HALLADOR PETROLEUM CO
Form 10-Q
November 13, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2008

or

o 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 or Other Jurisdiction of Incorporation or Organization)	84-1014610 (I.R.S. Employer Identification No.)
1660 Lincoln St., #2700, Denver, Colorado (Address of Principal Executive Offices)	80264-2701 (Zip Code)

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

Indicate by checkmark 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 þ No o

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 o	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company þ

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

Shares outstanding as of November 12, 2008: 22,446,028

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Part 1 - Financial Information
Item 1. Financial Statements

Consolidated Balance Sheet
(in thousands, except share data)

ASSETS	September 30, 2008	December 31, 2007*
Current assets:		
Cash and cash equivalents	$ 14,316	$ 6,978
Cash – restricted	2,248	1,800
Accounts receivable	6,075	2,361
Coal inventory	203	92
Other	1,664	861
Total current assets	24,506	12,092
Coal properties, at cost	87,232	64,685
Less - accumulated depreciation, depletion, and amortization	(5,816)	(2,743)
	81,416	61,942
Investment in Savoy	11,615	11,893
Other assets	2,144	1,330
	$ 119,681	$ 87,257
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 5,337	$ 1,893
Accounts payable and accrued liabilities	8,122	5,550
Other	487	620
Total current liabilities	13,946	8,063
Long-term liabilities:		
Bank debt, net of current portion	30,686	33,464
Asset retirement obligations	676	646
Contract termination obligation	4,345	4,346
Interest rate swaps, at estimated fair value	1,124	1,181
Total long-term liabilities	36,831	39,637
Total liabilities	50,777	47,700
Minority interest	753	384
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $.10 par value, 10,000,000 shares authorized; none issued		
Common stock, $.01 par value, 100,000,000 shares authorized; 21,902,528 and 16,362,528 outstanding	219	163
Additional paid-in capital	67,568	44,990
Retained earnings (deficit)	364	(5,980)
Total stockholders' equity	68,151	39,173

	$	119,681	$	87,257

*Derived from the Form 10-KSB.

See accompanying notes.

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Consolidated Statement of Operations
(in thousands, except per share data)

	Nine months ended September 30, 2008	Nine months ended September 30, 2007	Three months ended September 30, 2008	Three months ended September 30, 2007
Revenue:				
Coal sales	$ 41,688	$ 18,070	$ 17,726	$ 8,672
Gain on sale of oil and gas properties	494	1,824		1,824
Equity income (loss) – Savoy	(103)	203	(378)	132
Other	400	388	112	25
	42,479	20,485	17,460	10,653
Costs and expenses:				
Cost of coal sales	27,579	14,326	11,127	6,340
DD&A	3,213	1,670	1,282	712
G&A	2,270	3,624	902	2,583
Interest	2,227	2,721	851	1,484
	35,289	22,341	14,162	11,119
Income (loss) before minority interest	7,190	(1,856)	3,298	(466)
Minority interest	(846)	320	(365)	30
Net income (loss)	$ 6,344	$ (1,536)	$ 2,933	$ (436)
Net income (loss) per share-basic and diluted	$ .36	$ (.12)	$ .14	$ (.03)
Weighted average shares outstanding-basic and diluted	17,824	12,320	20,707	12,619

See accompanying notes.

Condensed Consolidated Statement of Cash Flows
(in thousands)

	Nine months ended September 30, 2008	2007
Operating activities:		
Cash provided by (used in) operating activities	$ 7,166	$ (1,483)
Investing activities:		
Acquisition of additional 20% interest in Sunrise	(11,771)	
Capital expenditures for coal properties	(10,852)	(12,094)
Sales of oil and gas properties	752	2,456
Other	(559)	131
Cash used in investing activities	(22,430)	(9,507)
Financing activities:		
Proceeds from bank debt	2,000	7,140
Payments of bank debt	(1,334)	
Proceeds from stock sale	21,983	
Capital contributions from Sunrise minority owners		800
Proceeds from exercise of stock options		460
Other	(47)	(136)
Cash provided by financing activities	22,602	8,264
Increase (decrease) in cash and cash equivalents	7,338	(2,726)
Cash and cash equivalents, beginning of period	6,978	7,206
Cash and cash equivalents, end of period	$ 14,316	$ 4,480
Cash paid for interest (net of amount capitalized - $176 and $230)	$ 2,308	$ 1,710
Change in accounts payable for coal properties	$ 994	$ 1,371
Acquisition of minority interest	$ 477	

See accompanying notes.

