

PETROHAWK ENERGY CORP

Form 10-Q

November 03, 2006

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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 September 30, 2006

Commission file number 000-25717

PETROHAWK ENERGY CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of

incorporation or organization)

1100 Louisiana, Suite 4400, Houston, Texas 77002

(Address of principal executive offices including ZIP code)

(832) 204-2700

(Registrant's telephone number)

86-0876964
(I.R.S. Employer

Identification Number)

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

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Title of each class
Common Stock, par value \$.001 per share

Name of each exchange on which registered
NASDAQ Global Select Market

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 126-2 of the Exchange Act).

Yes No

As of October 30, 2006 the Registrant had 168,444,455 shares of Common Stock, \$.001 par value, outstanding.

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This report on Form 10-Q contains forward-looking statements within the meaning of the federal securities laws. These forward-looking statements may include, among others, the following:

our growth strategies;

anticipated trends in our business;

our future results of operations;

our ability to make or integrate acquisitions;

our liquidity and ability to finance our exploration, acquisition and development activities;

our ability to successfully and economically explore for and develop oil and gas resources;

market conditions in the oil and gas industry;

the timing, cost and procedure for proposed acquisitions;

the impact of government regulation;

planned capital expenditures;

increases in oil and gas production; and

our financial position, business strategy and other plans and objectives for future operations.

We identify forward-looking statements by use of terms such as expect, anticipate, estimate, plan, believe, intend, will, continue, should, could and similar words and expressions, although some forward-looking statements may be expressed differently. You should be aware that our actual results could differ materially from those contained in the forward-looking statements. You should consider carefully the statements under the Risk Factors section of this report and other sections of this report which describe factors that could cause our actual results to differ from those set forth in the forward-looking statements, and the following factors:

the possibility that problems may arise in successfully integrating the businesses of Petrohawk and KCS;

the possibility that the combined company may be unable to achieve cost-cutting synergies;

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the possibility that the industry may be subject to future regulatory or legislative actions (including any additional taxes);

the volatility in commodity prices for oil and gas and in the supply of and demand for oil and gas;

the presence or recoverability of estimated oil and gas reserves and the actual future production rates and associated costs;

the ability to replace oil and gas reserves;

environmental risks;

drilling and operating risks;

exploration and development risks;

competition;

the ability of the company's management to execute its plans to meet its goals;

the ability of the company to retain key members of its senior management and key employees;

general economic conditions, whether internationally, nationally or in the regional and local market areas in which Petrohawk is doing business, may be less favorable than expected;

continued hostilities in the Middle East and other sustained military campaigns or acts of terrorism or sabotage; and

other economic, competitive, governmental, legislative, regulatory, geopolitical and technological factors may negatively impact our businesses, operations or pricing.

All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements in this paragraph and elsewhere in this document. Other than as required under the securities laws, we do not assume a duty to update these forward-looking statements, whether as a result of new information, subsequent events or circumstances, changes in expectations or otherwise.

Table of Contents**PART I. FINANCIAL INFORMATION****PETROHAWK ENERGY CORPORATION****CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)**

