

HALLADOR ENERGY CO  
Form 10-Q  
August 08, 2017

**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: June 30, 2017

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”  
LIGHTS  
ON”  
Coal 14610

(State Employer  
of

identification No.)

1660 Lincoln Street, Suite 2700, Denver, Colorado 80264-2701

(Address of principal executive offices)

(Zip Code)

Registrant'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 Regulations 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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of August 7, 2017, we had 29,763,449 shares outstanding.



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**PART I - FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS**

Hallador Energy Company

**Consolidated Balance Sheets**

(in thousands)

(unaudited)

	June 30, 2017	December 31, 2016
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$10,079	\$ 9,788
Restricted cash (Note 5)	3,320	2,817
Certificates of deposit	3,436	7,315
Marketable securities	1,852	1,763
Accounts receivable	17,105	22,307
Coal inventory	22,788	10,100
Parts and supply inventory	10,441	10,091
Purchased coal contracts	4,480	8,922
Prepaid expenses	11,170	9,647
Total current assets	84,671	82,750
Coal properties, at cost:		
Land and mineral rights	126,682	126,303
Buildings and equipment	346,052	339,999
Mine development	131,944	126,037
Total coal properties, at cost	604,678	592,339
Less - accumulated DD&A	(187,159)	(169,579)
Total coal properties, net	417,519	422,760
Investment in Savoy (Note 3)	7,833	7,577
Investment in Sunrise Energy (Note 3)	4,124	4,122
Other assets (Note 4)	13,772	14,114
Total assets	\$527,919	\$ 531,323
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of bank debt, net	\$33,171	\$ 28,796
Accounts payable and accrued liabilities	19,904	19,773
Total current liabilities	53,075	48,569
Long-term liabilities:		
Bank debt, net	188,359	204,944
Deferred income taxes	44,783	45,174
Asset retirement obligations (ARO)	13,480	13,260
Other	2,808	2,486

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Total long-term liabilities	249,430	265,864
Total liabilities	302,505	314,433
Stockholders' equity:		
Preferred stock, \$.10 par value, 10,000 shares authorized; none issued	-	-
Common stock, \$.01 par value, 100,000 shares authorized; 29,763 and 29,413 shares outstanding, respectively	297	294
Additional paid-in capital	96,915	93,816
Retained earnings	127,446	122,052
Accumulated other comprehensive income	756	728
Total stockholders' equity	225,414	216,890
Total liabilities and stockholders' equity	\$527,919	\$ 531,323
See accompanying notes		

Hallador Energy Company

**Consolidated Statements of Comprehensive Income**

(in thousands, except per share data)

(unaudited)

	Six Months Ended June 30,		Three Months Ended June 30,	
	2017	2016	2017	2016
Revenue:				
Coal sales	\$ 125,384	\$ 142,069	\$ 62,829	\$ 66,274
Equity income (loss) - Savoy	256	(68 )	44	257
Equity income (loss) - Sunrise Energy	2	(158 )	(17 )	(83 )
MSHA reimbursement	1,636	1,753	1,250	1,753
Other income	587	853	206	363
Total revenue	127,865	144,449	64,312	68,564
Costs and expenses:				
Operating costs and expenses	83,771	95,174	44,079	45,397
DD&A	18,804	18,238	9,101	9,056
ARO accretion	421	504	214	249
Coal exploration costs	414	814	275	395
SG&A	9,236	5,491	6,578	2,729
Interest <sup>(1)</sup>	6,433	10,093	3,342	4,503
Total costs and expenses	119,079	130,314	63,589	62,329
Income before income taxes	8,786	14,135	723	6,235
Less income taxes:				
Current	1,374	-	1,357	(768 )
Deferred	(391 )	2,120	(1,023 )	1,150
Total income taxes	983	2,120	334	382
Net income <sup>(2)</sup>	\$ 7,803	\$ 12,015	\$ 389	\$ 5,853
Net income per share (Note 6):				
Basic and diluted	\$ 0.25	\$ 0.40	\$ 0.01	\$ 0.19
Weighted average shares outstanding:				
Basic and diluted	29,458	29,251	29,503	29,251

(1) Interest expense for the first six months of 2017 and 2016 includes \$(440) and \$1,748, respectively, for the net change in the estimated fair value of our interest rate swaps. Such amounts were \$(20) and \$249 for Q2 2017 and 2016, respectively.

