

MISSION RESOURCES CORP
Form 425
April 05, 2005

MISSION RESOURCES

Moderator: Bob Cavnar

04-04-05/10:00 am CT

Confirmation #5336855

**Filed by Petrohawk Energy Corporation
Pursuant to Rule 425 under the Securities Act of 1933
and deemed filed pursuant to Rule 14a-12
of the Securities Exchange Act of 1934**

Subject Company: Mission Resources Corporation

Commission File No.: 0-09498

MISSION RESOURCES

Moderator: Bob Cavnar

April 4, 2005

10:00 am CT

Operator:

Good morning. My name is Sabrina and I will be your conference facilitator. At this time, I would like to welcome everyone to the Petrohawk Energy and Mission Resources conference call. All lines have been placed on mute to prevent any background noise. After the speaker's remarks, there will be a question and answer period.

If you would like to ask a question during this time, simply press star, then the number 1 on your telephone keypad. If you would like to withdraw your question, press star, then the number 2 on your telephone keypad. Thank you.

Mr. Floyd Wilson, you may begin your conference.

Edgar Filing: MISSION RESOURCES CORP - Form 425

Floyd Wilson: Thank you.

Operator: You re welcome.

Floyd Wilson:

Good morning and thanks to all of you for joining us today. I'm here with Bob Cavnar and several members of our respective staffs. I'll go ahead and get this out of the way.

This material includes certain statements that may be deemed to be forward-looking statements within the meaning of the private securities litigation reformat, 1995. For a full statement related to this topic, please see our press release dated today, which is posted on both companies' websites.

Today we announce a very exciting event for us here at Petrohawk, the acquisition of Mission resources. We'll get into the terms and detail there. The terms are approximately \$135 million in cash and approximately 19.2 million shares of Petrohawk stock.

It's a 60/40 stock cash deal, and it's a cash election transaction. Both boards have approved the transaction. We expect to close after shareholder votes and subject to customary conditions during the third quarter of this year.

Additional materials have been posted to both companies' websites. I'm really pleased to be able to describe this transaction briefly here in my view of what it does for Petrohawk.

Less than a year ago, we established Petrohawk with our beta oil and gas transaction. Our mission was and is to search for oil and gas properties and drilling opportunities in familiar basins, and then apply our particular discipline and view of company building. And that is acquisition, exploitation, exploration, and rationalization of the asset base, as we build the company for eventual sale or merger.

Well, here it is a year later and over \$1 billion later with this transaction. I believe we've done a pretty good job of getting this company going. The lead slide in the website presentation is the combined property map. It's interesting in that we did not have to change our map.

All of Mr. Cavnar's and Mission's assets were located within the same basin that we already operate in. And, that makes a good fit in a familiar story for us. We stick to familiar places.

And while this transaction will create a new billion dollar E&P company, the real story is embedded in the properties and the two groups of professionals who have worked hard to bring things to the current stage within both companies.

The combined property provides a solid foundation supporting our multi-basin strategy and provides a multi-year drilling opportunity inventory. The drilling opportunities within Mission and how they fit with our own opportunities within Petrohawk are a large part of why we are doing this.

One of the slides on the presentation, which we can get to later if anybody cares to coast through some recent activities, so if I said to say that both companies have had excellent first quarters '05 drill bit programs.

This privately, negotiated trade is very much like our November, 2004 Wynn-Crosby acquisition. We generally look for underdeveloped or undervalued properties. Often times, they have budgetary constraints. We look for divestment opportunities within those properties.

We make sure that the properties fit within our overall strategy of core areas. We look for cost-savings opportunities. And again, most important to everything is the property fit and the upside inventory fit.

This transaction more than doubles our reserves in production. Immediately of creative to cash flow NAV, and reserves in production on a debt adjusted, per share basis. It also offers us a great opportunity to accelerate development of both of the companies' development property opportunities.

This transaction puts two excellent groups of industry successful, industry professionals together. It will increase stockholder liquidity we think. And as always, the combined company will be in the hands of a highly-motivated group of professional company builders. Bob.

Bob Cavnar:

Thank you Floyd. Good morning everyone. I wanted to join Floyd on this call this morning to describe our reasons and our strong support for this transaction that we've agreed to over the last 24 hours.

