PETROHAWK ENERGY CORP
Form 10-Q/A
December 05, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

(Amendment No. 1)

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

For the quarterly period ended March 31, 2011

Commission file number 001-33334

PETROHAWK ENERGY CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**86-0876964**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

1000 Louisiana, Suite 5600, Houston, Texas 77002
(Address of principal executive offices including ZIP code)

(832) 204-2700
(Registrant's telephone number)

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 ý No o

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 (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No o

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:

Large accelerated filer ý	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ý

As of December 2, 2011 the Registrant had 100 shares of Common Stock, $.001 par value, outstanding, all of which were held by BHP Billiton Petroleum (North America) Inc., a wholly owned subsidiary of BHP Billiton Limited.

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Explanatory Note

Petrohawk Energy Corporation (Petrohawk or the Company) is filing this Amendment No. 1 to its Quarterly Report on Form 10-Q (the Amendment) to restate and amend the Company's previously issued unaudited interim financial statements and related financial information as of and for the three months ended March 31, 2011. In addition, the Company is restating and amending its Annual Report on Form 10-K, as of December 31, 2010, and its Quarterly Report on Form 10-Q, for the quarter ended June 30, 2011. The restatement relates to the accounting treatment associated with a joint venture transaction entered into on May 21, 2010 between the Company and KM Gathering LLC (Kinder Morgan), an affiliate of Kinder Morgan Energy Partners, L.P., a publicly traded master limited partnership. In this transaction, the Company contributed its Haynesville Shale gathering and treating system in Northwest Louisiana to KinderHawk Field Services LLC (KinderHawk), Kinder Morgan contributed approximately $917 million in cash, which was distributed to the Company as consideration for 50% of the Haynesville Shale gathering and treating system. In connection with the transaction the Company entered into a gathering agreement with KinderHawk, which requires the Company to deliver natural gas to the operator of the gathering and treating system, KinderHawk, from dedicated lease acreage through the Haynesville Shale gathering and treating system for the life of the dedicated lease acreage, or approximately 30 years, and includes a minimum delivery commitment over a five-year period. Upon the completion of the transaction both the Company and Kinder Morgan held a 50% membership interest in KinderHawk. The Company originally accounted for the transaction as a partial sale for which the Company deferred a gain of approximately $719.4 million and recorded its 50% membership interest in KinderHawk as an equity method investment. The deferred gain was to be recognized as commitments associated with KinderHawk, consisting of a capital commitment of approximately $200 million callable during a two-year period and a five-year delivery commitment were settled. Income and distributions related to the venture were recorded as adjustments to the Company's equity method investment.

The Company subsequently determined that the KinderHawk joint venture transaction should have been accounted for and disclosed in accordance with the Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) Subtopic 360-20, *Property, Plant and Equipment Real Estate Sales*, (ASC 360-20). ASC 360-20 establishes standards for recognition of profit on all real estate sales transactions other than retail land sales, without regard to the nature of the seller's business. In making the determination of whether a transaction qualifies, in substance, as a sale of real estate, the nature of the entire real estate being sold is considered, including the land plus the property improvements and the integral equipment. The Haynesville Shale gathering and treating system, consists of right of ways, pipelines and processing facilities. Due to the gathering agreement which constitutes extended continuing involvement under ASC 360-20, it has been determined that the contribution of the Company's Haynesville Shale gathering and treating system to form KinderHawk should be accounted for as a failed sale of in substance real estate. As a result of the failed sale the Company would account for the continued operations of the gas gathering system and reflect a financing obligation, representing the proceeds received, under the financing method of real estate accounting. Under the financing method, the historical cost of the Haynesville Shale gas gathering system contributed to KinderHawk should have continued to be carried at the full historical basis of the assets on the unaudited condensed consolidated balance sheets in *"Gas gathering systems and equipment"* and depreciated over the remaining useful life of the assets. The financing obligation is recorded on the unaudited condensed unaudited condensed consolidated balance sheets in *"Payable on financing arrangement,"* in the amount of approximately $917 million. Reductions to the obligation and the non cash interest on the financing obligation are tied to the gathering and treating services, as the Company delivers natural gas through the Haynesville Shale gathering and treating system. Interest and principal are determined based upon the allocable income to Kinder Morgan, and interest is limited up to an amount that is calculated based upon the Company's weighted average cost of debt as of the date of the transaction. Allocable income in excess of the calculated value will be reflected as reductions of principal. Interest is recorded in *"Interest expense and other"* on the unaudited condensed consolidated statements of operations. Any obligation remaining once the gathering agreement expires will be reversed, resulting in the recognition of a gain. Additionally, the Company records KinderHawk's revenues, net of eliminations for intercompany amounts associated with gathering and treating services provided to the Company, and expenses on the unaudited condensed consolidated statements of operations in *"Midstream revenues," "Taxes other than income," "Gathering, transportation and other," "General and administrative," "Interest expense and other"* and *"Depletion, depreciation and amortization."*

