

PETROHAWK ENERGY CORP  
Form DEF 14A  
June 04, 2007  
Table of Contents

---

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

---

**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a)**  
**of the Securities Exchange Act of 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e) (2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

**Petrohawk Energy Corporation**

(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

---

Edgar Filing: PETROHAWK ENERGY CORP - Form DEF 14A

(2) Aggregate number of securities to which transaction applies:

---

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

---

(4) Proposed maximum aggregate value of transaction:

---

(5) Total fee paid:

---

.. Fee paid previously with preliminary materials.

.. Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount Previously Paid:

---

(2) Form, Schedule or Registration Statement No.:

---

(3) Filing Party:

---

(4) Date Filed:

---

**Table of Contents**

**Petrohawk Energy Corporation**

**1000 Louisiana, Suite 5600**

**Houston, Texas 77002**

**Telephone (832) 204-2700**

**Annual meeting of stockholders**

**to be held on July 18, 2007**

June 4, 2007

Dear stockholder:

You are cordially invited to attend Petrohawk Energy Corporation's 2007 annual meeting of stockholders on Wednesday, July 18, 2007, at 10:00 a.m., Central Daylight Time, at our corporate headquarters at 1000 Louisiana, Suite 5600, Houston, Texas 77002.

The enclosed notice of annual meeting and the proxy statement describe the various matters to be acted upon during the meeting. In addition, there will be a report on the state of Petrohawk's business and an opportunity for you to ask questions of Petrohawk's management.

You may vote your shares by submitting a proxy by Internet, by telephone, or by completing, signing, dating and returning the enclosed proxy card or by voting your shares in person at the meeting. The proxy card describes your voting options in more detail. If you need assistance, please contact Joan Dunlap, Vice President, Investor Relations, at (832) 204-2700. Our annual report to the stockholders including our annual report on Form 10-K, as amended, for the fiscal year ended December 31, 2006 also accompanies the proxy statement.

The annual meeting gives us an opportunity to review Petrohawk's results and discuss the steps Petrohawk has taken to position itself for the future. We appreciate your ownership of Petrohawk common stock, and I hope you will be able to join us at the annual meeting.

Sincerely,

Floyd C. Wilson

*Chairman of the Board of Directors,*

*President and Chief Executive Officer*

**Table of Contents**

**Petrohawk Energy Corporation**

**1000 Louisiana, Suite 5600**

**Houston, Texas 77002**

**Telephone (832) 204-2700**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**TO BE HELD ON JULY 18, 2007**

Notice is hereby given that the annual meeting of stockholders of Petrohawk Energy Corporation will be held on Wednesday, July 18, 2007 at 10:00 a.m., Central Daylight Time, at our corporate headquarters at 1000 Louisiana, Suite 5600, Houston, Texas 77002 for the following purposes:

1. To elect three directors to our board of directors to serve as Class III directors in accordance with our bylaws;
2. To ratify and approve an amendment to our 2004 Employee Incentive Plan, or the 2004 Petrohawk Plan, to increase the number of shares of Petrohawk common stock that may be issued under the 2004 Petrohawk Plan from 7.05 million shares to 12.55 million shares;
3. To ratify the appointment of Deloitte & Touche LLP, an independent registered public accounting firm, as our independent auditors for the fiscal year ending December 31, 2007; and
4. To transact such other business as may properly come before the annual meeting or any adjournment thereof.

The board of directors has fixed the close of business on May 21, 2007, as the record date for determining the stockholders of Petrohawk entitled to notice of, and to vote at, the annual meeting and any adjournment or postponement thereof. Only stockholders of record at the close of business on the record date are entitled to notice of, and to vote at, the meeting. A complete list of the stockholders will be available for examination at the offices of Petrohawk in Houston, Texas during ordinary business hours for a period of ten (10) days prior to the meeting.

