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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Hallador Energy's Third Quarter Earnings Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will follow at that time. (Operator Instructions) As a reminder, this conference is being recorded.

I would now like to introduce your host for today's conference, Ms. Becky Palumbo. Ma'am, you may begin.

Rebecca Palumbo - *Hallador Energy Co. - Director of IR*

Thank you, Loraine. Good afternoon, everyone. Welcome to our third quarter 2015 earnings call. On Friday afternoon, November 06, we filed our Form 10-Q with the SEC. It is available during this call on our website under the SEC filings tab. This call is being webcast and a replay will be available on our website, along with a transcript later this week.

On today's call will be Brent Bilsland, President and CEO; Andy Bishop, CFO; Larry Martin, CFO of Sunrise Coal; and myself, Director of Investor Relations.

Our remarks will include forward-looking statements that are subject to certain risks and uncertainties that could cause actual results to differ materially. For example, our estimates of mining costs, future coal sales, and regulations relating to the Clean Air Act, clean power plant, and other environmental initiatives. We do not undertake to update our forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by law.

The format for today will be a discussion from management, followed by a question-and-answer period. Larry Martin will now discuss our third quarter highlights, followed by comments from Brent Bilsland.



Lawrence D. Martin - Hallador Energy Co. - CFO Sunrise Coal, LLC

Good afternoon everyone. I'm going to highlight some of our third quarter results. Before I get into that, I want to define a couple of things here. We are defined free cash flow as our pretax income plus DD&A less CapEx and our adjusted EBITDA is defined as EBITDA plus our amortization of stock compensation.

For the third quarter, Hallador had net income \$5.1 million or \$0.17 a share. This resulted in year-to-date net income of \$19.6 million, or \$0.65 a share. Our free cash flow for the third quarter was \$12.4 million, \$0.43 a share, \$31.8 million for the nine months or \$1.10 a share. Our adjusted EBITDA was \$22.4 million for the third quarter, \$0.77 a share, \$75.2 million \$2.59 a share for the nine months.

We reduced debt by \$11.6 million for the quarter or \$0.40 a share and we paid \$40.3 million for the year-to-date or \$1.39 a share. We paid \$1.2 million in dividends for the quarter, \$3.6 million for the year and we will pay another \$1.2 million this Friday for a total of \$4.8 million for the year.

Our bank debt at 9/30 was \$266 million, our net debt less cash was \$246.5 million, our debt target for the end of the year is \$250 million, is what we think we will owe by 12/31 and by the end of 2016 we plan on having our debt down to \$210 million. Our debt to EBITDA coverage ratio was at the end of 9/30 for the trailing 12 months was 2.6 times.

I'll now turn it over to Brent Bilsland to give his comments and insight.

Brent K. Bilsland - Hallador Energy Co. - President, CEO

First of all, I want to thank everyone for joining our call where sales is kind of the where everyone's attention is. Sales for 2016 were forecasting 6.5 million tons and we included in this queue a table that issue what our minimum tonnage could be and what our maximum tonnage could be under contract in hand today.

At a minimum we are saying we have 5.6 million tons already under contract in some cases our customers have the ability to increase contracted tons and/or in some cases they are required to purchase their additional needs from our Company. Under this maximum scenario our current contract position would be 6.4 million tons.

In addition to our contracted position, we fully expect our customers to purchase additional tons in 2016 from us. Currently our average price for 2016 is \$43.34 for the next five years, we have at a minimum 22 million tons and at a maximum 30 million tons already contracted. This represents 60% to 80% of our sales projections if you assume 7.5 million ton a year run rate as we are forecasting for 2017.

Our challenges name another company or an industry that control such a healthy backlog of sales I think Hallador is fairly unique in that scenario. From production cost point of view, you may recall during the quarter we filed an 8-K announcing our decision to increase our production at Oaktown our lowest cost mine and decreased our production at our Carlisle Mine.