(In thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Operating revenues:				
Oil and gas	\$ 196,439	\$ 81,447	\$ 385,859	\$ 149,957
Operating expenses:				
Production:				
Lease operating	17,594	10,276	40,460	19,826
Workover and other	2,720	941	5,210	2,180
Taxes other than income	15,739	6,405	30,346	10,842
Gathering, transportation and other	5,178	515	9,314	1,135
General and administrative:				
General and administrative	12,132	5,782	25,883	13,258
Stock-based compensation	3,173	780	5,041	3,003
Depletion, depreciation and amortization	89,212	22,730	164,120	45,238
Total operating expenses	145,748	47,429	280,374	95,482
Income from operations	50,691	34,018	105,485	54,475
Other income (expenses):				
Net gain (loss) on derivative contracts	68,048	(83,585)	94,495	(120,568)
Interest expense and other	(35,870)	(9,923)	(55,865)	(20,306)
Total other income (expenses)	32,178	(93,508)	38,630	(140,874)
Income (loss) before income taxes	82,869	(59,490)	144,115	(86,399)
Income tax (provision) benefit	(30,213)	23,066	(53,667)	33,521
Net income (loss)	52,656	(36,424)	90,448	(52,878)
Preferred dividends		(110)	(217)	(329)
Net income (loss) available to common shareholders	\$ 52,656	\$ (36,534)	\$ 90,231	\$ (53,207)
Earnings (loss) per share of common stock:				
Basic	\$ 0.34	\$ (0.56)	\$ 0.84	\$ (1.10)
Diluted	\$ 0.33	\$ (0.56)	\$ 0.82	\$ (1.10)
Weighted average shares outstanding:				
Basic	157,135	64,877	107,908	48,425
Diluted	159,647	64,877	110,706	48,425

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**PETROHAWK ENERGY CORPORATION****CONSOLIDATED BALANCE SHEETS (Unaudited)****(In thousands, except share and per share amounts)**

	September 30, 2006	December 31, 2005
Current assets:		
Cash	\$ 6,284	\$ 12,911
Accounts receivable	139,448	68,087
Deferred income taxes	11,379	18,304
Receivables from derivative contracts	44,573	1,286
Prepaid expenses and other	15,848	5,393
Total current assets	217,532	105,981
Oil and gas properties (full cost method):		
Evaluated	2,792,857	1,100,273
Unevaluated	593,816	162,133
Gross oil and gas properties	3,386,673	1,262,406
Less accumulated depletion	(286,086)	(121,456)
Net oil and gas properties	3,100,587	1,140,950
Other noncurrent assets:		
Goodwill	933,479	132,029
Debt issuance costs, net of amortization	15,615	1,969
Receivables from derivative contracts	11,401	2,252
Other	9,437	26,993
Total assets	\$ 4,288,051	\$ 1,410,174
Current liabilities:		
Accounts payable and accrued liabilities	\$ 265,046	\$ 90,017
Liabilities from derivative contracts	13,563	51,081
Current portion of long-term debt	4,594	2,788
Total current liabilities	283,203	143,886
Long-term debt	1,395,019	495,801
Liabilities from derivative contracts	15,095	35,695
Asset retirement obligations	46,286	50,133
Deferred income taxes	650,180	153,155
Other noncurrent liabilities	2,273	5,046
Commitments and contingencies (Note 6)		
Stockholders equity:		
Convertible preferred stock: 5,000,000 shares of \$.001 par value authorized; no shares issued or outstanding at September 30, 2006 and 593,271 at December 31, 2005;		1
Common stock: 300,000,000 and 75,000,000 shares of \$.001 par value authorized at September 30, 2006 and December 31, 2005; 168,440,308 and 73,566,117 shares issued and outstanding at September 30, 2006 and December 31, 2005	168	74

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Additional paid-in capital	1,837,629	558,452
Treasury stock, at cost, 8,382 shares at December 31, 2005, retired at September 30, 2006		(36)
Retained earnings (accumulated deficit)	58,198	(32,033)
Total stockholders' equity	1,895,995	526,458
Total liabilities and stockholders' equity	\$ 4,288,051	\$ 1,410,174

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**PETROHAWK ENERGY CORPORATION****CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)****(In thousands)**

	Nine Months Ended September 30,	
	2006	2005
Cash flows from operating activities:		
Net income (loss)	\$ 90,448	\$ (52,878)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depletion, depreciation and amortization	164,120	45,238
Income tax provision (benefit)	53,667	(33,521)
Stock-based compensation	5,041	3,003
Net unrealized (gain) loss on derivative contracts	(106,304)	109,543
Net realized loss on derivative contracts acquired	14,597	9,657
Other	88	889
Change in assets and liabilities, net of acquisitions:		