

HALLADOR PETROLEUM CO
Form 10-Q
May 08, 2009
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2009
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 0-14731

Hallador Petroleum Company
(Exact Name of Registrant as Specified in Its Charter)

Colorado
(State of Incorporation)

84-1014610
(I.R.S. Employer Identification No.)

1660 Lincoln St., Suite 2700, Denver, Colorado
(Address of Principal Executive Offices)

80264-2701
(Zip Code)

(303) 839-5504 fax: (303) 832-3013
(Issuer's Telephone Number, Including Area Code)

Indicate by check mark whether the issuer: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during

the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes No

Shares outstanding as of May 7, 2009: 22,446,028

1

PART 1 - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Consolidated Balance Sheet
(in thousands, except share data)

| | March 31, 2009 | December 31, 2008 * |
|---|-------------------|------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 19,764 | \$ 21,013 |
| Certificates of deposit | 2,838 | |
| Federal income tax receivable | 417 | 1,531 |
| Accounts receivable | 6,732 | 6,113 |
| Coal inventory | 71 | 776 |
| Other | 1,814 | 1,928 |
| Total current assets | 31,636 | 31,361 |
| Coal properties, at cost: | | |
| Land, buildings and equipment | 64,489 | 55,027 |
| Mine development | 48,426 | 45,289 |
| | 112,915 | 100,316 |
| Less - accumulated depreciation, depletion, and amortization | (9,890) | (7,233) |
| | 103,025 | 93,083 |
| Investment in Savoy | 7,652 | 7,911 |
| Other assets | 2,505 | 3,710 |
| | \$ 144,818 | \$ 136,065 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Current portion of bank debt | \$ 5,000 | \$ 2,500 |
| Accounts payable and accrued liabilities | 10,210 | 11,563 |
| State income tax payable | 1,173 | 605 |
| Other | 18 | 310 |
| Total current liabilities | 16,401 | 14,978 |
| Long-term liabilities: | | |
| Bank debt, net of current portion | 35,000 | 37,500 |
| Interest rate swaps, at estimated fair value | 2,133 | 2,290 |
| Deferred income taxes | 3,681 | 1,700 |
| Asset retirement obligations | 696 | 686 |
| Other | 4,345 | 4,345 |
| Total long-term liabilities | 45,855 | 46,521 |
| Total liabilities | 62,256 | 61,499 |
| Equity: | | |
| Hallador stockholders' equity | | |
| Preferred stock, \$.10 par value, 10,000,000 shares authorized; none issued | | |
| Common stock, \$.01 par value, 100,000,000 shares authorized; 22,446,028 outstanding | 224 | 224 |
| Additional paid-in capital | 69,800 | 69,739 |
| Retained earnings | 9,969 | 2,920 |

Edgar Filing: HALLADOR PETROLEUM CO - Form 10-Q

| | | |
|-------------------------------------|------------|------------|
| Total Hallador stockholders' equity | 79,993 | 72,883 |
| Noncontrolling interest | 2,569 | 1,683 |
| Total equity | 82,562 | 74,566 |
| | \$ 144,818 | \$ 136,065 |

*Derived from the Form 10-K
See accompanying notes.

Consolidated Statement of Operations

(in thousands, except per share data)

| | Three months ended March 31, | |
|---|------------------------------|----------|
| | 2009 | 2008 |
| Revenue: | | |
| Coal Sales | \$ 29,811 | \$ 9,681 |
| Equity (loss) - Savoy | (259) | (31) |
| Other | 458 | 561 |
| | 30,010 | 10,211 |
| Costs and expenses: | | |
| Cost of coal sales | 15,321 | 7,585 |
| DD&A | 1,769 | 905 |
| G&A | 940 | 600 |
| Interest | 382 | 1,532* |
| | 18,412 | 10,622 |
| Income (loss) before income taxes | 11,598 | (411) |
| Income taxes: | | |
| Current | 1,682 | |
| Deferred | 1,981 | |
| | 3,663 | |
| Net income (loss) | 7,935 | (411) |
| Less: net (income) loss attributable to the noncontrolling interest | (886) | 74 |
| Net income (loss) attributable to Hallador | \$ 7,049 | \$ (337) |
| Net income (loss) per share: | | |
| Basic and diluted | \$.31 | \$ (.02) |
| Weighted average shares outstanding: | | |
| Basic and diluted | 22,446 | 16,363 |

 *Includes \$885 relating to our interest rate swaps.