As a result of this decision, for the next couple of years we expect Oaktown to represent more than 90% of our production. In the third quarter, I would like to point out Oaktown's cash costs were \$28.13 a ton. We're still targeting \$27 for Oaktown for 2016 and we think in the fourth quarter we're basically transitioning from that \$28.13 down to \$27.

Going forward we expect our SG&A to be \$12 million annually and cost associated with Prosperity and Carlisle to be \$7.5 million annually. Cash generation and debt reduction that's pretty much our story this year; we continue to generate lot of cash in the third quarter and these funds were used to pay down debt, \$11.6 million to be exact for the quarter. In addition to as Larry said paying a \$1.2 million dividend in the quarter.

So to recap in the 13 months since we have owned Vectren Fuels we have repaid \$84 million of bank debt, which would be equal to \$2.90 a share. We are proud of the fact that we have quickly delevered 2.6 times debt to EBITDA and we will continue to focus on debt repayment until we can find a better use of funds.



Stock performance we're continuing to be disappointed with the complete sell off of the U.S. coal sector and we are further surprised to see that little distinction has been given to coal producers that are performing well. We understand that coal faces a lot of headwinds and the negative headlines are causing investors to run for the hills.

However, we know a few other businesses that have contracted sales backlog of 60% to 80% for the next five years are lowly leveraged at 2.6 times and are trading at a free cash flow yield in excess of 20%. At some point, we feel math will trump fear and our investors will be rewarded for buying Hallador's stock.

So with that, I am going to open it up to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Daniel Scott from Cowen & Company. Your line is open.

Daniel Scott - *Cowen Securities LLC - Analyst*

Hey good afternoon guys. How are you doing?

Brent K. Bilisland - *Hallador Energy Co. - President, CEO*

Good. How are you Daniel?

Daniel Scott - *Cowen Securities LLC - Analyst*

Doing all right. First on that one of the last comments about SG&A levels at \$12 million a year, and then \$7.5 million for Prosperity and Carlisle. Is that embedded in the 12 or is that \$7.5 million in operating cost?

Brent K. Bilisland - *Hallador Energy Co. - President, CEO*

That's in operating cost.

Daniel Scott - *Cowen Securities LLC - Analyst*

OK, so separately. And then where should we think about CapEx levels going forward from here? Are we in the \$3 a ton range for maintenance or anything above that?

W. Anderson Bishop - *Hallador Energy Co. - CFO, Treasurer*

Dan this is Andy. \$3 million of tons for 2016 is a good number to use.



Daniel Scott - Cowen Securities LLC - Analyst

And then last from me, marketing conditions obviously been tough. Does that affect in anyway your thoughts on the pace of debt repayment, and I know you are very data averse post deals, but any thoughts on backing off that pace or are you just full board?

Brent K. Bilsland - Hallador Energy Co. - President, CEO

Well I think we are full board in debt repayment, I mean the quicker we can delever, I think we've stated again and again the only way we can get ourselves in trouble is too much debt and we've paid now 27% of our loan since closing on the deal last September. So I think we've performed pretty well on that front and that's going to continue to be our focus.

Daniel Scott - Cowen Securities LLC - Analyst

And would that preclude you looking at other potential M&A targets until that debt is all the way paid down?

Brent K. Bilsland - Hallador Energy Co. - President, CEO

I think it changes the type of deals that you look for, we're interested in any deal that we think we can add value and we're interested in deals that have positive cash flow. I don't see us going out and buying big reserve basis just to put those on. I think we would look for a scenario where we can buy existing cash flow and bring value to it where we can lower the cost structure of what we would be buying, but we will be very selective just because we don't want to over-lever our Company.

Daniel Scott - Cowen Securities LLC - Analyst

OK, thanks Brent. Thanks Andy.

Operator

Our next question comes from Mark Levin from BB&T, your line is open.

Mark Levin - BB&T Capital Markets - Analyst

Hey gentlemen, a couple of very quick questions. First with regard to cost in Q4, I know you guys are shooting for 27 or so, but when we think about the all-in number I know this quarter for example the all per ton number was about \$31.82, maybe some thought as to how to think about what that all in cost might look like in Q4 and then also in 2016. I assume we're just layering on 90% is coming from Oaktown and then the other cost that you referenced, but just want to make sure that's the right way to think about cost.

