HALLADOR ENERGY CO
Form 10-Q
August 06, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

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

For the quarterly period ended: June 30, 2018

OR

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

Commission file number: 001-34743

"COAL KEEPS YOUR LIGHTS ON""COAL KEEPS YOUR LIGHTS ON"

HALLADOR ENERGY COMPANY

(www.halladorenergy.com)

Nasdaq: HNRG

Colorado	84-1014610
(State of incorporation)	(IRS Employer 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 þ 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 þ 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 þ
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 check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No þ

As of August 3, 2018, we had 30,176,990 shares outstanding.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Hallador Energy Company

Consolidated Balance Sheets

(in thousands, except per share data)

(unaudited)

	June 30, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$10,185	$ 12,483
Restricted cash (Note 8)	4,234	3,811
Certificates of deposit	735	1,495
Marketable securities	1,791	1,907
Accounts receivable	11,627	16,762
Prepaid income taxes	2,540	2,899
Coal inventory	34,373	12,804
Parts and supply inventory	11,487	10,043
Prepaid expenses	15,633	9,433
Total current assets	92,605	71,637
Property, plant and equipment, at cost:		
Land and mineral rights	130,860	129,724
Buildings and equipment	368,220	356,911
Mine development	138,467	136,762
Total property, plant and equipment, at cost	637,547	623,397
Less - accumulated DD&A	(225,231)	(203,391)
Total property, plant and equipment, net	412,316	420,006
Equity method investments (Note 4)	3,697	11,890
Other assets (Note 5)	14,798	14,660
Total assets	$523,416	$ 518,193
LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS, AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of bank debt, net (Note 3)	$21,749	$ 33,171
Accounts payable and accrued liabilities (Note 6)	25,785	21,115
Total current liabilities	47,534	54,286
Long-term liabilities:		

Bank debt, net (Note 3)	170,362	165,773
Deferred income taxes	28,993	28,728
Asset retirement obligations (ARO)	14,077	13,506
Other	7,132	6,577
Total long-term liabilities	220,564	214,584
Total liabilities	268,098	268,870
Redeemable noncontrolling interests (Note 13)	4,000	-
Stockholders' equity:		
Preferred stock, $.10 par value, 10,000 shares authorized; none issued	-	-
Common stock, $.01 par value, 100,000 shares authorized; 30,177 and 29,955 shares outstanding, respectively	301	299
Additional paid-in capital	100,228	97,873
Retained earnings	150,789	150,236
Accumulated other comprehensive income (AOCI)	-	915
Total stockholders’ equity	251,318	249,323
Total liabilities, redeemable noncontrolling interests, and stockholders’ equity	$523,416	$ 518,193

See accompanying notes.

Hallador Energy Company

Consolidated Statements of Comprehensive Income (Loss)

(in thousands, except per share data)

(unaudited)

	Six Months Ended June 30,		Three Months Ended June 30,	
	2018	2017	2018	2017
Revenue:				
Coal sales	$123,709	$125,384	$56,922	$62,829
Other income (Note 7)	398	2,481	321	1,483
Total revenue	124,107	127,865	57,243	64,312
Costs and expenses:				
Operating costs and expenses	85,514	83,771	38,874	44,079
DD&A	21,949	18,804	11,120	9,101
ARO accretion	573	421	291	214
Exploration costs	532	414	315	275
SG&A	6,364	9,236	2,474	6,578
Interest [1]	7,023	6,433	4,315	3,342
Total costs and expenses	121,955	119,079	57,389	63,589
Income (loss) before income taxes	2,152	8,786	(146)	723
Income tax expense (benefit):				
Current	(222)	1,374	(19)	1,357
Deferred	265	(391)	(104)	(1,023)
Total income tax expense (benefit)	43	983	(123)	334
Net income (loss)*	$2,109	$7,803	$(23)	$389
Net income (loss) per share (Note 9):				
Basic and diluted	$0.07	$0.25	$(0.00)	$0.01
Weighted average shares outstanding:				
Basic and diluted	29,968	29,458	29,980	29,503

*There is no material difference between net income and comprehensive income.

(1) Interest expense for the first six months of 2018 and 2017 includes $844 and $(440), respectively, for the net change in the estimated fair value of our interest rate swaps. Such amounts were $1,003 and $(20) for the second quarter of 2018 and 2017, respectively.

See accompanying notes.