**All stockholders are cordially invited to attend the meeting. Whether or not you expect to attend the annual meeting in person, please submit a proxy as soon as possible. In order to submit a proxy, please call the toll-free number listed on the enclosed proxy card, use the Internet as described on the enclosed proxy card, or complete, date and sign the enclosed proxy card and return it in the enclosed envelope, which requires no additional postage if mailed in the United States. If you attend the meeting, and if you so choose, you may withdraw your proxy and vote in person.** If your shares are held in street name by your broker or other nominee, only that holder can vote your shares and the vote cannot be cast unless you provide your instructions to your broker. You should follow the directions provided by your broker regarding how to instruct your broker to vote your shares. Please review the proxy statement accompanying this notice for more complete information regarding the matters to be voted on at the meeting. You may revoke your proxy at any time before it is voted.

By order of the Board of Directors of

Petrohawk Energy Corporation:

Floyd C. Wilson

*Chairman of the Board of Directors,*

*President and Chief Executive Officer*

June 4, 2007

**Table of Contents**

**TABLE OF CONTENTS**

<b><u>GENERAL INFORMATION</u></b>	1
<i><u>Voting and Revocation of Proxies</u></i>	1
<b><u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS</u></b>	4
<b><u>OUR BOARD OF DIRECTORS AND ITS COMMITTEES</u></b>	7
<i><u>The Board of Directors</u></i>	7
<i><u>Committees of the Board</u></i>	9
<i><u>Board of Directors; Corporate Governance Matters</u></i>	11
<b><u>CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS</u></b>	15
<b><u>RELATED PARTY TRANSACTION REVIEW POLICIES AND PROCEDURES</u></b>	15
<b><u>SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE</u></b>	15
<b><u>MANAGEMENT</u></b>	16
<b><u>SECURITY OWNERSHIP OF EXECUTIVE OFFICERS AND DIRECTORS</u></b>	19
<b><u>EXECUTIVE COMPENSATION</u></b>	22
<i><u>Compensation Discussion and Analysis</u></i>	22
<i><u>Summary Compensation Table for 2006</u></i>	36
<i><u>Grants of Plan-Based Awards in 2006</u></i>	37
<i><u>Outstanding Equity Awards at December 31, 2006</u></i>	38
<i><u>Compensation Adjustments and Long-Term Incentive Awards Subsequent to Fiscal Year End</u></i>	39
<i><u>Option Exercises and Stock Vested</u></i>	39
<i><u>Equity Compensation Plan Information</u></i>	39
<b><u>DIRECTOR COMPENSATION</u></b>	41
<i><u>2006 Director Compensation</u></i>	41
<i><u>Discussion of Director Compensation Table</u></i>	41
<b><u>COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION</u></b>	42
<b><u>COMPENSATION COMMITTEE REPORT</u></b>	43
<b><u>ACCOUNTANTS AND AUDIT COMMITTEE</u></b>	44
<i><u>Audit Committee Report</u></i>	44
<i><u>Independent Registered Public Accounting Firm</u></i>	45
<i><u>Attendance of the Annual Meeting by Deloitte Representative</u></i>	45
<i><u>Fees</u></i>	45
<i><u>Audit Committee Pre-Approval Policy</u></i>	46
<b><u>PROPOSALS FOR CONSIDERATION AT THE ANNUAL MEETING OF STOCKHOLDERS</u></b>	47
<b><u>PROPOSAL 1 ELECTION OF DIRECTORS</u></b>	47
<b><u>PROPOSAL 2 AMENDMENT TO THE PETROHAWK ENERGY CORPORATION THIRD AMENDED AND RESTATED 2004</u></b>	
<b><u>EMPLOYEE INCENTIVE PLAN</u></b>	48
<i><u>General</u></i>	48
<i><u>Material Terms</u></i>	49
<i><u>U.S. Federal Income Tax Consequences</u></i>	51
<i><u>Text of the Amendment</u></i>	53
<b><u>PROPOSAL 3 RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITOR</u></b>	54
<b><u>SUBMISSION OF STOCKHOLDER PROPOSALS FOR OUR 2008 ANNUAL MEETING OF STOCKHOLDERS</u></b>	55
<b><u>OTHER MATTERS</u></b>	55

**Table of Contents**

**Petrohawk Energy Corporation**

**1000 Louisiana, Suite 5600**

**Houston, Texas 77002**

**Telephone (832) 204-2700**

**PROXY STATEMENT**

**FOR ANNUAL MEETING OF STOCKHOLDERS**

**TO BE HELD ON JULY 18, 2007**

**GENERAL INFORMATION**

These proxy materials are furnished to you in connection with the solicitation of proxies by the board of directors of Petrohawk Energy Corporation, a Delaware corporation (referred to in this proxy statement as Petrohawk, the Company, we, us, or our) for the annual meeting of our stockholders to be held on Wednesday, July 18, 2007, at 10:00 a.m., Central Daylight Time, at our corporate headquarters at 1000 Louisiana, Suite 5600, Houston, Texas 77002. The proxies also may be voted at any adjournments or postponements of the annual meeting.