As those of you who are Mission share holders know, we've come a long way over the last two and a half years, since I joined in August of 2002.

And not to re-hash the history, but just to give you an idea; this time two years ago, our total market cap was somewhere in the \$7 million range and today it's something in the \$340 to \$350 million dollar range, and that has come through a lot of hard work by the staff admission, and with the co-operation of the debt holders, and the bankers, and all the other constituents of Mission Resource.

And, I'm really pleased that we've come to the conclusion that we've come to. The merger or the acquisition of Mission by Petrohawk is the natural next step for Mission resources.

The teams are very good fit. The geography is perfect. The size of the companies is perfect, and those of you who have followed me for a while have heard me say several times that I was looking for a step change transaction, ignoring the cultural social issues, that always happen when one company is bought by another.

We were focused solely on returns of the shareholders and have been focused on that particular metric for this deal. The size of these two companies together opens some opportunities that individually, each of us may not experience, so one plus one could very well equal three in this particular combination.

I'm really pleased that this transaction came together so quickly. I'm very pleased that Floyd and his people have been very sensitive to my people, and indeed have needs in their staff areas that fit some of our people very, very well. And we expect that to be a good combination.

I expect the transition to be smooth. It will build the dependent; of course timing wise on how we move through all the regulatory issues, but I expect the companies could come together rather quickly at this as soon as we can.

I'm very pleased that the shareholder return that we've provided to our share holders, and I've very supportive of Floyd, and his efforts going forward in this strategic plan that he's laid out. Now, I'll turn it back over you Floyd.

- Floyd Wilson: Okay Bob, thanks. So again, the combined company will include about 446 BCFE-approved reserves, about 75% proved developed. The current producing rate of each company is about 125 million equivalents per day. The reserve to production ratio is just under ten years, on a combined basis.
- Both companies use the same engineering firm to do our annual engineering review work. We put some pro forma guidance in the news release. We've made no attempt there to account for host merger activities, such as cost saving; any other source of synergies acquisitions, divestments, etcetera.
- We've just put the two together as a quick view of what they look like. Before, both of our staffs get to work and do what we're always charged due; that's improve conditions at the company.
- I think with that, if I'd be best just to have questions if there are any, and dig into this thing a little bit.
- Operator: At this time, I would like to remind everyone if you would like to ask a question, press start, then number 1 on your telephone keypad. We'll pause for just a moment to compile the Q&A roster.
- The first question comes from Sabosh Sondra, with Morgan Keegan.
- Sabosh Sondra: Hi, good morning and I guess, congratulations to all. Bob, a couple of questions for you, really; first, who will stay from Mission and how many of your staff do you think continue on at Petrohawk?
- Bob Cavnar: Well, good morning Sabosh. Does the transition period that we're going to undergo between now and closing clearly the team that Petrohawk will take to leadership in the upper management, but I think there - they had Floyd

can speak for himself, obviously, but I think they have a number of needs in several of areas.

So, I expect a number of our employees to be offered positions going forward. I don't know if you want to follow up that or not Floyd.

Floyd Wilson: We would hope that a majority of the current Mission staff would consider working with us, here at Petrohawk.

Sabosh Sondra: How about any Bob are you going to continue on in any way on the board, or something like that and what about Jack and the senior staff there?

Bob Cavnar: I will not be on the board and the senior staff of course can make their own choices about which direction they want to go. I think that it exists too early, since signing the deal to give you any indication of what the future plans are.

Sabosh Sondra: Okay, operationally, what update on those lines wells?

Bob Cavnar: On the line s wells, the I think it did you put it in the press release there?

Floyd Wilson: Yea.

Bob Cavnar: The number one wise well, the one that came under several weeks ago is still running about 13 million a day. It's a very, very strong well. The wise number two is it's still drilling. We've encountered a pretty good show around 13-8, but that's still drilling away, and we're not bought to TD on that yet.

And we're completing the (dinert), and should hopefully be (fracking) and bringing that online sometime during this week.

Sabosh Sondra: And this borrowing base bump that you had here recently. Was that based on a revised reserve data?

