

HALLADOR ENERGY CO  
Form 10-Q  
August 01, 2014

**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  
<sup>x</sup> 1934

For the quarterly period ended: **June 30, 2014**

**or**

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

Commission file number: 001-3473

“COAL KEEPS YOUR LIGHTS ON”“COAL KEEPS YOUR LIGHTS ON”

**HALLADOR ENERGY COMPANY**

**([www.halladorenergy.com](http://www.halladorenergy.com))**

Colorado  
(State of incorporation)

84-1014610  
(IRS Employer Identification No.)

1660 Lincoln Street, Suite 2700, Denver, Colorado  
(Address of principal executive offices)

80264-2701  
(Zip Code)

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Issuer's telephone number: 303.839.5504

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities 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 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

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 "larger 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 small 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

As of August 1, 2014 we had 28,771,000 shares outstanding.

**PART I - Financial Information****ITEM 1. FINANCIAL STATEMENTS****Consolidated Balance Sheet**

(in thousands, except per share data)

	June 30, 2014	December 31, 2013
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$21,025	\$ 16,228
Marketable securities	1,753	
Accounts receivable	10,653	10,577
Prepaid income taxes	340	4,661
Coal inventory	6,448	4,778
Parts and supply inventory	2,609	2,826
Other	82	291
Total current assets	42,910	39,361
Coal properties, at cost:		
Land and mineral rights	27,704	26,476
Buildings and equipment	155,405	148,077
Mine development	85,813	85,333
	268,922	259,886
Less - accumulated DD&A	(87,605 )	(77,545 )
	181,317	182,341
Investment in Savoy	18,582	16,733
Investment in Sunrise Energy	4,660	4,573
Other assets (Note 5)	17,000	17,405
	\$264,469	\$ 260,413
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$11,688	\$ 10,357
Long-term liabilities:		
Bank debt	16,000	16,000
Deferred income taxes	40,899	43,304
Asset retirement obligations	5,443	5,290
Other	1,448	2,128
Total long-term liabilities	63,790	66,722
Total liabilities	75,478	77,079
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Preferred Stock, \$.10 par value, 10,000 shares authorized; none issued		
Common stock, \$.01 par value, 100,000 shares authorized; 28,771 and 28,751 shares outstanding, respectively	287	287

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Additional paid-in capital	89,141	87,872
Retained earnings	98,996	94,796
Accumulated other comprehensive income	567	379
Total stockholders' equity	188,991	183,334
	\$264,469	\$ 260,413

See accompanying notes.

**Consolidated Statement of Comprehensive Income**

(in thousands, except per share data)

	Six months ended June 30,		Three months ended June 30,	
	2014	2013	2014	2013
<b>Revenue:</b>				
Coal sales	\$69,146	\$68,144	\$36,130	\$34,149
Equity income - Savoy	4,514	2,447	2,135	1,363
Equity income (loss) - Sunrise Energy	87	347	(2 )	225
Liability extinguishment (Note 9)		4,300		4,300
Other (Note 5)	480	3,160	197	699
	74,227	78,398	38,460	40,736
<b>Costs and expenses:</b>				
Operating costs and expenses	49,101	45,552	26,096	22,262
DD&A	10,152	9,210	5,193	4,650
Coal exploration costs	1,191	986	526	447
SG&A	4,709	3,650	2,738	1,674
Interest	862	823	397	447
	66,015	60,221	34,950	29,480
Income before income taxes	8,212	18,177	3,510	11,256
<b>Less income taxes:</b>				
Current	4,401	1,906	3,169	1,105
Deferred	(2,783 )	2,638	(2,727 )	1,986
	1,618	4,544	442	3,091
Net income <sup>(1)</sup>	\$6,594	\$13,633	\$3,068	\$8,165
<b>Net income per share: (Note 8)</b>				
Basic	\$0.22	\$0.48	\$0.10	\$0.29
Diluted	\$0.22	\$0.47	\$0.10	\$0.28
<b>Weighted average shares outstanding:</b>				
Basic	28,763	28,566	28,770	28,604
Diluted	29,001	28,849	29,057	28,763

<sup>(1)</sup> There is no material difference between net income and comprehensive income.