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Hallador Energy Company

Condensed Consolidated Statements of Cash Flows

(in thousands)

(unaudited)

	Six Months Ended June 30,	
	2018	2017
Operating activities:		
Cash provided by operating activities	$ 15,865	$ 23,961
Investing activities:		
Capital expenditures	(19,683)	(11,855)
Proceeds from sale of equipment	29	343
Proceeds from maturities of certificates of deposit	760	3,879
Proceeds from sale of Savoy	8,000	-
Cash used in investing activities	(10,894)	(7,633)
Financing activities:		
Payments of bank debt	(21,767)	(13,125)
Borrowings of bank debt	14,000	-
Debt issuance costs	(608)	-
Proceeds from noncontrolling interests (Note 13)	4,000	-
Dividends	(2,471)	(2,409)
Cash used in financing activities	(6,846)	(15,534)
Increase (decrease) in cash, cash equivalents, and restricted cash	(1,875)	794
Cash, cash equivalents, and restricted cash, beginning of period	16,294	12,605
Cash, cash equivalents, and restricted cash, end of period	$ 14,419	$ 13,399

Cash, cash equivalents, and restricted cash consist of the following:

	June 30,	
	2018	2017
Cash and cash equivalents	$10,185	$10,079
Restricted cash	4,234	3,320
	$14,419	$13,399

Non-cash activity:

Upon the formation of Hourglass Sands, LLC, we acquired assets by assuming a liability of $1.1 million.

Additional financing costs of $5.7 million were incurred at the closing of the new credit facility in May 2018.

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, December 31, 2017	29,955	$ 299	$ 97,873	$ 150,236	$ 915	$ 249,323
Impact from adoption of ASU 2018-02 and ASU 2016-01 (Note 1)	-	-	-	915	(915)	-
Stock-based compensation	-	-	2,366	-	-	2,366
Stock issued on vesting of RSUs	223	2	-	-	-	2
Taxes paid on vesting of RSUs	(1)	-	(11)	-	-	(11)
Dividends	-	-	-	(2,471)	-	(2,471)
Net income	-	-	-	2,109	-	2,109
Balance, June 30, 2018	30,177	$ 301	$ 100,228	$ 150,789	$ -	$ 251,318

See accompanying notes.

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Hallador Energy Company

Notes to Condensed 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 condensed consolidated 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, 2018, are not necessarily indicative of the results to be expected for future quarters or for the year ending December 31, 2018. To maintain consistency and comparability, certain 2017 amounts have been reclassified to conform to the 2018 presentation.

Our organization and business, the accounting policies we follow and other information, are contained in the notes to our condensed consolidated financial statements filed as part of our 2017 Form 10-K. This quarterly report should be read in conjunction with such 10-K.

The condensed consolidated financial statements include the accounts of Hallador Energy Company (hereinafter known as, “we, us, or our”) and its wholly-owned subsidiaries Sunrise Coal, LLC (Sunrise) and Hourglass Sands, LLC (Hourglass), and Sunrise’s wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated. Sunrise is engaged in the production of steam coal from mines located in western Indiana. Hourglass is in the development stage and engages in the production of frac sand in the State of Colorado (see Note 13).

New Accounting Standards Issued and 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 supersedes nearly all existing revenue recognition guidance under current U.S. GAAP and replaces it with a principle-based approach for determining revenue recognition. On January 1, 2018, we adopted the new accounting standard and all of the related amendments to all contracts using the modified retrospective method. Adoption of the new revenue standard did not result in a material cumulative effect adjustment to the opening balance of retained earnings. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. We do not expect the adoption of the new revenue standard to have a material impact to our net income on an ongoing basis. See “Note 12 - Revenue” to these condensed consolidated financial statements for additional disclosures.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments (Topic 825): Recognition and Measurement of Financial Assets and Financial Liabilities. ASU 2016-01 requires equity investments that are not accounted for under the equity method of accounting or that do not result in consolidation of the investee to be measured at fair value with changes recognized in net earnings. ASU 2016-01 also eliminates the available-for-sale classification for equity investments that recognized changes in fair value as a component of other comprehensive income. We adopted ASU 2016-01 on January 1, 2018, using the modified retrospective method, which resulted in a $1.1 million (net of tax) cumulative-effect adjustment from accumulated other comprehensive income to retained earnings. Adoption of ASU 2016-01 did not have a material impact on our results of operations and/or cash flows.

In November 2016, the FASB issued guidance regarding the presentation of restricted cash in the statement of cash flows (ASU 2016-18). This update is effective for annual reporting periods beginning after December 15, 2017, and early adoption is permitted. We have adopted the new standard as of January 1, 2018. Adoption of ASU 2016-18 did not have a material impact on the company’s results of operations and/or cash flows.

In January 2017, the FASB issued new guidance to assist in determining if a set of assets and activities being acquired or sold is a business (ASU 2017-01). It also provided a framework to assist entities in evaluating whether both an input and a substantive process are present, which at a minimum, must be present to be considered a business. We have adopted the new standard as of January 1, 2018. The standard does not have an impact on our historical recognition of asset acquisitions and business combinations. However, we expect there will be an impact on how we account for such acquisitions in the future.