Bob Cavnar: Yea, that's essentially what it was to Sabosh, and Rick is here, we'll want to get into detail. Essentially it was the re-determination based on the new reserves and they lifted the internal limit on borrowing base for corporate purposes versus acquisition. So, the entire 50 million is available to us.

Sabosh Sondra: Okay, and that was the '04 reserves? Or was there some re-determination after year-end?

Bob Cavnar: It was year-end December 31.

Sabosh Sondra: Okay, thank you very much and great job.

Bob Cavnar: Thanks Sabosh.

Operator: Your next question comes Andrew O'Connor, with Wells Capital.

Andrew O'Connor: Good morning Floyd, good morning Bob.

Bob Cavnar: Good morning.

Andrew O'Connor: I wanted to know if you guys could further characterize that 300 projects that you're envisioning for 2005; new wells, re-completions, and work-overs?

Floyd Wilson: Sure, I'll take a stab and then ask Bob to jump in. We have at Petrohawk, a fully raw capital program for this year and next. This year's program involves

I guess, a 80 to 90 specific operations, some of which are very significant, and some that are just you know, nominally significant.

We're we'll drill about a third of our budget. We'll be on the exploratory side of the equation in about two thirds on the exploitation side. We have a number of capital work-overs scheduled.

But predominantly, our side of the transaction is involving new wells, whether they're PUDs or exploratory in nature.

Andrew O Connor: Okay.

Bob Cavnar: I'll just follow up on my side. The great thing about the particular combination is that our approaches are very similar. My exploration budget is about 28% this year.

Almost all of that Gulf coast on-shore, and the rest of that the rest of the capital, which is a total of about 71 million or so is going to be spread between Permian basin development; some Gulf coast, and off-shore development, and with land and seismic rolled into that.

Andrew O Connor: Okay so Floyd, recently on the fourth quarter conference call for Petrohawk I think you suggested that of the 80 wells to be drilled in '05, maybe 40, or 45 were high impact, or had high impact potentials. I'm just wondering with the combination of Mission; how many new wells to be drilled in '05 with the combined program. And of these, how many would you characterize as high impact?

Floyd Wilson: It's almost a lay-down. Everything that we look at just about doubles our evaluated up-side seems to be about twice. Our number of specific wildcat

wells is about twice. Our number of exploitation wells is just about double. They have a more detailed capital work-over schedule than we do for the year.

We may well be involved in some of those in the courses that we don't know about at this time. It's a eerily similar and it then the two companies make up.

Andrew O Connor: Okay, thanks for that, and lastly, any property divestitures, which are likely to result from Petrohawk acquiring Mission that you could speak to at this point?

Floyd Wilson: Yes, there are several obvious strategies within the combined property set. Petrohawk had here to for identified ten 10, or 15 PCFE that we would have divested this year in any case.

We believe that number will grow to 40 to 50, maybe as high as 60. They involve non-core, or high cost type properties. As you know, the resale market's great. We tend to make sure that we have a very strict eye on our divestment process as we try to build the company and, so I would say this year would include a significant divestment of properties that don't particularly suite our strategy on a go-forward basis.

Andrew O Connor: Okay, and then any suggestion at this point as to where these properties might be located?

Floyd Wilson: There are some in the mid continent. There are some in the Permian. And there are some in the Gulf coast area. There's probably a higher percentage in the Permian in a general context, but Mission has got some great, long live

legacies field with very reasonable operating costs out there and we don't intend to divest those at this time.

Andrew O Connor: Okay, thank you. Good luck guys.

Bob Cavnar: Thanks.

Operator: Your next question comes from Ron Mills, with Johnson Rice.

Ron Mills: Good morning guys.

Floyd Wilson: Hey Ron.

Ron Mills: Congratulations to both teams actually. Question in terms of it looks like what you'll just did is added one and one in terms of putting the presentation together. And as you look at the property base any potential in terms of once you get these under your arms around them, Floyd potential for accelerating in activities on any of Mission's properties, or were you pleased with how aggressive they were planning on exploiting their property base this year?

Floyd Wilson: You know, they've got a great plan in place, however I would point out that the combined cash flows of the company have quite an excess component. And Bob and I have agreed that through the dependency of this activity leading up to closing, that we're going to sit down and look at each other's programs and do what we can to accelerate that thinks pre-closing.