(2) There is no material difference between net income and comprehensive income.

See accompanying notes.



Hallador Energy Company

**Condensed Consolidated Statements of Cash Flows**

(in thousands)

(unaudited)

	Six Months Ended June 30,	
	2017	2016
Operating activities:		
Cash provided by operating activities	\$ 23,458	\$ 30,389
Investing activities:		
Capital expenditures <sup>(1)</sup>	(11,855 )	(7,875 )
Proceeds from sale of equipment	343	-
Proceeds from maturities of certificates of deposit	3,879	-
Purchase of Freelandville assets	-	(18,000 )
Other	-	186
Cash used in investing activities	(7,633 )	(25,689 )
Financing activities:		
Payments on bank debt	(13,125 )	(14,929 )
Bank borrowings	-	15,000
Debt issuance costs	-	(2,090 )
Dividends	(2,409 )	(2,394 )
Cash used in financing activities	(15,534 )	(4,413 )
Increase in cash and cash equivalents	291	287
Cash and cash equivalents, beginning of period	9,788	15,930
Cash and cash equivalents, end of period	\$ 10,079	\$ 16,217

(1) We acquired \$1.5 million in capital equipment in Q2 2017 that was prepaid in a prior period.

See accompanying notes.

Hallador Energy Company

**Consolidated Statement of Stockholders' Equity**

(in thousands)

(unaudited)

	Shares	Common Stock	Additional Paid-in Capital	Retained Earnings	AOCI*	Total
Balance January 1, 2017	29,413	\$ 294	\$ 93,816	\$ 122,052	\$ 728	\$ 216,890
Stock-based compensation	-	-	5,391	-	-	5,391
Stock issued on vesting of RSUs	644	3	-	-	-	3
Taxes paid on vesting of RSUs	(294 )	-	(2,292 )	-	-	(2,292 )
Dividends	-	-	-	(2,409 )	-	(2,409 )
Net income	-	-	-	7,803	-	7,803
Other	-	-	-	-	28	28
Balance, June 30, 2017	29,763	\$ 297	\$ 96,915	\$ 127,446	\$ 756	\$ 225,414

\*Accumulated Other Comprehensive Income

See accompanying notes.

Hallador Energy Company

**Notes to Consolidated Financial Statements**

(unaudited)

**(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, 2017 are not necessarily indicative of the results to be expected for future quarters or for the year ending December 31, 2017. To maintain consistency and comparability, certain 2016 amounts have been reclassified to conform to the 2017 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 2016 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) and Sunrise's wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated. We are engaged in the production of steam coal from mines located in western Indiana.

**New Accounting Standards Issued and Adopted**

In July 2015, the FASB issued ASU 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory ("ASU 2015-11"). ASU 2015-11 simplifies the subsequent measurement of inventory. It replaces the current lower of cost or market test with the lower of cost or net realizable value test. Net realizable value is defined as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion,

disposal, and transportation. The new standard was applied prospectively and is effective for annual reporting periods beginning after December 15, 2016 and interim periods within those annual periods, with early adoption permitted. The adoption of ASU 2015-11 did not have a material impact on our consolidated financial statements.

### **New Accounting Standards Issued and Not Yet Adopted**

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers." ASU 2014-09 is a comprehensive revenue recognition standard that will supersede nearly all existing revenue recognition guidance under current U.S. GAAP and replace it with a principle-based approach for determining revenue recognition. ASU 2014-09 will require that companies recognize revenue based on the value of transferred goods or services as they occur in the contract. The ASU also will require additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. ASU 2014-09 is effective for interim and annual periods beginning after December 15, 2017. Early adoption is permitted only in annual reporting periods beginning after December 15, 2016, including interim periods therein. Entities will be able to transition to the standard either retrospectively or as a cumulative-effect adjustment as of the date of adoption. The Company's primary source of revenue is from the sale of coal through both short-term and long-term contracts with utility companies whereby revenue is currently recognized when risk of loss has passed to the customer. Upon adoption of this new standard, the Company believes that the timing of revenue recognition related to our coal sales will remain consistent with our current practice. The Company is currently evaluating other revenue streams to determine the potential impact related to the adoption of the standard, as well as potential disclosures required by the standard. Because we do not anticipate a change in our pattern of revenue recognition, we anticipate that neither method will have a material impact on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) ("ASU 2016-02"). ASU 2016-02 increases transparency and comparability among organizations by requiring lessees to record right-to-use assets and corresponding lease liabilities on the balance sheet and disclosing key information about lease arrangements. The new guidance will classify leases as either finance or operating (similar to current standard's "capital" or "operating" classification), with classification affecting the pattern of income recognition in the statement of income. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. We are currently in the process of accumulating all contractual lease arrangements in order to determine the impact on our financial statements and do not believe we have significant amounts of off-balance sheet leases; accordingly, we do not expect the adoption of ASU 2016-02 to have a material impact on our consolidated financial statements.