The following sections of the Form 10-Q have been revised to reflect the restatement and are set forth in their entirety in this Amendment: Part I Item 1*Condensed Consolidated Financial Statements (Unaudited)*; Item 2. *Management's Discussion and Analysis of Financial Condition and Results of Operations*; Item 4. *Controls and Procedures*; and Part II Item 6*Exhibits*. Additionally, in this Amendment, the Company is including currently dated certifications from the Company's Principal Executive Officer and Principal Financial Officer as required by Section 302 of the Sarbanes-Oxley Act of 2002 in Exhibits 31.1 and 31.2 and a currently dated certification from the Company's Principal Executive Officer and Principal Financial Officer as required by Section 906 of the Sarbanes-Oxley Act of 2002 in Exhibit 32.1. The effect of the restatement on the Company's net income for the three months ended March 31, 2011 was a reduction of approximately $30.7 million. This resulted in a reduction of net income of $0.10 per basic and diluted share for the three months ended March 31, 2011.

Except to the extent described above and set forth herein, the financial statements and other disclosures in the Form 10-Q initially filed on May 5, 2011 (the initial Form 10-Q) are unchanged and this amendment does not reflect any events that have occurred after the initial Form 10-Q was filed. Accordingly, this amendment should be read in conjunction with the Company's initial Form 10-Q and the Company's subsequent filings with the United States Securities and Exchange Commission.

In light of the restatement, readers should not rely on the Company's previously filed financial statements as of and for the fiscal year ended December 31, 2010, and unaudited interim financial statements as of and for the periods ended June 30, 2010, September 30, 2010, March 31, 2011 and June 30, 2011.

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Special note regarding forward-looking statements

This Amendment No. 1 to the Quarterly Report on Form 10-Q contains, and we may from time to time otherwise make in other public filings, press releases and presentations, forward-looking statements within the meaning of the federal securities laws. All statements, other than statements of historical facts, concerning, among other things, planned capital expenditures, potential increases in oil and natural gas production, the number and location of wells to be drilled in the future, future cash flows and borrowings, pursuit of potential acquisition opportunities, our financial position, business strategy and other plans and objectives for future operations, are forward-looking statements. These forward- looking statements are identified by their use of terms and phrases such as "may," "expect," "estimate," "project," "plan," "believe," "intend," "achievable," "anticipate," "will," "continue," "potential," "should," "could" and similar terms and phrases. Although we believe that the expectations reflected in these forward-looking statements are reasonable, they do involve certain assumptions, risks and uncertainties. Actual results could differ materially from those anticipated in these forward-looking statements. One should consider carefully the statements under the "Risk Factors" section of the previously filed Quarterly Report on Form 10-Q for the period ended March 31, 2011 and in our previously filed Annual Report on Form 10-K for the year ended December 31, 2010, and the other disclosures contained herein and therein, as well as the disclosures contained in Amendment No. 1 on Form 10-K for the period ended December 31, 2010, which describe factors that could cause our actual results to differ from those anticipated in the forward-looking statements, including, but not limited to, the following factors:

- our ability to successfully develop our large inventory of undeveloped acreage in our resource plays such as the Haynesville, Lower Bossier, and Eagle Ford Shales;
- volatility in commodity prices for oil and natural gas;
- the possibility that our industry may be subject to future regulatory or legislative actions (including any additional taxes and changes in environmental regulation);
- the presence or recoverability of estimated oil and natural gas reserves and the actual future production rates and associated costs;
- the potential for production decline rates for our wells to be greater than we expect;
- our ability to generate sufficient cash flow from operations, borrowings or other sources to enable us to fully develop our undeveloped acreage positions;
- our ability to replace oil and natural gas reserves;
- environmental risks;
- drilling and operating risks;
- exploration and development risks;
- competition, including competition for acreage in resource play areas;
- management's ability to execute our plans to meet our goals;

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

the cost and availability of goods and services, such as drilling rigs, fracture stimulation services and tubulars;

access to and availability of water and other treatment materials to carry out planned fracture stimulations in our resource plays;

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- access to adequate gathering systems and transportation take-away capacity, necessary to fully execute our capital program;

- our ability to secure firm transportation and other marketing outlets for the natural gas, natural gas liquids and crude oil and condensate we produce and to sell these products at market prices;

- 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 economic conditions in the United States will worsen and that capital markets are disrupted, which could adversely affect demand for oil and natural gas and make it difficult to access financial markets;

- social unrest, political instability, armed conflict, or acts of terrorism or sabotage in oil and natural gas producing regions, such as the Middle East, or our markets; and

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

All forward-looking statements 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.