Brent K. Bilsland - Hallador Energy Co. - President, CEO

Mark I can always count on you for a multistage question. No I think going forward we're trying to explain that right. We said that Oaktown was 28 and change for the quarter, we feel the number there are improving, mostly because we have I think five of our six units mining out for same channel during the quarter, and those slowly as the mining plan progresses will move away from the channel. We're seeing that now, we're seeing better recovery. So we feel, our cost story at Oaktown continues to improve. As far as for Carlisle, Prosperity in the fourth quarter, we're expecting that number to be 2 million to 2.5 million, so you add that on to whatever the cost structure is at Oaktown which we said for the quarter was \$28.14 I think.



Mark Levin - *BB&T Capital Markets - Analyst*

Got it.

Brent K. Bilsland - *Hallador Energy Co. - President, CEO*

Does that answer your question Mark?

Mark Levin - *BB&T Capital Markets - Analyst*

Yes, that's perfect and the next question I wanted to ask was around customer inventories, obviously with gas below three for the bulk of the year, can you maybe talk to some of your customers and their inventory situation and what the demand environment looks like in general.

Brent K. Bilsland - *Hallador Energy Co. - President, CEO*

Well, 2015 was basically the story of everyone is long and so the deals we made is OK, we'll push tons into next year, either pay us to do that or give us longer term contracts, and so, those are kind of the deals that we negotiated. You are seeing kind of a split in the market, you're seeing some utilities say this is a good time to step in and buy five years worth of coal. You're seeing other utilities say you know what, we're just going to play this thing short, we feel the market, there's plenty of supply out there that we're not going to get caught and we're just going to get a few months into the winter or into the spring before we come out and start buying stock purchases And we're confident that there's several utilities out there that need to buy.

They're just I think there has been a slight change in philosophy of some of these utilities, traditionally everyone locked in for a much higher percentage of their projected burn for a longer period of time. And now I think their models are changing quickly because of competition from cheap gas, and so they have less certainty in their models and so I think they're playing it short. So we fully anticipate to see buying from several different utilities, utilities in 2016 and so we think that will be probably more on a spot basis. Time will tell and I think they have comfort in doing it, because inventory levels are higher and there is plenty of people out there, they are going out for RFP and I think they are seeing plenty of tons be bid into those RFPs and just think they have been a little slow to buy.

Mark Levin - *BB&T Capital Markets - Analyst*

So this doesn't feel like a deferral type environment in 2016, utilities going..

Brent K. Bilsland - *Hallador Energy Co. - President, CEO*

No, I mean I think the deferrals have been done, I think the deferrals from 2015 to 2016 have happened and I think all those deals that are made now the buyers are really just trying to figure out what is winter going to look like. I mean October was very mild with the exception of this weekend, November has been mild. Now the cold front is at least here in Indiana, and I think they will just watch that and see what their inventory levels do, then they will come out in the spring and maybe late summer depending on the utility and do some buying.

So, that's what I think the year is going to look like today. Gas prices rise, they are going to be more aggressive buying, gas prices stay cheap they are going to be less, but I think they still have holes to fill. What is the pricing on that coal, remains to be seen. How many tons remains to be seen, but you know I think that we look at it and say the market is probably going to buy slightly less than they bought last year and mostly because gas price was cheap in 2015 I think gas price is going to be cheap in 2016.

A little less coal's going to go to export and coal inventories are a little higher than we went into last year with. So for those two factors I'll say we're setting up the stage for buyers to buy a little less coal. I don't know that's going to be drastic at this stage, I think it's too early to tell, but that being said, we're in a pretty good position. I think if you look at our forecast at a minimum we're at 5.6 million so to hit our target we're going to sell another 900,000 tons. Some of our contracts of our customers decide to buy more coal, they have to buy from us, some of those prices are pre-established some of aren't. So we'll just see what the future brings.