See accompanying notes.

Condensed Consolidated Statement of Cash Flows
(in thousands)

| | Three months ended March 31, | |
|--|------------------------------|----------|
| | 2009 | 2008 |
| Operating activities: | | |
| Cash provided by operating activities | \$ 13,391 | \$ 730 |
| Investing activities: | | |
| Capital expenditures for coal properties | (12,802) | (2,941) |
| Other | (1,838) | 604 |
| Cash used in investing activities | (14,640) | (2,337) |
| Financing activities: | | |
| Proceeds from bank debt | | 1,698 |
| Cash provided by financing activities | | 1,698 |
| Increase (decrease) in cash and cash equivalents | (1,249) | 91 |
| Cash and cash equivalents, beginning of period | 21,013 | 6,978 |
| Cash and cash equivalents, end of period | \$ 19,764 | \$ 7,069 |
| Cash paid for interest (net of amount capitalized – \$300 and \$100) | \$ 963 | \$ 672 |

See accompanying notes.

Notes to Consolidated Financial Statements

1. General Business

The interim financial data is unaudited; however, in our opinion, it includes all adjustments, consisting only of normal recurring adjustments necessary for a fair statement of the results for the interim periods. The financial statements included herein have been prepared pursuant to the SEC's rules and regulations; accordingly, certain information and footnote disclosures normally included in GAAP financial statements have been condensed or omitted.

On January 1, 2009, we adopted SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements.

Our organization and business, the accounting policies we follow and other information, are contained in the notes to our financial statements filed as part of our 2008 Form 10-K. This quarterly report should be read in conjunction with such 10-K.

The accompanying consolidated financial statements include the accounts of Hallador Petroleum Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated. We are engaged in the production of coal from a shallow underground mine located in western Indiana. We also own a 45% equity interest in Savoy Energy L.P., a private oil and gas company which has operations primarily in Michigan.

As discussed in prior filings, we have entered into significant equity transactions with Yorktown and other entities that invest with Yorktown. Yorktown currently owns about 55% of our common stock and represents one of the five seats on our board.

2. Equity Investment in Savoy

We account for our 45% interest in Savoy using the equity method of accounting.

Below (in thousands) are: (i) a condensed balance sheet at March 31, 2009 and (ii) a condensed statement of operations for the quarters ended March 31, 2009 and 2008.

Condensed Balance Sheet

| | |
|-------------------|----------|
| Current assets | \$ 8,501 |
| PP&E | 11,357 |
| | \$19,858 |
| | |
| Total liabilities | \$ 2,893 |
| Partners' capital | 16,965 |
| | \$19,858 |

Condensed Statement of Operations

| | 2009 | 2008 |
|-------------------|----------|---------|
| Revenue | \$ 1,981 | \$1,460 |
| Expenses | (2,556) | (1,289) |
| Net income (loss) | \$ (575) | \$ 171 |

For 2008, the difference between the purchase price and our pro rata share of the equity of Savoy was amortized based on Savoy's units of production rate using proved developed oil and gas reserves and amounted to \$109,000. For 2009 there was no difference.

5

3. Notes Payable

In December 2008, we entered into a new loan agreement with a bank consortium that provides for a \$40 million term loan and a \$30 million revolving credit facility. At March 31, 2009, we have fully drawn down the \$40 million term loan. We have outstanding letters of credit in the amount of \$3 million, which leaves \$27 million available under the revolver.