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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (Unaudited)

PETROHAWK ENERGY CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

(In thousands, except per share amounts)

	Three Months Ended March 31, 2011 Restated(1)	Three Months Ended March 31, 2010
Operating revenues:		
Oil and natural gas	$ 350,208	$ 300,591
Marketing	140,544	130,119
Midstream	2,923	7,072
Total operating revenues	493,675	437,782
Operating expenses:		
Marketing	154,898	136,622
Production:		
Lease operating	12,611	17,395
Workover and other	4,876	2,378
Taxes other than income	12,265	12,760
Gathering, transportation and other	17,605	28,156
General and administrative	40,743	32,034
Depletion, depreciation and amortization	161,521	104,768
Total operating expenses	404,519	334,113
Income from operations	89,156	103,669
Other income (expenses):		
Net (loss) gain on derivative contracts	(50,907)	214,703
Interest expense and other	(86,046)	(62,846)
Total other income (expenses)	(136,953)	151,857
(Loss) income from continuing operations before income taxes	(47,797)	255,526
Income tax benefit (provision)	18,322	(99,234)
(Loss) income from continuing operations, net of income taxes	(29,475)	156,292
Loss from discontinued operations, net of income taxes	(2,407)	(157)
Net (loss) income	$ (31,882)	$ 156,135
Net (loss) income per share:		
Basic:		

Continuing operations	$	(0.10)	$	0.52
Discontinued operations				
Total	$	(0.10)	$	0.52
Diluted:				
Continuing operations	$	(0.10)	$	0.52
Discontinued operations				
Total	$	(0.10)	$	0.52
Weighted average shares outstanding:				
Basic		301,021		300,157
Diluted		301,021		302,668

(1)
See further discussion at Note 15, *"Restatement of Quarterly Unaudited Condensed Consolidated Financial Statements"*

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

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PETROHAWK ENERGY CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

(In thousands, except share and per share amounts)

	March 31, 2011 Restated(1)	December 31, 2010 Restated(1)
Current assets:		
Cash	$ 1,541	$ 1,591
Accounts receivable	376,045	356,597
Receivables from derivative contracts	163,111	217,018
Prepaids and other	35,568	62,831
Total current assets	576,265	638,037
Oil and natural gas properties (full cost method):		
Evaluated	8,205,478	7,520,446
Unevaluated	2,538,432	2,387,037
Gross oil and natural gas properties	10,743,910	9,907,483
Less accumulated depletion	(4,928,072)	(4,774,579)
Net oil and natural gas properties	5,815,838	5,132,904
Other operating property and equipment:		
Gas gathering systems and equipment	647,027	593,388
Other operating assets	57,671	55,315
Gross other operating property and equipment	704,698	648,703
Less accumulated depreciation	(34,631)	(27,635)
Net other operating property and equipment	670,067	621,068
Other noncurrent assets:		
Goodwill	932,802	932,802
Other intangible assets, net of amortization	86,579	89,342
Debt issuance costs, net of amortization	50,278	45,941
Deferred income taxes	306,622	316,546
Receivables from derivative contracts	36,962	41,721
Assets held for sale		74,448
Other	4,402	6,944
Total assets	$ 8,479,815	$ 7,899,753
Current liabilities:		
Accounts payable and accrued liabilities	$ 1,009,737	$ 787,238
Deferred income taxes	13,637	45,815
Liabilities from derivative contracts	32,202	5,820
Payable to KinderHawk Field Services LLC	99	976
Payable on financing arrangement	7,222	7,052
Long-term debt	14,815	14,790
Total current liabilities	1,077,712	861,691
Long-term debt	2,973,709	2,612,852
Other noncurrent liabilities:		
Liabilities from derivative contracts	36,904	13,575
Asset retirement obligations	34,368	31,741

Payable on financing arrangement	933,641	933,811
Other	563	544
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Common stock: 500,000,000 shares of $.001 par value authorized; 303,748,482 and 302,489,501 shares issued and outstanding at March 31, 2011 and December 31, 2010, respectively	304	302
Additional paid-in capital	4,640,868	4,631,609