

**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, 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 August 6, 2009: 22,446,028

PART 1 - FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

Consolidated Balance Sheet
(in thousands, except share data)

ASSETS

Current assets:

	June 30, 2009	December 31, 2008 *
Cash and cash equivalents	\$ 15,832	\$ 21,013
Certificates of deposit	2,862	
Prepaid Federal income taxes	888	1,531
Accounts receivable	5,728	6,113
Coal inventory	308	776
Other	1,867	1,928
Total current assets	<u>27,485</u>	<u>31,361</u>

Coal properties, at cost:

Land, buildings and equipment	73,366	55,027
Mine development	48,952	45,289
	122,318	100,316
Less - accumulated depreciation, depletion, and amortization	<u>(11,908)</u>	<u>(7,233)</u>
	110,410	93,083

Investment in Savoy

Other assets	7,362	7,911
	2,651	3,710
	<u>\$ 147,908</u>	<u>\$ 136,065</u>

LIABILITIES AND EQUITY

Current liabilities:

Current portion of bank debt	\$ 7,500	\$ 2,500
Accounts payable and accrued liabilities	7,503	11,563
State income tax payable	602	605
Other	626	310
Total current liabilities	<u>16,231</u>	<u>14,978</u>

Long-term liabilities:

Bank debt, net of current portion	32,500	37,500
Interest rate swaps, at estimated fair value	1,759	2,290
Deferred income taxes	6,351	1,700
Asset retirement obligations	714	686
Other	4,345	4,345
Total long-term liabilities	<u>45,669</u>	<u>46,521</u>

Total liabilities

<u>61,900</u>	<u>61,499</u>
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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	69,859	69,739
Retained earnings	13,461	2,920
Total Hallador stockholders' equity	<u>83,544</u>	<u>72,883</u>
Noncontrolling interest	2,464	1,683
Total equity	<u>86,008</u>	<u>74,566</u>
	<u>\$ 147,908</u>	<u>\$ 136,065</u>

*Derived from our Form 10-K

See accompanying notes.

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

	Six months ended June 30,		Three months ended June 30,	
	2009	2008	2009	2008
Revenue:				
Coal sales	\$ 55,597	\$ 23,962	\$ 25,786	\$ 14,281
Equity income (loss) – Savoy	(549)	275	(290)	306
Other	795	782	337	221
	<u>55,843</u>	<u>25,019</u>	<u>25,833</u>	<u>14,808</u>
Costs and expenses:				
Cost of coal sales	31,430	16,452	16,109	8,867
DD&A	3,787	1,931	2,018	1,026
G&A	1,740	1,368	800	767
Interest ⁽¹⁾	828	1,376	446	(156)
	<u>37,785</u>	<u>21,127</u>	<u>19,373</u>	<u>10,504</u>
Income before income taxes	18,058	3,892	6,460	4,304
Income taxes	<u>6,140</u>		<u>2,477</u>	
Net income				
Less: net income attributable to the noncontrolling interest	11,918		3,983	
	<u>(1,377)</u>	<u>(481)</u>	<u>(491)</u>	<u>(555)</u>
Net income attributable to Hallador	<u>\$ 10,541</u>	<u>\$ 3,411</u>	<u>\$ 3,492</u>	<u>\$ 3,749</u>
Net income per share attributable to Hallador:				
Basic and diluted	\$.47	\$.21	\$.16	\$.23
Weighted average shares outstanding:				
Basic and diluted	22,446	16,366	22,446	16,370

⁽¹⁾ Included in interest expense for the six and three months ended June 30, 2009 was a credit of \$531,000 and \$373,000, respectively, due to the change in the estimated fair value of the interest rate swaps. Such credit was \$39,000 and \$924,000 for the six and three months ended June 30, 2008, respectively.

See accompanying notes

Condensed Consolidated Statement of Cash Flows
(in thousands)

	Six months ended June 30,	
	2009	2008
Operating activities:		
Cash provided by operating activities	<u>\$ 23,237</u>	<u>\$ 2,740</u>
Investing activities:		
Capital expenditures for coal properties	(25,945)	(6,264)
Other	<u>(1,877)</u>	<u>682</u>
Cash used in investing activities	<u>(27,822)</u>	<u>(5,582)</u>
Financing activities:		
Proceeds from bank debt		2,000
Cash distributions to noncontrolling interests	<u>(596)</u>	<u></u>
Cash provided by (used in) financing activities	<u>(596)</u>	<u>2,000</u>
Decrease in cash and cash equivalents	(5,181)	(842)
Cash and cash equivalents, beginning of period	<u>21,013</u>	<u>6,978</u>
Cash and cash equivalents, end of period	<u><u>\$ 15,832</u></u>	<u><u>\$ 6,136</u></u>
Cash paid for interest (net of amount capitalized - \$293 and \$176)	\$ 1,612	\$ 1,440
Cash paid for state income taxes	\$ 849	
Change in accounts payable for coal properties	\$ (4,049)	\$ (1,500)

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 consolidated 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 June 30, 2009 and (ii) a condensed statement of operations for the six months ended June 30, 2009 and 2008.

