

PETROHAWK ENERGY CORP

Form 10-Q

May 06, 2008

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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 March 31, 2008

Commission file number 001-33334

PETROHAWK ENERGY CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of

86-0876964
(I.R.S. Employer

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incorporation or organization)

Identification Number)

1000 Louisiana, Suite 5600, 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:

Title of each class	Name of each exchange on which registered
Common Stock, par value \$.001 per share	New York Stock Exchange
Securities registered pursuant to Section 12(g) of the Act: None	

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, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer
Non-accelerated filer

Accelerated filer
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

As of May 2, 2008 the Registrant had 193,003,517 shares of Common Stock, \$.001 par value, outstanding.

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Special note regarding forward-looking statements

This report on Form 10-Q contains forward-looking statements within the meaning of the federal securities laws. All statements, other than statements of historical facts, are forward-looking statements.

Forward-looking statements may be identified 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, as well as those described in our Form 10-K for the year ended December 31, 2007, which describe factors that could cause our actual results to differ from those set forth in the forward-looking statements, including, but not limited to, the following factors:

our ability to successfully develop our large inventory of undeveloped acreage primarily held in resource-style areas in Arkansas and Louisiana and in our higher risk exploratory plays such as Haynesville Shale;

the volatility in commodity prices for oil and natural gas;

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

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

our ability to generate sufficient cash flow from operations, borrowings or other sources to enable us to fully develop our undeveloped acreage positions;

the ability to replace oil and natural gas reserves;

environmental risks;

drilling and operating risks and expense cost escalations;

exploration and development risks;

competition, including competition for acreage in resource-style areas;

management's ability to execute our plans to meet our goals;

our ability to retain key members of senior management and key employees;

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our ability to obtain goods and services, such as drilling rigs and tubulars, to execute our drilling program;

general economic conditions, whether internationally, nationally or in the regional and local market areas in which we do business, may be less favorable than expected, including the possibility that the United States may be entering into an economic slow-down which could affect the demand for natural gas, oil and natural gas liquids;

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 business, 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****Item 1. Condensed Consolidated Financial Statements (unaudited)
PETROHAWK ENERGY CORPORATION****CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)****(In thousands, except per share amounts)**

	Three Months Ended March 31,	
	2008	2007
Operating revenues:		
Oil and gas	\$ 214,938	\$ 209,243
Operating expenses:		
Production:		
Lease operating	12,394	15,876
Workover and other	537	2,177
Taxes other than income	10,964	13,650
Gathering, transportation and other	9,523	7,424
General and administrative	16,154	15,601
Depletion, depreciation and amortization	83,127	95,838
Total operating expenses	132,699	150,566
Income from operations	82,239	58,677
Other expenses:		
Net loss on derivative contracts	(142,741)	(58,933)
Interest expense and other	(27,537)	(30,750)
Total other expenses	(170,278)	(89,683)
Loss before income taxes	(88,039)	(31,006)
Income tax benefit	32,427	11,591
Net loss	\$ (55,612)	\$ (19,415)
Net loss per share of common stock:		
Basic	\$ (0.30)	\$ (0.12)
Diluted	\$ (0.30)	\$ (0.12)
Weighted average shares outstanding:		
Basic	183,629	167,306
Diluted	183,629	167,306

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

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

	March 31, 2008	December 31, 2007
Current assets:		
Cash	\$ 7,199	\$ 1,812
Accounts receivable	174,293	148,138
Current portion of deferred income taxes	50,285	5,855
Receivables from derivative contracts	135	12,369
Prepaid expenses and other	22,197	21,019
Total current assets	254,109	189,193
Oil and gas properties (full cost method):		
Evaluated	3,685,558	3,247,304
Unevaluated	830,074	677,565
Gross oil and gas properties	4,515,632	3,924,869
Less - accumulated depletion	(851,270)	(769,197)
Net oil and gas properties	3,664,362	3,155,672
Other operating property and equipment:		
Gross other operating property and equipment	33,714	18,940
Less - accumulated depreciation	(7,609)	(6,838)
Net other operating property and equipment	26,105	12,102
Other noncurrent assets:		
Goodwill	933,920	933,945
Debt issuance costs, net of amortization	11,852	12,052
Receivables from derivative contracts	184	
Restricted cash (Note 2)		269,837
Note receivable	99,010	96,098
Other	3,277	3,540
Total assets	\$ 4,992,819	\$ 4,672,439
Current liabilities:		
Accounts payable and accrued liabilities	\$ 305,225	\$ 331,471
Liabilities from derivative contracts	119,325	28,198
Current portion of long-term debt	2,266	828
Total current liabilities	426,816	360,497
Long-term debt	1,560,849	1,595,127
Liabilities from derivative contracts	39,814	6,915
Asset retirement obligations	25,947	23,800
Deferred income taxes	677,224	674,968