Mark Levin - *BB&T Capital Markets - Analyst*

One last question then I'll get off, I apologize for monopolizing time.

Brent K. Bilisland - *Hallador Energy Co. - President, CEO*

No, no, no, we appreciate the questions.

Mark Levin - *BB&T Capital Markets - Analyst*

Back to Daniel's question a second ago with regard to M&A. There are obviously a lot of processes that are going on throughout United States, in particular I would think in Illinois basin and maybe even in Indiana where there is the opportunity to maybe do fairly large transformative deals and I'm just speculating. Is that something that you guys would be willing to do or at this point does it look like this is the environment in which you guys are better off just buying stuff to the extent that's possible buying bite size stuff or are you averse to buying something much larger whatever, whatever that may mean?

Brent K. Bilisland - *Hallador Energy Co. - President, CEO*

I would have to say today it's more bite sized for us. We've shown that we are willing to do transformational deals if it's the it's a right deal. We've yet to see the right deal that has that kind of scale. There are some bite size stuff out there that has our attention, time will tell.

Mark Levin - *BB&T Capital Markets - Analyst*

Got it, fair enough. Thanks very much. I appreciate, take care Andrew.

Brent K. Bilisland - *Hallador Energy Co. - President, CEO*

Thank you, Mike.

Operator

Our next question comes from Chris Casson from Fair Cop Valuation. Your line is open.

Chris Casson - *Fair Cop Valuation - Analyst*

Thanks. At what ballpark or what general price of natural gas do you see - where utilities are really going to closely at, switching over?



Brent K. Bilisland - Hallador Energy Co. - President, CEO

Well, that's, it's so ...

Chris Casson - Fair Cop Valuation - Analyst

And that's a more of a longer term question, maybe even a short-term question. We hear of pretty wide range of numbers for where when you look at the price of coal versus natural gas, I'm just wondering what your thought is on?

Brent K. Bilisland - Hallador Energy Co. - President, CEO

Well, the reason you are always going to hear a wide range of numbers is there's a lot that goes into that number. I mean one is what is the heat rate of the coal plant, two is what is the heat rate of the gas plant; meaning how many BTU's do I have to put in the coal plant to get maybe a lot of power versus how many BTU's do I have to put in to gas plant to again make a lot of power. And then the other big factor there is what's the transportation rate to get the gas to the power plant and what's the transportation rate to get the coal to the power plant.

So, in Indiana, we sell 80%, 85% of our products in the state of Indiana, importantly for us the state of Indiana is less gas sensitive than say the state of Florida where we sell the other 15% to 20% of our products. And a lot of it has to do on our transportation rate to get coal to Florida is much higher than it is in the state of Indiana. So, that's why no one can really give you a firm answer well hey, here is the magical number, because it differs at every plant.

And how efficient is that gas plant or how efficient is that coal plant. The older coal plants that are coming offline are less efficient. The coal plants that are staying online had more scale and more efficient. So that's why it's kind of a moving - part, over the course of the year 2015 and what we expect to see over the course of year 2016. We think gas pricing would be relatively the same. So therefore we think coal purchasing should be relatively the same with the exception of I think 8 million tons with the export last year, some of those contracts or in 2015, some of those contracts will expire we don't think they will be renewed.

So, how much of that is online and then coal inventory is coming into 2016 versus coming into 2015 I think are higher. And for those reasons there will be a little less coal purchase. The dynamic that has changed that I think is causing a lot of uncertainty with coal producers are traditionally by this time of the year, I think committed tons for next year for the industry would be much higher.

Now, we're sitting here at roughly 85% of what we think we're going to produce. Maybe 90% depending on how some of these options are. So we feel we are in decent shape, we still want to make a few more sales through this time of year, but I think the dynamic that has changed is that, you've got several large utilities that has said no we're not going to sign on long-term contracts right now, we're going to play this in the spot market. And this layered into that we don't overbuy. We got cost in 2015 over buying, we don't want to do that in 2016.