And I fully intend to hit the ground running at closing. We're not going to slow down any drilling whether it's wildcat or development; we'll try to accelerate things.

They've actually got a couple of rig contracts that sits very well within our own designs. We've got several rigs coming just within these next few days, so I think you're going to continue to see what for us at Petrohawk, is a normal very high level of activity and I believe Bob's crew will be doing the same thing. And as I said, we'll work together to make sure that the transition period is almost no transition; just a steady state progression into the combined plan.

Ron Mills: Okay, and I know they'd really just kicked off the exploratory nature along the Gulf coast. Relative to your current properties, especially on the Gulf coast, where are those properties located; and even if it's from your past days with the old Treetech properties as well?

Floyd Wilson: Honestly, couple their great fields are up the highways from a couple of our great fields, here at Petrohawk. South Texas is a big piece of course, of the exploratory upside on a combined basis for both companies.

And in South Louisiana, Treetech or Petrohawk has got quite a few activities planned for the year. Some noble successes are already been achieved during the year. So it's again, it's a strange similarity that both companies are gravitated in the same area as we use the same technology.

We would love to retain all of their technical people. They do the exactly the same kind of work that we do and appreciate. And, I think that they feel the same about us.

Ron Mills: Okay, and then maybe seeing for you from a capitalization standpoint. Once you've come out with a issues that 19.2 million shares and assumed \$170 million of debt and also your cash payment. Where does that put you from a

capitalization standpoint and also from your existing revolver, which I'm assuming you'll your borrowing base will be increased for these properties in terms of financial liquidity.

Floyd Wilson: Right, roughly in round numbers Ron, we'll be in the 50% debt to cap and closing. That's excluding the 35 million subordinated know that in that percentage I think it's 53 or so with it in there. Yes, the senior facility; that borrowing base will be increased with the combined route.

I think you know it's too early to pinpoint a number that's somewhere 230 to 240 might be a range of a borrowing base for the combined company, given the composition of the debt beyond the senior facility.

So, if that's address from your question.

Ron Mills: And, I'm just trying to get to and I think you had, what was it, 125 or 30 million outstanding on your existing base.

Floyd Wilson: Yea, we had 128 out and I think that at closing we're in the 40 to 50 million of liquidity under the senior facility.

Ron Mills: Okay.

Floyd Wilson: And the composition Ron, is a little bit to be determined as to where the brakes go between the senior and the other pieces of debt that will be put in place for the financing, but that's how we've viewed it at this point.

Ron Mills: Okay, and then will it if I or is there another piece of the financing leg that I'm missing here in terms of the extra \$135 million in cash?

- Floyd Wilson: Well, if you're not including or haven't seen the financing plan would have a 125 or thereabout 125 million of new issue of high yield.
- Ron Mills: Okay and then finally, one more and then I'll let someone else jump on. Either Bob or Floyd, how did this deal come about? Is - do you just provide us a little background on how we came to be on this call today?
- Floyd Wilson: Yea, I'll give you my view. My view is that we look for transactions that are not currently in an auction process. And, we feel like we can operate better and do our evaluative work more cleanly and accurately in that process. Patriot Parkman introduced Bob and I here less than a month ago. And we both agreed that everyone would roll up their sleeves and dig into this deal very fast.
- Good news; we both used the same engineering firms, as I mentioned earlier they employ the same type of technologies and we had already noted some of their - the rumors of some of the success they've had in South Texas. And we're really chomping it to bit to dig into that and see how we liked it.
- So, it came to a very - together very quickly. It was again, a privately negotiated transaction and it's been a great process so far.
- Bob Cavnar: Yea, I guess I'll just add that I think Ron you know, that we were on the deal trail pretty hard during the first quarter trying to get some acquisitions done and working almost full time with the Patriot Parkman guys and they had - they apparently had this thought and some discussion with Floyd and then brought the idea to me, who (unintelligible) would like to meet with Floyd.
- And as I look at the map, you could take Floyd's map and lay my map on top of it and you really couldn't tell any difference. And I thought this might

make sense. I met with Floyd as I he said a little less than a month ago and our stalls are very similar; i