Mike: For instance, we own reserves here in Tennessee, we've not broached the ideal of doing a sell leaseback on those, but I'm sure there's an opportunity to do that.

Bret: Got it.

Mike: And most of our equipment is owned or capital leases. We do have some equipment, sources and other ground equipment primarily here in Tennessee that has no debt.

Bret: And what do you think that might? What do you think a rough number for that would be?

Mike: I don't have that level of detail.

Bret: Thanks much, I'm going to get back in queue.

Christine: Thank you.

Dan: Thank you very much.

Christine: We'll take questions from Michael Gobler from Green Murray.

Michael: Good afternoon everyone.

Dan: Hello, Michael.

Michael: A couple quick questions, Dan. First we'll start out with reserve exploration. Just wondering how the drilling's going and when we can expect an update?

Dan: Sure. We continue to explore as I've said before we have 3 rigs running two in Tennessee, one in Alabama. We continue to use two of our rigs, the one's we own, for permit mine planting production as well as exploration and the third one is dedicated right now to exploration. We're highly confident that through the efforts of our drilling that we will add to our reserves at year end. But as I've also said, the reserves will be officially updated with the 10K at the end of the year and any results of any specific long term drilling program, you know, we really won't have any major update on that until sometime toward the end of next year at the earliest. But we will update our reserves at the end of the year with the K which is customary and we're highly confident that we'll be adding to reserves.

Michael: Okay, next question has to do with your met coal production. Is that being used domestically, or are you planning on shipping that?

Dan: We are selling it domestically; we're not a large enough producer to be involved in the export market. There are a number of consumers of metallurgical coal in the Alabama area, so we're very fortunate in that we have a number of customers that are interested in the product. But we did just get that mind open, we are just beginning to sell at ship some of the metallurgical coal this quarter. The coal on the crop was oxidized and therefore did not really qualify for a good quality met coal, it is a high ball coal and we will be making our first meaningful shipments this quarter and picking that up as we go through next year and as I said, none of those sales are counted in the forward looking prices that were committed tons that we put out earlier. That coal is selling for approximately $135 a ton right now and we're confidence we'll be able to achieve that going forward.

Michael: Okay, good. And finally 2010 appears to be the big year for the company from a top and bottom line perspective. If end market demand improves, do you think you'll be able to put on additional production to take advantage of it?

Dan: It is our intention to do that, Michael. When we reduced our forecast for 2010 from 4 million tons now to our range of 2.4 to 2.7, it was a statement saying labor is tight, the market is weakening. It was not a change in management's direction, goal or desire to grow this company aggressively. Can we hit 4 million tons in 2010? If labor frees up, yes, but that is not something that I am willing now to forecast. We've had an extremely low turnover rate in labor since I got here. However, what we have found out in the last year is that our turnover rate has been increasing. We're getting people hired away from us and that's the main cause of it. When we look at our labor rate for those that have been employed for over 6 months, the turnover rate is only 15%, but that is still too high and unacceptable. When we take new hires into account, it's significantly higher than in the 30% range. So, our ability when we started talking about our growth and our desire and belief we could add labor, we did not realize we would have a 31% turnover in new hires as after they worked awhile they decided it was really too hard of work.

Michael: Alright, thanks everyone.

Dan: Thank you, Michael.

Christine: We'll now take questions from Al Sham at Midself Capital.

Al: Yeah, gentlemen, good afternoon. A few quick questions. Do we have any events, debt maturities coming due in the near future, anything like that that might put us in a cash squeeze?

Dan: Any debt maturies?

Al: Debt maturities? Obligations due? Violation of covenants? You know violation of financial ratios, anything like that that looks probably or pending?

Bill: No, we have debt due December 2010 and then October 2012, we do have normal amortization of equipment related debt that's ongoing that's generally over the next 36 months, but it's a very small portion of our debt. We have normal interest payments that are quarterly or semiannual, (inaudible) of larger facility, and I guess the computer you did see that we amended and our convenance went, one of our major debt facilities.

Al: Say that again, you amended one of your covenants with.

Bill: We amended the covenants with the debt facilities on the 2012 debt facility through June of next year.

Al: Okay, so that gave you a little more room?

Bill: We think that gives us plenty of room.

Al: Okay, so you're not too concerned with that issue. What about the issue of negative working capital? Does that pose much, does that put a restrain on you, or?

Bill: The reason we've had some negative working capital in this past quarter is primarily related to the loss of sales in Alabama. As I stated earlier, the facility we have in Alabama and our credit facility here in Tennessee don't allow us to utilize funds back and forth. And as a result, Alabama accounts payable has gone up a couple million dollars from the previous quarter and that's simply due to a reduction in the sales down there. We anticipate that that's going to work itself out because of higher prices and the shipments are coming up, productions coming up and shipments are coming up down there, so we think that's going to work itself through over the next few quarters. And keep in mind, we lost 140,000 tons, roughly 140,000 tons of production and sales in Alabama this summers.

Al: Okay. And then finally, that prefer that you swap, that was a preferred that you swapped the common for?

Dan: Yes.

Al: And what was the par value of that to get an effected price in the sale of the common?

Dan: Basically the conversion price on that was $5.17 and it was converted at $4.00.

Al: Okay, good. Okay, well thank you……

Dan: Just to finalize that, Al, all of the convertible holders now over the past 18 months have converted their convertibles into common stock of the company. So that has eliminated the 8% dividend we were paying on it, but more importantly it sends the message that the convertible shareholders believed in the upside equity value of the company.

Al: Great. I would read it the same way. Thank you, Dan.