This proxy statement, together with our annual report to the stockholders including our annual report on Form 10-K, as amended, for the year ended December 31, 2006, are being mailed on or about June 15, 2007 to holders of record of our common stock as of May 21, 2007. The specific proposals to be considered and voted upon at the annual meeting are summarized in the notice of annual meeting of stockholders. Each proposal is described in more detail in this proxy statement.

***Voting and Revocation of Proxies***

If you provide specific voting instructions, your shares will be voted as you instruct. Whether you hold shares directly as a stockholder of record, or beneficially in street name, you may direct how your shares are voted at the annual meeting. If you are a stockholder of record, you may vote by submitting a proxy or by voting in person at the annual meeting, and if you hold your shares in street name, you may vote by submitting voting instructions to your broker or trustee or nominee. You may cast your vote by proxy as follows:

By Internet you may vote using the Internet and voting at the website listed on the enclosed proxy/voting instruction card, or the proxy card ;

By telephone you may vote by using the toll-free telephone number listed on the enclosed proxy card; or

By mailing the proxy card you may vote by completing, signing, dating and mailing the enclosed proxy card in the enclosed pre-addressed postage-paid envelope.

If you hold your shares in street name, please refer to the proxy card forwarded by your bank, broker, or other nominee to see which voting options are available to you and directions on how to vote. If you vote by Internet or by telephone, you need not return your proxy card.

If you sign the proxy card of your broker, trustee or other nominee but do not provide instructions, your shares will not be voted unless your broker, trustee or other nominee has discretionary authority to vote. When a broker, trustee, or other nominee holding shares for a beneficial owner does not vote on a particular proposal





## Table of Contents

because the broker does not have authority to vote in the absence of timely instructions from the beneficial owner, this is referred to as a broker non-vote. The New York Stock Exchange, or the NYSE, permits brokers to have discretionary authority to vote the shares of a beneficial owner in both the election of our directors and the ratification of Deloitte & Touche LLP ( Deloitte ) as our independent registered public accountants.

Unless you otherwise direct in your proxy, the individuals named in the proxy card will vote the shares represented by such proxy FOR the board nominees named herein (Proposal 1) and FOR Proposals 2 and 3.

The board of directors does not know of any business to be brought before the annual meeting other than as indicated in the notice of annual meeting of stockholders. If other matters do come before the meeting, the persons named in the proxy card will vote the shares represented by the proxy in his or her best judgment.

**Revocation of Proxy.** A proxy may be revoked by a stockholder at any time prior to it being voted by:

delivering a revised proxy (by one of the methods described above) bearing a later date;

voting in person at the annual meeting; or

notifying our Secretary in writing of the revocation at our address set forth above in time to be received before the annual meeting. Attendance at the meeting alone will not effectively revoke a previously executed and delivered proxy. If a proxy is properly executed and is not revoked by the stockholder, the shares it represents will be voted at the meeting in accordance with the instructions from the stockholder. If the proxy card is signed and returned without specifying choices, the shares will be voted in accordance with the recommendations of our board of directors.

If your shares are held in an account at a broker or other nominee, you should contact your broker or other nominee to change your vote.