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Other noncurrent liabilities	2,449	2,235
Commitments, contingencies and litigation (Note 6)		
Stockholders' equity:		
Common stock: 300,000,000 shares of \$.001 par value authorized; 192,891,088 and 171,220,817 shares issued and outstanding at March 31, 2008 and December 31, 2007, respectively	193	171
Additional paid-in capital	2,177,929	1,871,516
Retained earnings	81,598	137,210
Total stockholders' equity	2,259,720	2,008,897
Total liabilities and stockholders' equity	\$ 4,992,819	\$ 4,672,439

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

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

	Three Months Ended March 31,	
	2008	2007
Cash flows from operating activities:		
Net loss	\$ (55,612)	\$ (19,415)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depletion, depreciation and amortization	83,127	95,838
Income tax benefit	(32,427)	(11,591)
Stock-based compensation	2,598	2,888
Net unrealized loss on derivative contracts	137,515	74,971
Net realized gain on derivative contracts acquired		(2,440)
Other	(1,465)	1,355
Change in assets and liabilities, net of acquisitions:		
Accounts receivable	(38,769)	785
Prepaid expenses and other	(1,178)	2,526
Accounts payable and accrued liabilities	(33,081)	(9,437)
Other	477	(208)
Net cash provided by operating activities	61,185	135,272
Cash flows from investing activities:		
Oil and gas capital expenditures	(150,405)	(224,496)
Acquisition of oil and gas properties	(428,306)	(1,574)
Decrease in restricted cash	269,837	
Other operating property and equipment expenditures	(14,438)	(1,363)
Other		1,101
Net cash used in investing activities	(323,312)	(226,332)
Cash flows from financing activities:		
Proceeds from exercise of options	6,307	1,400
Proceeds from issuance of common stock	310,500	
Offering costs	(13,792)	
Proceeds from borrowings	380,000	249,000
Repayment of borrowings	(415,000)	(161,415)
Net realized gain on derivative contracts acquired		2,440
Other	(501)	(14)
Net cash provided by financing activities	267,514	91,411
Net increase in cash	5,387	351
Cash at beginning of period	1,812	5,593
Cash at end of period	\$ 7,199	\$ 5,944

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

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PETROHAWK ENERGY CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. FINANCIAL STATEMENT PRESENTATION

During interim periods, Petrohawk Energy Corporation (referred to as Petrohawk or the Company) follows the same accounting policies disclosed in its 2007 Annual Report on Form 10-K with the exception of the adoption of Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* as described in Recently Issued Accounting Pronouncements below. Please refer to the footnotes in the 2007 Form 10-K, when reviewing interim financial results.

These unaudited condensed consolidated financial statements reflect, in the opinion of the Company's management, all adjustments, consisting only of normal and recurring adjustments, necessary to present fairly the financial position as of, and results of operations for, the periods presented. Interim period results are not necessarily indicative of results of operations or cash flows for the full year. Certain prior year amounts have been reclassified to conform to the current year presentation.

Risk Management Activities

The Company follows SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133), as amended by SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of FASB Statement No. 133*, SFAS No. 149, *Amendment of Statement No. 133 on Derivative Instruments and Hedging Activities* and SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments*. From time to time, the Company may hedge a portion of its forecasted oil and natural gas production. Derivative contracts entered into by the Company have consisted of transactions in which the Company hedges the variability of cash flow related to a forecasted transaction. The Company has elected to not designate any of its positions for hedge accounting. Accordingly, the Company records the net change in the mark-to-market valuation of these positions, as well as payments and receipts on settled contracts, in current earnings as a component of other income and expenses on the consolidated statements of operations.

During the first quarter of 2008, the Company made the decision to mitigate a portion of its interest rate risk wi