See accompanying notes.

**Consolidated Condensed Statement of Cash Flows**

(in thousands)

	Six months ended	
	June 30,	
	2014	2013
Operating activities:		
Cash provided by operating activities	\$16,437	\$12,961
Investing activities:		
Capital expenditures for coal properties	(9,126 )	(14,778 )
Ohio River Terminal		(2,823 )
Purchase of marketable securities		(1,414 )
Other		161
Cash used in investing activities	(9,126 )	(18,854 )
Financing activities:		
Dividends	(2,394 )	(1,159 )
Other	(120 )	
Cash used in financing activities	(2,514 )	(1,159 )
Increase (decrease) in cash and cash equivalents	4,797	(7,052 )
Cash and cash equivalents, beginning of period	16,228	21,888
Cash and cash equivalents, end of period	\$21,025	\$14,836

See accompanying notes.

**Consolidated Statement of Stockholders' Equity**

(in thousands)

	Shares	Common Stock	Additional Paid- in Capital	Retained Earnings	AOCI*	Total
Balance, January 1, 2014	28,751	\$ 287	\$ 87,872	\$94,796	\$ 379	\$183,334
Stock-based compensation			1,322			1,322
Other	20		(53 )		188	135
Dividends				(2,394 )		(2,394 )
Net income				6,594		6,594
Balance, June 30, 2014	28,771	\$ 287	\$ 89,141	\$98,996	\$ 567	\$188,991

\*Accumulated Other Comprehensive Income

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.

The results of operations and cash flows for the six months ended June 30, 2014 are not necessarily indicative of the results to be expected for future quarters or for the year ending December 31, 2014. To maintain consistency and comparability, certain 2013 amounts have been reclassified to conform to the 2014 presentation.

Our organization and business, the accounting policies we follow and other information, are contained in the notes to our consolidated financial statements filed as part of our 2013 Form 10-K. This quarterly report should be read in conjunction with such 10-K.

The consolidated financial statements include the accounts of Hallador Energy Company (the Company) and its wholly-owned subsidiary Sunrise Coal, LLC (Sunrise). All significant intercompany accounts and transactions have been eliminated. We are engaged in the production of steam coal from mines located in western Indiana. We own a 45% equity interest in Savoy Energy, L.P., a private oil and gas company which has operations in Michigan and a 50% interest in Sunrise Energy, LLC, a private entity engaged in natgas operations in the same vicinity as the Carlisle mine.

### (2) Bank Debt

During October 2012, Sunrise Coal, our wholly-owned subsidiary, entered into a new credit agreement (the "Credit Agreement") with PNC Bank, as administrative agent, and the lenders named therein. The Credit Agreement replaces the previous credit agreement we had with PNC. Closing costs on this new facility were about \$1.5 million which were deferred and are being amortized over five years. Outstanding debt at June 30, 2014 was \$16 million.

The Credit Agreement provides for a \$165 million senior secured revolving credit facility. The facility matures in five years. The facility is collateralized by substantially all of Sunrise's assets and we are the guarantor. We will draw on the facility as needed for development of our new projects in Illinois and Indiana.

All borrowings under the Credit Agreement bear interest, at LIBOR plus 2% if the leverage ratio is less than 1.5X (which currently it is), LIBOR plus 2.5% if the leverage ratio is over 1.5 but less than 2X and at LIBOR plus 3% if the leverage ratio is over 2X. The maximum leverage ratio is 2.75X. The leverage ratio is equal to funded debt/EBITDA. The annual commitment fee is 50 BPS but falls to 37.5 BPS if we borrow more than 33% of the facility. The maximum that we can currently borrow is \$102 million due to our current covenants. The Credit Agreement also imposes certain other customary restrictions and covenants as well as certain milestones we must meet in order to draw down the full amount.