So we're going to play a little more short. If gas prices rise dramatically that's going to be very good for coal prices. If we have the same year, I think we still make sales that's just going to come slower. And that makes everyone nervous especially when trying to meet all your loan covenants and the industry has so much debt in general. I think it makes everyone really-really nervous to be sitting here at this time of the year with a big open position. I think the utility customers are still fine because there is a lot of supply out there looking for a home.

Chris Casson - Fair Cop Valuation - Analyst

OK. Thanks.

Brent K. Bilisland - Hallador Energy Co. - President, CEO

Yes.



Operator

Our next question comes from Brett Pearlman from Luminous Management. Your line is open.

Brett Pearlman - *Luminous Management, LLC - Analyst*

Hi. Thanks for taking my question. Just wanted to touch a little bit further on the theme deferrals that you were talking about earlier, Duke, Indiana announced last week that they have deferred some of their 2015 deliveries to 2016. And I was wondering if any of your coal was deferred and how that impacts your cost per ton and your cash?

Brent K. Bilisland - *Hallador Energy Co. - President, CEO*

Well we have deferred tonnage with multiple utilities in the state of Indiana and that really led to our decision in July to slow down dramatically our Carlisle Mine and focus all of our production efforts or majority of our production efforts at Oaktown. So that is a direct result they are pushing contracts from 2015 to 2016 and either getting a payment, getting a storage fee or becoming the winning bidder on a five year contract.

So, those are the type of deals that we have done and it definitely affected our 2015 numbers, I think we went into the year at 9.4 million of sales and probably going to end the year like 1.8 million less. So definitely had an effect on 2015, I think the majority of that effect was still here in the third quarter I mean if you look at our number lets think about what happened I mean we personally had to do a work force reduction of 175 people in the third quarter that's the part that everyone sees.

The part that they don't see is we had to move a large portion of our work force from Carlisle to Oaktown and retrain those people. They get scattered on a different crews and now you have got different people working with different people. So it takes some time for those crews to gel and production to return to a normal level.

And basically we experienced that right around end of July, 1 of August and so I take my hats off to our operations people, I think they did a great job, but the third quarter was a very difficult quarter from a management point of view, because we had so much retraining. Our units at Oaktown are slightly different. We run a different ventilation system there, we then run a little bit different haulage at Oaktown.

So, it's just a lot of retraining that comes with that and unfortunately there was a dollar spent at aren't that productive. So we've worked our way through that and we see the results on a monthly basis improving and that's what makes us excited about next year from a cost standpoint.

Brett Pearlman - *Luminous Management, LLC - Analyst*

Thanks for that. So I guess as you look at your 2016 contract book and your 5.6 million tons under contract, how is your comfort with that number if these deferrals were to continue into 2017 and next if you have any conversations with the utilities about deferring in that 2016 tonnage?

Brent K. Bilisland - *Hallador Energy Co. - President, CEO*

No, I mean, never say never, but we feel that 2015 was all about hey let's get your contractive position in check and now we feel the utility has almost gone the other way right, long in 2015 so we want to play 2016 as short as we can. And so 5.6 million is the minimum there required to take from us, but with a lot of these customers, we spoke to them and said look do you think you're going to buy more tons; we think you're going to buy more tons is part of us going through this pain in 2015 we want the right that they have to buy from us in 2016.

And in a couple of different situations we were able to get those rights. So we feel good about the 5.6 million and we feel that under our current contract it will be something more than 5.6 million, which is why we show the range of hey here is contractually what it could be 5.6 million to 6.4

million. So we think we'll end up somewhere around 6.5. That's our best estimate that we can give you today. I hope it's eight but we're going to have to see the market get more excited to get to eight, we have the capacity.

Brett Pearlman - *Luminous Management, LLC - Analyst*

Thanks, appreciate the time.

Operator

Our next question comes from Kevin Leary from Hallador Investments. Your line is open.

David Hardie - *Hallador Investments - Board Member*

It's actually coming from David Hardie and I'm a board member. Brent can you talk a little bit about the Indiana power market, what percentage of - what is the flexibility of the plants to use different sources of fuel?