**(2) Bank Debt**

On March 18, 2016, we executed an amendment to our credit agreement with PNC, as administrative agent for our lenders, for the primary purpose of increasing liquidity and maintaining compliance through the maturity of the agreement in August 2019. The revolver was reduced from \$250 million to \$200 million, and the term loan remains the same. Our debt at June 30, 2017, was \$225 million (term-\$88 million, revolver-\$137 million). As of June 30, 2017, we had additional borrowing capacity of \$63 million and total liquidity of \$79 million.

Bank fees and other costs incurred in connection with the initial facility and the amendment were \$9.1 million, which were deferred and are being amortized over five years. The credit facility is collateralized by substantially all of Sunrise's assets, and we are the guarantor.

The amended credit facility increased the maximum leverage ratio (Sunrise total funded debt/ trailing 12 months adjusted EBITDA) to those listed below:

Fiscal Periods Ending	Ratio
June 30, 2017 through March 31, 2018	4.25 X
June 30, 2018 and September 30, 2018	4.00 X
December 31, 2018	3.75 X
March 31, 2019 and June 30, 2019	3.50 X

The amended credit facility also requires a debt service coverage ratio minimum of 1.25X through the maturity of the credit facility. The amendment defines the debt service coverage as Sunrise's trailing 12 months adjusted EBITDA/annual debt service.

At June 30, 2017, our maximum leverage ratio was 2.76, and our debt service coverage ratio was 2.15. Therefore, we were in compliance with those two ratios.

The interest rate on the facility ranges from LIBOR plus 2.25% to LIBOR plus 4%, depending on our leverage ratio. We entered into swap agreements to fix the LIBOR component of the interest rate to achieve an effective fixed rate of ~5% on the original term loan balance and on \$100 million of the revolver. The revolver swap steps down 10% each quarter which commenced on March 31, 2016.

At June 30, 2017, we were paying LIBOR at 1.04% plus 3.50% for a total interest rate of 4.54%.

Bank debt less debt issuance costs are presented below (in thousands):

	June 30, 2017	December 31, 2016
Current debt	\$35,000	\$ 30,625
Less debt issuance cost	(1,829 )	(1,829 )
Net current portion	\$33,171	\$ 28,796
Long-term debt	\$ 190,492	\$ 207,992
Less debt issuance cost	(2,133 )	(3,048 )
Net long-term portion	\$ 188,359	\$ 204,944

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**(3) Equity Method Investments**

We own a 30.6% interest in Savoy Energy, L.P., a private company engaged in the oil and gas business primarily in the State of Michigan.

We also own a 50% interest in Sunrise Energy, LLC, which owns gas reserves and gathering equipment with plans to develop and operate such reserves. Sunrise Energy also plans to develop and explore for oil, gas and coal-bed methane gas reserves on or near our underground coal reserves.

**(4) Other Assets (in thousands)**

	June 30, 2017	December 31, 2016
Other assets:		
Advanced coal royalties	\$9,228	\$ 9,296
Marketable equity securities available for sale, at fair value (restricted)*	1,968	2,036
Other	2,576	2,782
Total other assets	\$13,772	\$ 14,114

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

**(5) Self-Insurance**

We self-insure our underground mining equipment. Such equipment is allocated among ten mining units spread out over 18 miles. The historical cost of such equipment is approximately \$253 million.

Restricted cash of \$3.3 million represents cash held and controlled by a third party and is restricted for future workers' compensation claim payments.