See Note 10 regarding our agreement to purchase Vectren Fuels.

**(3) Investment in Savoy**

We own a 45% interest in Savoy Energy, L.P., a private company engaged in the oil and gas business primarily in the state of Michigan. Savoy uses the successful efforts method of accounting. We account for our interest using the equity method of accounting.

Below (in thousands) to the 100% is a condensed balance sheet at June 30, 2014, and a condensed statement of operations for the six months ended June 30, 2014 and 2013.

**Condensed Balance Sheet**

	2014
Current assets	\$31,544
Oil and gas properties, net	27,868
	\$59,412
Total liabilities	\$16,234
Partners' capital	43,178
	\$59,412

**Condensed Statement of Operations**

	2014	2013
Revenue	\$24,493	\$18,373
Expenses	(14,480)	(12,946)
Net income	\$10,013	\$5,427

Late last year Savoy engaged Energy Spectrum Advisors Inc. (ESA) to market its Trenton-Black River oil properties located in southeast Michigan. ESA has offices in Dallas and Houston. Information was posted to the ESA website in early March 2014. Savoy terminated discussions with a prospective buyer and we are now exploring other alternatives to monetize our Savoy investment.



**(4) Investment in Sunrise Energy**

We own a 50% interest in Sunrise Energy, LLC, a private company engaged in the oil and gas business that develops and explores for coal-bed methane gas reserves on or near our underground coal reserves. They use the successful efforts method of accounting. We account for our interest using the equity method of accounting.

Below (in thousands) to the 100% is a condensed balance sheet at June 30, 2014, and a condensed statement of operations for the six months ended June 30, 2014 and 2013.

**Condensed Balance Sheet**

	2014
Current assets	\$3,315
Oil and gas properties, net	6,837
	\$10,152
Total liabilities	\$854
Members' capital	9,298
	\$10,152

**Condensed Statement of Operations**

	2014	2013
Revenue	\$1,583	\$1,691
Expenses	(1,409)	(997 )
Net income	\$174	\$694

**(5) Other Long-Term Assets and Other Income**

	June 30, 2014	December 31, 2013
Long-term assets:		
Advance coal royalties	\$5,188	\$ 4,693
Deferred financing costs, net	1,166	1,195
Marketable equity securities available for sale, at fair value (restricted)*	2,503	3,889
Ohio River Terminal (see Note 7)	2,744	2,836
Other	5,399	4,792
	<b>\$17,000</b>	<b>\$ 17,405</b>

\*Held by Sunrise Indemnity, Inc., our wholly-owned captive insurance company.

	Six months ended June 30,	
	2014	2013
Other income:		
MSHA reimbursements*		\$ 2,053
Coal storage fees	\$ 83	586
Miscellaneous	397	521
	<b>\$ 480</b>	<b>\$ 3,160</b>

\*See "MSHA Reimbursements" on page 20.

**(6) Self Insurance**

In late August 2010 we decided to terminate the property insurance on our underground mining equipment. Such equipment is allocated among five mining units spread out over 14 miles. The historical cost of such equipment is about \$111 million.

**(7) Ohio River Terminal**

On May 31, 2013 we purchased for \$2.8 million a multi-commodity truck/barge terminal. Over 17 acres of secured area is available. The terminal is at mile point 743.8 on the Indiana bank of the Ohio River near the William Natcher Bridge between Rockport and Grandview, Indiana. Currently the dock will handle third party commodities. In the long term, we plan to ship coal through the dock. The terminal is in close proximity to the NS railroad, the CSX railroad, and American Electric Power's Rockport generating power plant. We do not expect revenue from this asset until 2015.

**(8) Earnings per Share**

We compute earnings per share using the two-class method, which is an earnings allocation formula that determines earnings per share for common stock and participating securities which for us are our outstanding RSUs (restricted stock units).

The following table sets forth the computation of earnings per share for the three and six months ended June 30, 2014. The adjustments for 2013 were not significant (in thousands, except per share amounts):