Brent K. Bilisland - *Hallador Energy Co. - President, CEO*

Well I think the utilities in the state of Indiana are all in the MISO district, so they don't necessarily switch a plant, take Hoosier Energy, they own gas plants in Illinois, they own coal plants in Indiana both feed into the MISO. So if they can buy - if their fuel cost (inaudible) are lower than their fuel costs for their gas plant in Illinois they're going to (inaudible). And you know I think they've told me specifically that their plan the coal always is special in front of the gas.

So, I think that it really comes down to - but the other thing that (inaudible) the other utilities in Indiana could do they could just buy power from somebody else generating it. They don't necessarily know where those electrons come from they could be solar, they could be wind, they could be gas. We think today one of the biggest competition for coal is gas, certainly the biggest variable, competition for coal is gas.

So, as far as capability, coal runs in Indiana because coal is a lower cost power. I think that when we look at our Florida market, when we look at the southeast market, take the southeast. Now our coal has more transportation to get to the southeast and has to compete with some of the cheapest gas in the country with the Marcellus. So it's tougher for our coal to move to the southeast. Can it happen? Yes. But traditionally there's other places supplying that coal market or those markets are turning to gas first.

Fortunately, for Hallador 85% of our product stays in Indiana and typically with gas plants dispatch first. I think the bigger problem with 2015 was just lack of overall demand. I mean there wasn't generation, because of such a mild summer. So I think that answers your question David.

David Hardie - *Hallador Investments - Board Member*

Yes.

Brent K. Bilisland - *Hallador Energy Co. - President, CEO*

Great.

Operator

Our next question comes from Mark Levin from BB&T. your line is open.



Mark Levin - *BB&T Capital Markets - Analyst*

Just one follow up, I wanted to ask. Brent, pricing today for the quality of coal that you guys produce, where do you think that price would be in the spot market today, where was it maybe three, six months ago?

Brent K. Bilsland - *Hallador Energy Co. - President, CEO*

Well, again Mark we don't discuss our pricing and where we think pricing is. I just say in general you asked the differential between six months ago versus today. I don't know that we've seen a lot of change in our market from six months ago to today. A year ago versus today it would be lower, six months ago, we haven't seen a lot of change. That being said I don't know that we've seen a lot of buying, I think in general there's been utilities that have come out and said, price on RFP.

And then they come back and say well, we got a lot offers and we're uncertain about our forecast, so we're just going to sit on the sidelines and wait another quarter or two until we have a clearer picture of what their needs are. So I don't think there has been a lot of spot selling in the last six months. Well I guess that the deals that we had done have been done in the last six months, but they have been for long-term and so the pricing has been better we feel over a five year basis than it has

Mark Levin - *BB&T Capital Markets - Analyst*

I guess maybe a better way of asking Brent, is, if we look at the daily price sheet that sometimes are circulated within the coal community. Is that a fair representation of where you think prices are understated, overstated maybe you don't want to even touch that question, because there is a the different way of asking it, but just when we think about it for modeling purposes, just want to make sure at least we're in the sort of ball park.

Brent K. Bilsland - *Hallador Energy Co. - President, CEO*

What I've seen I felt has been too low. I don't know if deals are happening there, I heard of a few - where is the pricing sheet, where are they getting their information off. And so, I think there's a few brokers out there that as put on trade, maybe want to get out of a barge or a train or something here or there, but I think I feel the pricing sheets are very low volume and potentially inaccurate.

The other problem that we see repeated a lot in the Illinois basin is we feel there's a definite premium paid for low chlorine coal versus high chlorine coal. And so you see a lot of people out there that will trough some really low prices out there, but it's almost always high chlorine coals. Now, that dynamic should changed a lot in the last 12 months and that two big long wall is that that historically made the long low pricing, now have new ownership. So, what pricing discipline will come out of their ownership? Time will tell, but I would think that situation probably has improved.

Mark Levin - *BB&T Capital Markets - Analyst*

Great. Thanks you.

Operator

(Operator Instructions) Our next question comes from David Pointer from VI Capital. Your line is open.