**(6) Net Income per Share**

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

The following table sets forth the computation of net income per share allocated to common shareholders for the six and three months ended June 30 (in thousands):

	Six Months Ended		Three Months Ended	
	2017	2016	2017	2016
Numerator:				
Net income	\$ 7,803	\$ 12,015	\$ 389	\$ 5,853
Less earnings allocated to RSUs	(304 )	(315 )	(16 )	(157 )
Net income allocated to common shareholders	\$ 7,499	\$ 11,700	\$ 373	\$ 5,696

**(7) Asset Impairment Review**

In December 2016, the deterioration of the North End of the Carlisle Mine (the North End), coupled with lower coal prices led us to determine that the North End could no longer be mined safely and profitably. The sealing of the North End was completed in March 2017.

With the Carlisle Mine remaining in hot idle status, we conducted a review of the Carlisle Mine assets as of June 30, 2017, based on estimated future net cash flows, and determined that no impairment was necessary.

The Carlisle Mine assets had an aggregate net carrying value of \$113 million at June 30, 2017. If in future periods, we reduce our estimate of the future net cash flows attributable to the Carlisle Mine, it may result in future impairment of such assets and such charges could be significant. None of our other assets are considered impaired.

**(8) Income Taxes**

Our effective tax rate (ETR) for 2017 was estimated at 11% and 15% for the six months ended June 30, 2017 and 2016, respectively. Assuming no changes in our expected results of operations, we expect our ETR for the remainder of 2017 to be about the same as the first six months of 2017. Our ETR differs from the statutory rate due primarily to statutory depletion in excess of tax basis, which is a permanent difference.

**(9) Restricted Stock Units (RSUs)**

Non-vested grants at December 31, 2016	733,000
Vested - April 1, 2017 –share price on vesting date was \$8.54	(149,500 )
Granted – May 16, 2017 – share price on grant date was \$7.74	495,000
Vested – May 16, 2017 –share price on vesting date was \$7.74	(495,000 )
Granted - June 1, 2017 - share price on grant date was \$7.49	70,000
Granted- June 6, 2017 – share price on grant date was \$8.23	645,000
Forfeited	(6,500 )
Non-vested grants at June 30, 2017 <sup>(1)</sup>	1,292,000

(1)Following is the vesting schedule of RSUs.

Vesting Year	RSUs Vesting
2017	346,000
2018	178,250
2019	375,250
2020	231,250
2021	161,250
	1,292,000

On May 25, 2017, the Hallador Energy Company 2008 Restricted Stock Unit Plan (the Plan) was amended and restated to extend the term of the Plan to May 25, 2027 and add 1,000,000 shares to the Plan.

At June 30, 2017, we had 1,236,866 RSUs available for future issuance.

On the vesting dates above, the shares that vested had a value of \$5.1 million for the six months ended June 30, 2017. Under our RSU plan, participants are allowed to relinquish shares to pay for their required statutory income taxes.

For the six months ended June 30, 2017 and 2016, our stock based compensation was \$5.4 million and \$1.2 million, respectively. For the three months ended June 30, 2017 and 2016, our stock based compensation was \$4.6 million and \$.6 million, respectively.

The outstanding RSUs have a value of \$8.55 million based on the August 7, 2017 closing stock price of \$6.62.



**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders

Hallador Energy Company

Denver, Colorado

We have reviewed the accompanying consolidated balance sheet of Hallador Energy Company and subsidiaries (the “Company”) as of June 30, 2017, the related consolidated statements of comprehensive income for the six and three-month periods ended June 30, 2017 and 2016, the consolidated statements of cash flows for the six-month periods ended June 30, 2017 and 2016, and the consolidated statement of stockholders’ equity for the six-month period ended June 30, 2017. These financial statements are the responsibility of the Company’s management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying condensed consolidated interim financial information referred to above for it to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of the Company as of December 31, 2016, and the related consolidated statements of comprehensive income, cash flows, and stockholders’ equity for the year then ended (not presented herein); and in our report dated March 10, 2017, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2016, is fairly stated, in all material respects, in relation to the balance sheet from which it has been derived.

/s/ EKS&H LLLP

August 8, 2017

Denver, Colorado

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**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**The following discussion updates the MD&A section of our 2016 Form 10-K and should be read in conjunction therewith.**