**Record Date and Vote Required for Approval.** The record date with respect to this solicitation is May 21, 2007. All holders of record of our common stock as of the close of business on May 21, 2007 are entitled to vote at the annual meeting and any adjournment or postponement thereof. As of May 21, 2007, we had 169,603,719 shares of common stock outstanding. Each share of common stock is entitled to one vote. Our stockholders do not have cumulative voting rights. In accordance with our bylaws, the holders of a majority of the outstanding shares of our common stock entitled to vote, represented in person or by proxy, shall constitute a quorum at the annual meeting. If a quorum is not present at the annual meeting, a vote for adjournment will be taken among the stockholders present or represented by proxy. If a majority of the stockholders present or represented by proxy vote for adjournment, it is our intention to adjourn the meeting until a later date and to vote proxies received at such adjourned meeting. The place and date to which the annual meeting would be adjourned would be announced at the meeting, but would in no event be expected to be more than 30 days after the date of the annual meeting.

Assuming that a quorum is present, the affirmative vote of a plurality of the votes cast is required for the election of directors at the annual meeting. This means that the director nominee with the most affirmative votes for a particular slot is elected for that slot. Any shares not voted (whether by withholding the vote, broker non-vote or otherwise) have no impact in the election of directors, except to the extent that the failure to vote for an individual results in another candidate receiving a larger number of votes in person and represented by proxy at the annual meeting.

Our bylaws provide that, on all other matters, except to the extent otherwise required by our certificate of incorporation, our bylaws or applicable law, the affirmative vote of a majority of the shares of common stock present in person or represented by proxy at the meeting and voting on the matter is required for approval.

## Table of Contents

Therefore, the ratification and approval of the amendment to our 2004 Employee Incentive Plan, referred to as the 2004 Petrohawk Plan in this proxy statement, and the ratification of the appointment of Deloitte as our independent auditor, each requires the affirmative vote of a majority of the shares of common stock present in person or represented by proxy at the meeting and voting on the matter. Accordingly, assuming there is a quorum present and that the total votes cast at the annual meeting or our stockholders represent more than 50% of all our common stock entitled to vote at the meeting, the failure of a Petrohawk stockholder to vote will have no effect in determining whether these proposals are approved.

If you hold shares beneficially in street name and do not provide your broker with voting instructions, your shares may constitute broker non-votes. Generally, broker non-votes occur on a matter when a broker is not permitted to vote on that matter without instructions from the beneficial owner and instructions are not given. Brokers that have not received voting instructions from their clients cannot vote on their clients' behalf on non-routine proposals, such as the approval of the amendment to the 2004 Petrohawk Plan, although they may vote their clients' shares on the election of directors and the ratification of the appointment of Deloitte as our independent auditor. In tabulating the voting result for any particular proposal, shares that constitute broker non-votes are not considered voting on that proposal. Thus, broker non-votes will not affect the outcome of any matter being voted on at the meeting, assuming that a quorum is obtained. Abstentions are counted as shares present at the meeting for purposes of determining the presence of a quorum and with respect to any matters being voted upon at the meeting. Accordingly, abstentions will have no effect on the outcome of the election of directors but with respect to any other proposal, will operate to prevent the approval of such proposal to the same extent as a vote against such proposal. Proxies received but marked as abstentions and broker non-votes will be counted for quorum purposes.

**Proxy Solicitation.** We will bear all costs relating to the solicitation of proxies. We retained Georgeson Inc. to aid in the solicitation of proxies, at an estimated cost of \$7,500 plus reimbursement of out-of-pocket expenses, custodial charges in connection with payment by Georgeson of charges of brokers and banks on our behalf, and additional charges which may be incurred in connection with the solicitation of proxies by telephone. Proxies may also be solicited by officers, directors and employees personally, by mail, or by telephone, facsimile transmission or other electronic means. On request, we will pay brokers and other persons holding shares of stock in their names or in those of their nominees, which in each case are beneficially owned by others, for their reasonable expenses in sending soliciting material to, and seeking instructions from, their principals.

**Submission of Stockholder Proposals.** The deadline for submitting stockholder proposals for inclusion in our 2008 proxy statement and form of proxy for our annual meeting in 2008 is February 4, 2008. See Submission of Stockholder Proposals for Our 2008 Annual Meeting of Stockholders starting on page 55 below for additional information.