David Pointer - *VI Capital - Analyst*

Thanks guys. Brent, just a follow-up on the comment you just made, I estimate that there's about 200 million tons of U.S. production that's in bankruptcy and you talked about the two long walls that just changed ownership and it seems kind of interesting to me that most of the tonnage



that's in bankruptcy is losing money on an operating income basis. So, the fact that they go debtor in possession, the interest savings is not that relevant, they are losing money on operating basis. So, one of the things that I was kind of curious about is what do you see in the marketplace about supply coming offline and is it too much to hope for that there is meaningful shutdowns of production capacity and kind of just what - do you have much of a read on that kind of across the industry, outside the ILB or just what's your general comment on that?

Brent K. Bilisland - Hallador Energy Co. - President, CEO

Well, our focus is more on ILB, because that's where we compete, again 85% of our products stays in the state of Indiana. So, but within the state of Indiana we're seeing supply cuts, I mean we did it with Carlisle, we basically took 3 million tons offline there, we're still producing a little coal, we were producing about a 3.3 rate.

Now we're producing more like 130,000 so, we've taken a lot of there, we saw alliance just this week, issue warrant notices at two of their, Illinois basin mine, so again that's supply coming offline. I would just judging by the headcount, I would say that's probably another 3 million tons or more that came offline. All the Illinois produces I think they are producing less, all the west Kentucky stuff, I think they are producing less. So, supply is coming offline, the market definitely will bound it will.

You are going to see I think a lot of Central Ap, I think Central Ap problem are going to become much-worse herein the next three to six months. I think that the Illinois basin has a lot of base contracts to fall back on, I think Central AP has always been more of a spot market and those spot contracts aren't getting renewed. And so, I think there's a train wreck that's going to happen in the Central Ap market and unfortunately that gives a lot of headline and Illinois basis -- stock prices get punished for those headlines. So that's what we are seeing, I think the market is coming into balance and we'll continue to do so.

As far as 200 million in bankruptcy, yes I think there's a lot of companies out there that are trying to restructure, but we've seen some of those go from restructuring to liquidation and that trend could continue. So, there's a lot of stress on the industry which is all the more reason why our number one focus is to generate cash flow and use that cash flow to pay down debt. So, that we can put ourselves in position to do good things for the shareholder in the future.

So, that's why we think there's a couple of coal companies us included that have performed and will perform better today and in the future due to being lower levered, we don't want our banks, we love our bank group, we don't want them telling us how to run our business. And I think there is a lot of coal companies out there that their bankers are dictating what they're going to do. So, that's why our focus is delevering.

David Pointer - VI Capital - Analyst

Just kind of unrelated quick follow up is I may. Last quarter I asked the question that if the contracts - because I thought it was mentioned that the contracts out these several years are with three customers. Can you clarify that? is that the case because it would seem like the other four customers would also be purchasers over the next few years. Do I understand that correctly?

Brent K. Bilisland - Hallador Energy Co. - President, CEO

We look out five years not so much in 2016, I would have to think about 2017 off the top of my head but 2018, 2019, 2020 those times are primarily three of our traditional customers. So that's why we feel so comfortable that there is upside here, because we've traditionally had eight customers, sometimes as many as 10. So, we know we're going to be selling some more coal, it's just going to come down to when the timing of the sales are going to hit and what kind of volumes are we going to see.

And if you look at our projections we step up 2016 to 2017 because we feel we know of more opportunities in 2017 than we see in 2016 some of 2015's got shoved into 2016 which creates a little less opportunity in 2016, 2017 is opportunities we feel come back to us and that's why you see the step up.



David Pointer - *VI Capital - Analyst*

OK. Thanks for taking the questions.

Brent K. Bilsland - *Hallador Energy Co. - President, CEO*

Thank you.

Operator

(Operator Instructions) And I am showing no further questions at this time. I would like to turn the call back over to Ms. Becky Palumbo for closing remarks.

PRESENTATION

Rebecca Palumbo - *Hallador Energy Co. - Director of IR*

Thank you everyone. That concludes our call for today.

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