Dan: Thank you.

Christine: We'll take questions from Ross Haberman, at the Haberman Funds.

Dan: Ross, are you there?

Operator: Go ahead, Mr. Haberman. Mr. Haberman, go ahead please.

Dan: We will come back to Ross if he's still there.

Christine: Nelson Obus at Winfield Capital, please.

Nelson: Yeah, in terms of converting any kind of senior paper to equity, it's kind of hard to ignore the significant percentage decline of the stock of late to 145 as we speak. It sounded like there were some conversion, didn't sound like what you said was there was some conversion opportunities if you turn down, I assume that took place before the recent percentage decline. I would intuit from that these prices would be rather unlikely for management to accept any kind of, any kind of conversion, even if they were to pay a small premium, say 2 bucks or so. Am I assuming more than I should?

Dan: Not at all.

Nelson: So, we can put that to bed and, I mean, can you foresee a situation that would require you to raise more equity at these levels?

Dan: No, not with anything we are seeing now in our sales agreements, in our production outlook, in our ongoing operations. Right now we would be extremely reluctant to consider to such a move. However, neither would I have I seen 80 to 90% decline in valuations of most mining companies over the last few months as well. If the global economy continues to shrink massively, all bets are off. But I would tell you right now with what we see, even with the outlook for economic growth today, no, we see no reason that we would be in market trying to raise equity.

Nelson: Alright, now completely different question. The labor shortage that you described occur at what level of professional skill?

Dan: Everything, I'm going to have Bill elaborate on this, but my understanding is it that the professional level all the way through entry level positions in the mine.

Bill: Yeah, mainly the skilled operators. The skilled operators.

Dan: Miners.

Bill: Miner operators, root boulders, electricians.

Nelson; Now I have a little bit, the only place I really have real life experience of what I'm about to say is in companies that employee people to do contract mining in faraway places sometimes exploratory and certainly one thing I've learned in the last couple of weeks is that a labor shortage has turned into a labor surplus, yeah there've been some closures and curtailments but I'm just curious, and I know not everybody wants to move to where the mines are but, but my reaction when I read the press release yesterday, I was a little bit taken aback because I really don't associate the macro economics that are going on with a fear of a labor shortage.

Bill: Well, we have experience labor shortage every since we started the company. It's because there was not any active mining in this area when we started the company back. We do not have the numbers right now, but we have, we're pretty sure that problem is decreasing with the economy being flatter, the applications are coming in with skilled people on them now, not just inexperienced people.

Nelson: Well, that's what I would have though. And I imagine you've got a lot of experience there, there must have been some people who were there in the 70's there surely were people who were there in the early 90's and I mean, was their experience, when I say their, I mean people who are seeing your executives and plus you've got an II coal analyst running the show, I mean in the past economic downturns, have labor shortages been any kind of a meaningful factor?

Dan: Well, to try to frame that a little better.

Nelson: Yeah, I'm sure I could use some framing, go ahead.

Dan: Coal mining and mining in general in Tennessee peaked in the late 70's early 80's and dropped significantly to the tune of probably 80% and almost completely went out of favor with a past governor and a past vice president who both were from this area. So, mining was really almost nonexistent in Tennessee until this company started back up and I think total coal production was around, or just under 2 million tons. So, we have a very bi-polar workforce when it comes to age. Significantly older ones who were in the here and around during that earlier time period and then the other side of it is very, very young inexperienced. So, we're missing at least a generation of half of miners in between. So, it's not like West Virginia, Virginia, Kentucky, other major mining states that weathered the downturn. Tennessee had political events and the fact that Tennessee was more of a mid sulfur producer which mid and high sulfur producers like the Illinois basin were heavily impacted with phase one of the Clean Air Act as utilities moved towards low sulfur and compliance coal and reduced their reliance on mid sulfur and high sulfur coal. That is changing in the last few years which is one of the reasons we're here and starting back up because he have very hot, mid sulfur coal, that's ideal for the scrubber market, but it was out of favor from 95 through 2005.

Nelson: Gotcha. Okay. Thanks

Dan: You're welcome. Nelson, I'm sorry.

Christine: Now taking questions from Mike Shay.

Mike Shay: Yes, good afternoon. Quick question. Can you give me some information on your met coal? What, how much do you have in terms of reserves?

Dan: Um, Bill we'll be updating that in the 10K at the end of the year. What we have said is that when we acquired the Alabama operations, there was one property that was partially permitted and we knew that it contained metallurgical coal, but there wasn't a fully defined reserve at that time. We have worked on that this year and proved up enough reserves to open the mine and feel comfortable that we have a meaningful life in that area of metallurgical coal. As I said in the 2nd quarter press release, we anticipate 10,000 tons a month production from that property with the majority of it being metallurgical coal but some of it clearly will still be steam coal. But as we move through the year we expect our metallurgical sales to increase.

Mike Shay: So the 10,000 tons per month production, is that raw or is that clean?

Dan: Clean.

Mike Shay: Clean?

Dan: Yes.

Mike Shay: Okay. Alright, thank you very much.

Dan: You're welcome.

Christine: I believe that's all the questions we have for today. We'll give it one minute in case somebody wants to ask another. Alright.

Operator: Christine, would you like to take a question from Mr. Haberman.

Christine: Yes, please.

Operator: Okay. Mr. Haberman, go ahead please. Mr. Haberman? Okay, we are not able to get to his line.

Christine: That will be the end of our conference then, Lorna.

Operator: Okay, ladies and gentlemen, this will conclude our conference. Thank you for joining us today.