**We will provide to any stockholder, without charge and upon the written request of the stockholder, a copy (without exhibits, unless otherwise requested) of our annual report on Form 10-K, as amended, as filed with the United States Securities and Exchange Commission (the SEC) for our fiscal year ended December 31, 2006. Any such request should be directed to Joan Dunlap, Vice President, Investor Relations at 1000 Louisiana, Suite 5600, Houston, Texas 77002, telephone number: (832) 204-2700. The annual report to the stockholders enclosed herein including the annual report on Form 10-K, as amended, for our fiscal year ended December 31, 2006 is not part of the proxy solicitation materials.**

**Table of Contents****SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS**

The following sets forth beneficial ownership of our common stock by beneficial owners of more than five percent of our common stock as of December 31, 2006, based solely upon statements they have filed with the SEC pursuant to Sections 13(g) or 13(d) of the Securities Exchange Act of 1934, as amended (the "1934 Act"). Unless otherwise indicated, the named person below has the sole voting and dispositive powers with respect to the shares of our common stock set forth opposite such person's name.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
FMR Corp.  82 Devonshire  Boston, Massachusetts 02109	16,844,441 <sup>1</sup>	10%
Fidelity Management & Research Company  82 Devonshire  Boston, Massachusetts 02109	15,834,791 <sup>2</sup> (part of the 16,844,441 shares disclosed with respect to FMR Corp. above)	9.401%

<sup>1</sup> According to Schedule 13G filed by FMR Corp. with the SEC on February 14, 2007, FMR Corp. has the sole power to vote or direct the vote with respect to 1,010,190 shares of Petrohawk common stock, and the sole power to direct the disposition of 16,844,441 shares of Petrohawk common stock. Various persons (other than FMR Corp.) have the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of the 16,844,441 shares of Petrohawk common stock beneficially owned by FMR Corp. No one such person's interest in Petrohawk common stock is more than five percent of the total number of Petrohawk common stock outstanding. Also see footnotes 2 and 3.

<sup>2</sup> According to Schedule 13G filed by FMR Corp. with the SEC on February 14, 2007, Fidelity Management & Research Company (Fidelity), a wholly-owned subsidiary of FMR Corp. and an investment adviser registered under Section 203 of the Investment Advisers Act of 1940, is the beneficial owner of 15,834,791 shares of Petrohawk common stock outstanding as a result of acting as investment adviser to various investment companies registered under Section 8 of the Investment Company Act of 1940 (the "funds"). The funds have the sole power to dispose of the 15,834,791 shares owned by them. Also see footnotes 1 and 3.

**Table of Contents**

Name and Address of		Percent
<b>Beneficial Owner</b>	<b>Amount and Nature of Beneficial Ownership</b>	<b>of Class</b>
Edward C. Johnson 3d	15,834,791 <sup>3</sup> (part of the 16,844,441 shares disclosed with respect to FMR Corp. and the same	9.401%
82 Devonshire	15,834,791 shares disclosed with respect to Fidelity Management & Research Company	
Boston, Massachusetts 02109	above)	