Statement of Stockholders' Equity
(in thousands, except share data)

	Common Stock	Additional Paid-In Capital	Retained Earnings (Deficit)	Total
Balance December 31, 2007	$ 163	$ 44,990	$ (5,980)	$ 39,173
July stock sale, net of issuance costs (5,500,000 shares)	55	21,928		21,983
Stock-based compensation	1	650		651
Net income			6,344	6,344
Balance September 30, 2008	$ 219	$ 67,568	$ 364	$ 68,151

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.

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 2007 Form 10-KSB. This quarterly report should be read in conjunction with that annual report.

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 interest in Savoy using the equity method of accounting. On October 5, 2007 we acquired an additional 13% in Savoy which brought our total interest to 45%.

Below (in thousands) are: (i) a condensed balance sheet at September 30, 2008, and (ii) a condensed statement of operations for the nine months ended September 30, 2008 and 2007.

Condensed Balance Sheet

Current assets	$ 13,525
PP&E	14,646
	$ 28,171
Total liabilities	$ 6,871
Partners' capital	21,300
	$ 28,171

Condensed Statement of Operations

	2008	2007
Revenue	$ 5,587	$ 4,099
Expenses	(5,078)	(3,207)
Net income	$ 509	$ 892

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. Such amounts for September 30, 2008 and 2007 were $332,000 and $82,000, respectively. For 2007 such amount was amortized using proved reserves.

3. Notes Payable

In late June 2007, our Indiana banks agreed to increase the Sunrise line of credit (LOC) from $30 million to $40 million. We are the guarantor of this LOC. The additional funds were used to purchase certain mining equipment, build a rail loop, and for working capital. As of September 30, 2008, we have drawn down $36 million; plus we have outstanding letters of credit for another $3 million. The current interest rate is LIBOR (3.2%) plus 3.55% or 6.75%. As discussed below, Sunrise entered into two interest rate swaps.

The LOC was converted to a seven year term note in July 2008. The note will mature in June 2015. The note requires monthly principal payments of $445,000 plus interest.

Aggregate maturities of debt are $1,334,000 for the last quarter of 2008, $5,337,000 in 2009, $5,337,000 in 2010, $5,337,000 in 2011, $5,337,000 in 2012, and $13,341,000 thereafter.

We have entered into two interest rate swap agreements swapping variable rates for fixed rates. The first swap agreement is relative to the $30 million LOC and matures on July 15, 2012. The second swap agreement relates to the additional $10 million that increased Sunrise's LOC to $40 million. This second swap agreement matures on December 28, 2011. The two swap agreements fix our interest rate at about 8.8%. At September 30, 2008, we recorded the estimated fair value of the two swaps as a $1.1 million liability.

Accounting rules require us to recognize all derivatives on the balance sheet at estimated fair value. Derivatives that are not hedges must be adjusted to estimated fair value through results of operations. We have no derivatives designated as hedges.

We are in negotiations with a bank group to increase our credit facility by $30 million in order to fund additional mine expansion. We expect to finalize the new loan agreement by the end of November 2008.

4. Fair Value Measurements

We adopted SFAS No. 157, "Fair Value Measurements," effective January 1, 2008 for financial assets and liabilities measured on a recurring basis. SFAS No. 157 applies to all financial assets and liabilities that are being measured and reported on a fair value basis. In February 2008, the FASB issued FSP No. 157-2, which delayed the effective date of SFAS No. 157 by one year for nonfinancial assets and liabilities except those that are recognized and recorded in the financial statements at fair value on a recurring basis. As defined in SFAS No. 157, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). SFAS No. 157 requires disclosure that establishes a framework for measuring fair value and expands disclosure about fair value measurements.

The statement requires fair value measurements be classified and disclosed in one of the following categories:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities. We consider active markets as those in which transactions for the assets or liabilities occur in sufficient frequency and volume to provide pricing information on an ongoing basis. We have no Level 1 instruments.