In connection with the old loan agreements, we entered into two interest rate swap agreements swapping variable rates for fixed rates. The first swap agreement which covers \$26 million in debt commenced on July 15, 2007 and matures on July 15, 2012. The second swap agreement which covers \$10 million commenced on December 28, 2007 and matures on December 28, 2011. The two swap agreements fix our interest rate at about 8.3%. At March 31, 2009, our interest rates swaps resulted in a liability of about \$2.1 million and at December 31, 2008 they resulted in a liability of \$2.3 million. The difference of \$157,000 is included as a reduction in our interest expense. The recorded value of our bank debt approximates fair value as it bears interest at a floating rate.

4. Income Taxes

The effective tax rate of about 34% for the three months ended March 31, 2009 was calculated using the annual effective rate projection on recurring earnings. Excess tax depletion is the primary reason for the effective rate being less than the statutory rate.

ITEM 2. MD&A.

THE FOLLOWING DISCUSSION UPDATES THE MD&A SECTION OF OUR 2008 FORM 10-K AND SHOULD BE READ IN CONJUNCTION THEREWITH.

We are still on track to sell about three million tons of coal for the year. Through March 31, 2009 we have sold about 662,000 tons at an average price of about \$45/ton.

Cap on Carbon Emissions

On April 17, 2009 the Obama Administration declared that carbon dioxide threatened the planet. The landmark decision lays the ground work for federal efforts to cap carbon emissions. The Environmental Protection Agency (EPA) officials are on record saying they would take a go-slow approach, holding two public hearings in May before the findings are official. After that, any new regulations would go through a public comment period, more hearings and a long review. New regulations driven by the finding could be years away; but, unless superseded by congressional action, the EPA ruling eventually could lead to stricter emissions limits.

Under our current contracts, any new taxes or costs relating to these events, can be passed on to the customer. We are unable to determine what effect these events will have on future coal demand.

Liquidity and Capital Resource

We plan to fund future mine expansion through a combination of draws from the \$30 million revolving credit facility with our banks and cash from operations. We have \$27 million available under the revolver due to outstanding letters of credit of \$3 million.

We have no material off-balance sheet arrangements.

Results of Operations

During 2009, we sold about 662,000 tons of coal at an average selling price of about \$45/ton. During 2008 we sold about 353,000 at about \$27/ton. For the remainder of 2009, we expect the average price to be in the \$45/ton range.

The increase in cost of coal sales and DD&A was due to the significant increase in our coal sales.

G&A increased primarily to the higher level of operations.

Included in 2008 interest expense was about \$885,000 relating to our interest rate swaps. The 2009 amount includes a credit of about \$160,000 for the swaps. In addition, we capitalized about \$300,000 in interest expense for 2009 compared to \$100,000 for 2008.

For most of our history, we operated in a loss position and had significant net operating loss carry forwards. At December 31, 2008, we have federal net operating loss carry forwards of about \$2.5 million and expect to utilize them in 2009. For calendar year 2008 we had pretax income of about \$11.8 million and a tax provision of about \$2.9 million. For the quarter ended March 31, 2009 we had pretax income of about \$11.6 million and a tax provision of about \$3.7 million. We expect these income trends to continue and estimate our effective tax rate to be in the 34% - 38% range for the foreseeable future.

New Accounting Pronouncements

None of the recent FASB pronouncements had, or will have any material effect on us.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Smaller reporting companies are not required to provide the information required by this item.

ITEM 4(T). CONTROLS AND PROCEDURES.

Disclosure Controls

We maintain a system of disclosure controls and procedures that are designed for the purposes of ensuring that information required to be disclosed in our SEC reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our CEO as appropriate to allow timely decisions regarding required disclosure.

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our CEO of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation, our CEO, who is also our CFO, concluded that our disclosure controls and procedures are effective for the purposes discussed above.

There has been no change in our internal control over financial reporting during the quarter ended March 31, 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

ITEM 6. EXHIBITS

- | | | |
|-----|----|--------------------------|
| (a) | 31 | -- SOX 302 Certification |
| | 32 | -- SOX 906 Certification |

SIGNATURE

In accordance with the requirements of the Exchange Act, the Registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HALLADOR PETROLEUM COMPANY

Dated: May 7, 2009

By: /S/ VICTOR P. STABIO
CEO and CFO
Signing on behalf of registrant and
as principal financial officer.