Condensed Balance Sheet

Current assets	\$ 9,573
PP&E	11,530
	<u>\$21,103</u>
Total liabilities	\$ 4,780
Partners' capital	16,323
	<u>\$21,103</u>

Condensed Statement of Operations

	<u>2009</u>	<u>2008</u>
Revenue	\$ 3,638	\$ 3,670
Expenses	(4,855)	(2,559)
Net income (loss)	<u>\$(1,217)</u>	<u>\$ 1,111</u>

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 \$226,000. For 2009 there was no difference.

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 June 30, 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 agreements swapping variable rates for fixed rates. The first swap agreement, which initially covered \$26 million in debt, commenced on July 15, 2007 and matures on July 15, 2012; the current notional amount is about \$17 million. The second swap agreement, which initially covered \$10 million, commenced on December 28, 2007 and matures on December 28, 2011; the current notional amount is about \$8 million. Considering the two swap agreements our current interest rate is about 6.2%. At June 30, 2009 and December 31, 2008, our interest rates swaps resulted in a liability of \$1.76 million and \$2.3 million, respectively. The difference of \$531,000 is included as a reduction in our interest expense for the six months ended June 30, 2009. The recorded value of our bank debt approximates fair value as it bears interest at a floating rate.

4. Income Taxes

Our effective tax rate of about 37% for the six months ended June 30, 2009 was calculated using the annual effective rate projection on recurring earnings. Excess tax depletion is the primary reason for our effective rate being less than the statutory rate.

5. Cash Distributions by Sunrise

During the six months ended June 30, 2009 Sunrise made cash distributions, for members' tax purposes, of about \$3.6 million of which \$600,000 was made to the noncontrolling members.

6. Subsequent Events

No subsequent events have occurred through August 6, 2009 that could have a material effect on our financial position, cash flows or results of operations.

ITEM 2. MD&A.

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

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 2009 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.

Our management is in favor of reasonable and practical steps to protect the environment. We are not in favor of the current cap and trade bill passed by the House. Unless countries like Mexico, China, India and Russia pass and enforce similar laws any reduction in carbon omissions in our country would be inconsequential to the ultimate goal.

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. Our budgeted capital expenditures for the last half of 2009 are about \$15 million.

We have no material off-balance sheet arrangements.

Results of Operations

Year to Date

The recession has reduced power demand, which has reduced the need for coal. Stockpiles at some of our customers are high and accordingly, we were asked by one of our customers to defer a total of 400,000 tons through December 31, 2010. These tons will be shipped in 2011-2013 at an escalated price. We have agreed to assist our customer because of our valued relationship.

Due to the reduced power demand, we estimate 2009 sales to be about 2.7 million tons at an average selling price of \$44/ton. We expect 2010 sales to be about 3 million tons at an average price of \$42. The reduction in average prices is due to higher priced coal being deferred to later years.

For 2009 we sold 1,258,000 tons at an average price of about \$44/ton. For 2008 we sold 825,000 tons at an average price of about \$29/ton.

During 2009 our equity loss in Savoy was due to lower oil and gas prices and higher exploration costs relative to 2008.

Cost of coal sales per ton averaged \$25/ton in 2009 compared to \$20 in 2008. The increase was due to inefficiencies during our mine expansion and construction and temporary adverse mining conditions. Our mining employees totaled 290 at June 30, 2009 compared to 160 at June 30, 2008. We expect the cost of coal sales to average \$24/ton for the remainder of 2009.

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

Included in 2009 interest expense was a credit of \$531,000 relating to our interest rate swaps. The 2008 amount includes a credit of \$39,000 for the swaps. In addition, we capitalized \$293,000 in interest expense for 2009 compared to \$176,000 for 2008. Because our mine expansion is complete we are no longer capitalizing interest.

Quarter to Date

For 2009 we sold 596,000 tons at an average price of about \$43/ton. For 2008 we sold 472,000 tons at an average price of about \$30/ton.

For 2009 our equity loss in Savoy was due to lower oil and gas prices and higher exploration costs relative to 2008.

Cost of coal sales averaged \$27/ton in 2009 compared to \$19 in 2008. If we are not able to gain efficiencies and if the temporary adverse mining conditions persist, our costs could remain in the \$27/ton range for the remainder of the year.

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

Included in 2009 interest expense was a credit of \$373,000 relating to our interest rate swaps. The 2008 amount includes a credit of \$924,000 for the swaps. In addition, we capitalized about \$3,000 in interest expense for 2009 compared to \$75,000 for 2008.

New Accounting Pronouncements

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

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 June 30, 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.

Dated: August 6, 2009

By: /S/ VICTOR P. STABIO

Victor P. Stabio

CEO and CFO

Signing on behalf of registrant and
as principal financial officer

EXHIBIT 31 CERTIFICATION

I, Victor P. Stabio, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Hallador Petroleum Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition and results of operations of the issuer as of, and for, the periods presented in this report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared; and
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and have identified for the registrant's auditors any material weakness in internal controls; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control; and
 - (c) I have indicated in the report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: August 6, 2009

/S/VICTOR P. STABIO

Victor P. Stabio
CEO and CFO

EXHIBIT 32

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Hallador Petroleum Company (the "Company"), on Form 10-Q for the period ended June 30, 2009, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, in the capacities and dates indicated below, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 6, 2009

By: /S/VICTOR P. STABIO
Victor P. Stabio
CEO and CFO