In February 2018, the FASB issued ASU 2018-02, Income Statement - Reporting Comprehensive Income (Topic

220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. ASU 2018-02 allows companies to reclassify stranded tax effects resulting from the 2017 Tax Act from accumulated other comprehensive income to retained earnings. The company elected to early adopt ASU 2018-02 on January 1, 2018, which resulted in a reclassification of $192,000 of stranded tax effects, related to our unrealized gain on marketable securities, from accumulated other comprehensive income to retained earnings. Adoption of ASU 2018-02 did not have a material impact on our results of operations and/or cash flows.

New Accounting Standards Issued and Not Yet Adopted

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 condensed consolidated financial statements. We continue to monitor closely the activities of the FASB and various non-authoritative groups with respect to implementation issues that could affect our evaluation.

(2) ASSET IMPAIRMENT REVIEW

Carlisle Mine

During the second quarter of 2018, we began preparations to re-open the Carlisle mine. In July 2018, we commenced production and began shipping coal to customers. We conducted a review of the Carlisle Mine assets as of June 30, 2018, based on estimated future net cash flows, and determined that no impairment to the aggregate net carrying value of $108 million was necessary. 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.

Bulldog Reserves

In October 2017, we entered into an agreement to sell land associated with the Bulldog Mine for $4.9 million. As part of the transaction, we hold the rights to repurchase the property for eight years at the original sale price of $4.9 million plus interest. We are accounting for the sale as a financing transaction with the liability recorded in other long-term liabilities. The Bulldog Mine assets had an aggregate net carrying value of $15 million at June 30, 2018. Also, in October 2017, the Illinois Department of Natural Resources (ILDNR) notified us that our mine application, along with modifications, was acceptable. The permit will be issued upon submittal of a fee and bond which are required within 12 months of the notification. We have determined that no impairment is necessary. If estimates inherent in the assessment change, it may result in future impairment of the assets.

(3) BANK DEBT

On May 21, 2018, we executed the Third Amended and Restated Credit Agreement with PNC, as administrative agent for our lenders. The $267 million credit facility is a combination of a $147 term loan and $120 million revolver. The credit facility extends the term through May 21, 2022, reduces the debt service requirements, changes the borrower from Sunrise Coal to Hallador, and allows for investments in Hourglass Sands. The credit facility is collateralized primarily by Hallador's assets. Our borrowing capacity increased by $6 million as of the effective date of the amended agreement.

Liquidity

Our bank debt at June 30, 2018, was $201 million (term - $142 million, revolver - $59 million). As of June 30, 2018, we had additional borrowing capacity of $61 million and total liquidity of $74 million.

Fees

Bank fees and other costs incurred in connection with the amended credit agreement and unamortized costs incurred in connection with the initial facility and a subsequent amendment totaled $8.7 million. These costs were deferred and are being amortized over the term of the loan.

Covenants

The credit facility includes a Maximum Leverage Ratio (consolidated funded debt / trailing twelve months adjusted EBITDA), calculated as of the end of each fiscal quarter for trailing twelve months, not to exceed the amounts below:

Fiscal Periods Ending	Ratio
June 30, 2018 through March 31, 2019	3.75 to 1.00
June 30, 2019 and September 30, 2019	3.50 to 1.00
December 31, 2019 through September 30, 2020	3.25 to 1.00
December 31, 2020 through September 30, 2021	3.00 to 1.00
December 31, 2021 and each fiscal quarter thereafter	2.75 to 1.00

The credit facility also requires a Minimum Debt Service Coverage Ratio (consolidated adjusted EBITDA / annual debt service) calculated as of the end of each fiscal quarter for the trailing twelve months of 1.25 to 1 through the maturity of the credit facility.

At June 30, 2018, our Leverage Ratio was 2.64, and our Debt Service Coverage Ratio was 2.28. Therefore, we were in compliance with those two ratios.

Rate

The interest rate on the facility ranges from LIBOR plus 3.00% to LIBOR plus 4.50%, 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 ~6% on the original term loan balance and on $53 million of the revolver. At June 30, 2018, we were paying LIBOR of 2.10% plus 4.00% for a total interest rate of 6.10%.

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

	June 30, 2018	December 31, 2017
Current debt	$23,888	$ 35,000
Less debt issuance cost	(2,139)	(1,829)
Net current portion	$21,749	$ 33,171
Long-term debt	$176,600	$ 166,992
Less debt issuance cost	(6,238)	(1,219)
Net long-term portion	$170,362	$ 165,773

(4) EQUITY METHOD INVESTMENTS

Savoy Energy, L.P.

On March 9, 2018, we sold our entire 30.6% partnership interest to Savoy for $8 million. The carrying valu