<sup>3</sup> According to Schedule 13G filed by FMR Corp. with the SEC on February 14, 2007, Edward C. Johnson 3d and FMR Corp., through its control of Fidelity, and the funds to which Fidelity acts as investment advisor, each has sole power to dispose of the 15,834,791 shares owned by these funds. Members of the family of Edward C. Johnson 3d, Chairman of FMR Corp., are the predominant owners, directly or through trusts, of Series B shares of common stock of FMR Corp., representing 49% of the voting power of FMR Corp. The Johnson family group and all other Series B shareholders have entered into a shareholders' voting agreement under which all Series B shares will be voted in accordance with the majority vote of Series B shares. Accordingly, through their ownership of voting common stock and the execution of the shareholders' voting agreement, members of the Johnson family may be deemed, under the Investment Company Act of 1940, to form a controlling group with respect to FMR Corp. Schedule 13G filed by FMR Corp. with the SEC on February 14, 2007 indicates that neither FMR Corp. nor Edward C. Johnson 3d has the sole power to vote or direct the voting of the shares owned directly by the Fidelity funds, which power resides with the funds' Boards of Trustees. Fidelity carries out the voting of the shares under written guidelines established by the funds' Boards of Trustees. Pyramis Global Advisors Trust Company ( PGATC ), an indirect wholly-owned subsidiary of FMR Corp. and a bank as defined in Section 3(a)(6) of the 1934 Act, is the beneficial owner of 392,700 shares or 0.233% of the outstanding common stock of Petrohawk as a result of its serving as investment manager of institutional accounts owning such shares. Edward C. Johnson 3d and FMR Corp., through its control of Pyramis Global Advisors Trust Company, each has sole dispositive power over 392,700 shares and sole power to vote or to direct the voting of 392,700 shares of common stock owned by the institutional accounts managed by PGATC as stated above. Fidelity International Limited ("FIL") and various foreign-based subsidiaries provide investment advisory and management services to a number of non-U.S. investment companies and certain institutional investors. FIL, which is a qualified institution under Section 240.13d-1(b)(1) pursuant to an SEC No-Action letter dated October 5, 2000, is the beneficial owner of 616,950 shares or 0.366% of the Petrohawk common stock outstanding. Partnerships controlled predominantly by members of the family of Edward C. Johnson 3d, Chairman of FMR Corp. and FIL, or trusts for their benefit, own shares of FIL voting stock with the right to cast approximately 47% of the total votes which may be cast by all holders of FIL voting stock. FMR Corp. and FIL are separate and independent corporate entities, and their Boards of Directors are generally composed of different individuals. FMR Corp. and FIL are of the view that they are not acting as a group for purposes of Section 13(d) under the 1934 Act and that they are not otherwise required to attribute to each other the beneficial ownership of securities beneficially owned by the other corporation within the meaning of Rule 13d-3 promulgated under the 1934 Act. Therefore, they are of the view that the shares held by the other corporation need not be aggregated for purposes of Section 13(d). However, FMR Corp. has made the Schedule 13G filing on a voluntary basis as if all of the shares are beneficially owned by FMR Corp. and FIL on a joint basis. Also see footnotes 1 and 2.

**Table of Contents**

Name and Address of	Amount and Nature of Beneficial Ownership	Percent of Class
Beneficial Owner Paul Tudor Jones II	8,663,351 <sup>4</sup>	5.1%
c/o Tudor Investment Corporation		
1275 King Street		
Greenwich, CT 06381		
James J. Pallota	8,663,351 <sup>5</sup> (comprising the same 8,663,351 shares disclosed with respect to Paul Tudor Jones II above)	5.1%
c/o Tudor Investment Corporation		
50 Rowes Wharf, 6 <sup>th</sup> Floor		
Boston, Massachusetts 02110		

<sup>4</sup> In Schedule 13G filed with the SEC as of January 30, 2007 by the persons and entities identified in this footnote, it is disclosed that Mr. Jones has shared voting power and shared dispositive power with respect to 8,663,351 shares of Petrohawk common stock. Tudor Investment Corporation ( TIC ), with principal business office of 1275 King Street, Greenwich, Connecticut, 06831, owns and has shared voting power and shared dispositive power over 5,593,804 shares of Petrohawk common stock, which represents 3.3% percent of the class of Petrohawk common stock outstanding; Tudor Proprietary Trading, L.L.C. ( TPT ), with principal business office of 1275 King Street, Greenwich, Connecticut, 06831, owns and has shared voting power and shared dispositive power over 3,069,547 shares of Petrohawk common stock, which represents 1.8% of the class of Petrohawk common stock outstanding; The Tudor BVI Global Portfolio Ltd. ( BVI Portfolio ), with principal business office of c/o CITCO, Kaya Flamboyan, 9 P.O. Box 4774 Curacao, Netherlands Antilles, owns and has shared voting power and shared dispositive power over 1,900,657 shares of Petrohawk common stock, which represents 1.1% of the class of Petrohawk common stock outstanding; The Raptor Global Portfolio Ltd. ( Raptor Portfolio ), with principal business office of c/o CITCO, Kaya Flamboyan, 9 P.O. Box 4774 Curacao, Netherlands Antilles, owns and has shared voting power and shared dispositive power over 3,661,992 shares of Petrohawk common stock, which represents 2.2% of the class of Petrohawk common stock outstanding; and The Altar Rock Fund L.P. ( Altar Rock ) owns and has shared voting power and shared dispositive power over 31,155 shares of Petrohawk common stock, which represents 0.02% of the class of Petrohawk common stock outstanding. The shares of common stock reported in Schedule 13G as beneficially owned are owned directly by TPT (3,069,547 shares), BVI Portfolio (1,900,657 shares), Raptor Portfolio (3,661,992 shares), and Altar Rock (31,155 shares). Because Mr. Jones is the controlling shareholder of TIC and the indirect controlling equity holder of TPT, Mr. Jones may be deemed to beneficially own the shares of Petrohawk common stock deemed beneficially owned by TIC and TPT. In addition, because TIC provides investment advisory services to BVI Portfolio, Raptor Portfolio, and is the general partner of Altar Rock, TIC may be deemed to beneficially own the shares of Petrohawk common stock owned by each such person. Because Mr. Pallotta is the portfolio manager of TIC and TPT responsible for investment decisions with respect to the shares of Petrohawk common stock owned by such persons, Mr. Pallotta may be deemed to beneficially own the shares of Petrohawk common stock deemed beneficially owned by TIC and TPT.

