

PETROHAWK ENERGY CORP
Form 10-Q
August 09, 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 **June 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)

86-0876964
(I.R.S. Employer
Identification Number)

1100 Louisiana, Suite 4400, Houston, Texas 77002

(Address of principal executive offices including ZIP code)

(832) 204-2700

(Registrant's telephone number)

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

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

Name of each exchange

Title of each class

on which registered

Common Stock, par value \$.001 per share

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

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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 August 7, 2006 the Registrant had 167,772,839 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 will, 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 our acquisitions may involve unexpected costs;

the volatility in commodity prices for oil and gas;

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the accuracy of internally estimated proved reserves;

the presence or recoverability of estimated oil and gas reserves;

the ability to replace oil and gas reserves;

the availability and costs of drilling rigs and other oilfield equipment and services;

environmental risks;

exploration and development risks;

competition;

the inability to realize expected value from acquisitions;

the ability of our management team to execute its plans to meet its goals;

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

other economic, competitive, governmental, legislative, regulatory, geopolitical and technological factors that may negatively impact our businesses, operations and commodity prices for oil and gas.

Forward-looking statements speak only as of the date of this report. Except to the extent required by applicable law or regulation, we do not undertake any obligation to update forward-looking statements to reflect events or circumstances after the date of this report or to reflect the occurrence of unanticipated events.

Table of Contents**PETROHAWK ENERGY CORPORATION****CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)***(In thousands, except per share amounts)*

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|-------------------|------------------------------|--------------------|
| | 2006 | 2005 | 2006 | 2005 |
| Operating revenues: | | | | |
| Oil and gas | \$ 86,414 | \$ 36,184 | \$ 189,420 | \$ 68,510 |
| Operating expenses: | | | | |
| Production: | | | | |
| Lease operating | 11,317 | 5,100 | 22,866 | 9,624 |
| Workover and other | 1,771 | 818 | 2,490 | 1,239 |
| Taxes other than income | 6,309 | 2,083 | 14,607 | 4,409 |
| Gathering, transportation and other | 2,264 | 213 | 4,136 | 546 |
| General and administrative: | | | | |
| General and administrative | 7,708 | 4,205 | 13,751 | 7,504 |
| Stock-based compensation | 1,223 | 644 | 1,868 | 2,223 |
| Depletion, depreciation and amortization | 37,458 | 11,694 | 74,908 | 22,508 |
| Total operating expenses | 68,050 | 24,757 | 134,626 | 48,053 |
| Income from operations | 18,364 | 11,427 | 54,794 | 20,457 |
| Other income (expenses): | | | | |
| Net gain (loss) on derivative contracts | 1,644 | (8,331) | 26,447 | (36,983) |
| Interest expense and other | (10,923) | (7,033) | (19,995) | (10,383) |
| Total other income (expenses) | (9,279) | (15,364) | 6,452 | (47,366) |
| Income (loss) before income taxes | 9,085 | (3,937) | 61,246 | (26,909) |
| Income tax (provision) benefit | (4,232) | 1,735 | (23,454) | 10,455 |
| Net income (loss) | 4,853 | (2,202) | 37,792 | (16,454) |
| Preferred dividends | (109) | (110) | (217) | (219) |
| Net income (loss) available (applicable) to common shareholders | \$ 4,744 | \$ (2,312) | \$ 37,575 | \$ (16,673) |
| Earnings (loss) per share of common stock: | | | | |
| Basic | \$ 0.06 | \$ (0.06) | \$ 0.45 | \$ (0.42) |
| Diluted | \$ 0.06 | \$ (0.06) | \$ 0.45 | \$ (0.42) |
| Weighted average shares outstanding: | | | | |
| Basic | 83,613 | 40,146 | 82,886 | 40,063 |
| Diluted | 85,383 | 40,146 | 84,755 | 40,063 |

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)*

| | June 30, 2006 | December 31, 2005 |
|---|---------------------|----------------------|
| Current assets: | | |
| Cash | \$ 10,447 | \$ 12,911 |
| Accounts receivable | 69,404 | 68,087 |
| Deferred income taxes | 5,492 | 18,304 |
| Receivables from derivative contracts | 7,326 | 1,286 |
| Prepaid expenses and other | 8,275 | 5,393 |
| Total current assets | 100,944 | 105,981 |
| Oil and gas properties (full cost method): | | |
| Evaluated | 1,476,364 | 1,096,810 |
| Unevaluated | 155,484 | 162,133 |
| Gross oil and gas properties | 1,631,848 | 1,258,943 |
| Less - accumulated depletion | (195,148) | (121,456) |
| Net oil and gas properties | 1,436,700 | 1,137,487 |
| Other operating property and equipment: | | |
| Net other operating property and equipment | 3,431 | 3,463 |
| Other noncurrent assets: | | |
| Goodwill | 165,279 | 132,029 |
| Debt issuance costs, net of amortization | 2,571 | 1,969 |
| Receivables from derivative contracts | 3,712 | 2,252 |
| Other | 2,244 | 26,993 |
| Total assets | \$ 1,714,881 | \$ 1,410,174 |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 102,523 | \$ 90,017 |
| Liabilities from derivative contracts | 29,080 | 51,081 |
| Current portion of long-term debt | 4,986 | 2,788 |
| Total current liabilities | 136,589 | 143,886 |
| Long-term debt | 585,069 | 495,801 |
| Liabilities from derivative contracts | 24,722 | 35,695 |
| Asset retirement obligations | 31,542 | 50,133 |
| Deferred income taxes | 240,316 | 153,155 |
| Other noncurrent liabilities | 1,987 | 5,046 |
| Commitments and contingencies (Note 6) | | |
| Stockholders' equity: | | |
| Convertible Preferred stock: 5,000,000 shares of \$.001 par value authorized; 117,892 shares issued and outstanding at June 30, 2006 and 593,271 at December 31, 2005; liquidation value at June 30, 2006 of \$1.1 million and \$5.5 million at December 31, 2005 | | |

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| | | |
|---|---------------------|---------------------|
| Common stock: 125,000,000 and 75,000,000 shares of \$.001 par value authorized at June 30, 2006 and December 31, 2005; 83,654,825 and 73,566,117 shares issued and outstanding at June 30, 2006 and December 31, 2005 | | |
| | 83 | 74 |
| Additional paid-in capital | 689,067 | 558,452 |
| Treasury stock, at cost, 8,382 shares reacquired at June 30, 2006 and December 31, 2005 | (36) | (36) |
| Retained earnings (accumulated deficit) | 5,542 | (32,033) |
| Total stockholders equity | 694,656 | 526,458 |
| Total liabilities and stockholders equity | \$ 1,714,881 | \$ 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)*

| | Six Months Ended June 30, | |
|--|------------------------------|---------------|
| | 2006 | 2005 |
| Cash flows from operating activities: | | |
| Net income (loss) | \$ 37,792 | \$ (16,454) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depletion, depreciation and amortization | 74,908 | 22,508 |
| Income tax provision (benefit) | 23,454 | (10,789) |
| Stock-based compensation | 1,868 | 2,223 |
| Net unrealized (gain) loss on derivative contracts | (37,591) | 34,572 |
| Net realized loss on derivative contracts acquired | 9,934 | |
| Other | (375) | 1,515 |
| Change in assets and liabilities, net of acquisitions: | | |
| Accounts receivable | 16,019 | 1,816 |
| Prepaid expenses and other | (2,782) | (1,597) |
| Accounts payable and accrued liabilities | (18,876) | (1,145) |
| Other | (810) | 16 |
| Net cash provided by operating activities | 103,541 | 32,665 |