<sup>5</sup> See footnote 4. In Schedule 13G filed by the persons and entities identified in footnote 4, it is disclosed that Mr. Pallotta has shared voting power and shared dispositive power with respect to 8,663,351 shares of Petrohawk common stock.

**Table of Contents****OUR BOARD OF DIRECTORS AND ITS COMMITTEES***The Board of Directors*

Our business and affairs are managed under the direction of our board of directors. Our bylaws specify that we shall not have less than one nor more than eleven directors. Our board currently has nine (9) members. Under our bylaws, each director holds office until the annual stockholders meeting at which such director's class is up for re-election and until the director's successor is duly elected and qualified, or until such director's earlier death, resignation or removal. Our certificate of incorporation provides that our board of directors is classified into three classes: Class I, Class II and Class III, each class being a three year term of office. As discussed more fully below under Proposal I Election of Directors, three of our current directors, Thomas R. Fuller, Robert G. Raynolds and Christopher A. Viggiano have been nominated for reelection at our 2007 annual meeting because of the expiration of the term of their class, Class III, on our classified board of directors.

The following table sets forth the names and ages of all directors, the positions and offices with us held by such persons, the terms of their office and the length of their continuous service as a director:

<b>Name</b>	<b>Director Since</b>	<b>Age</b>	<b>Position</b>	<b>Expiration of Term</b>
Floyd C. Wilson	May 2004	60	Chairman of the Board, President and Chief Executive Officer	2008
James W. Christmas	July 2006	59	Vice Chairman of the Board	2009
Tucker S. Bridwell	May 2004	55	Director	2008
Thomas R. Fuller	March 2006	59	Director	2007
James L. Irish III	May 2004	62	Director	2009
Gary A. Merriman	July 2006	52	Director	2008
Robert G. Raynolds	July 2006	55	Director	2007
Robert C. Stone, Jr.	September 2000	58	Director	2009
Christopher A. Viggiano	July 2006	53	Director	2007

**Floyd C. Wilson** has served as Chairman of the Board, President and Chief Executive Officer since May 25, 2004. Prior to joining us, Mr. Wilson was President of PHAWK, LLC from its formation in June 2003 until May 2004. Mr. Wilson was the Chairman and Chief Executive Officer of 3TEC Energy Corporation from August 1999 until its merger with Plains Exploration & Production Company in June 2003. Mr. Wilson founded W/E Energy Company L.L.C., formerly known as 3TEC Energy Company L.L.C. in 1998 and served as its President until August 1999. Prior to his involvement with 3TEC, Mr. Wilson founded Hugoton Energy Corporation in 1987, and served as its Chairman, President and Chief Executive Officer. In 1994, Hugoton completed an initial public offering and was merged into Chesapeake Energy Corporation in 1998. Mr. Wilson began his career in the energy business in Houston, Texas in 1970 as a completion engineer. He moved to Wichita, Kansas in 1976 to start an oil and gas operating company, one of several private energy ventures which preceded the formation of Hugoton Energy Corporation.

**James W. Christmas** became the Vice Chairman of the Board on July 12, 2006 in conjunction with our merger with KCS Energy, Inc. ( KCS ). Mr. Christmas served as Chairman of the Board and Chief Executive Officer of KCS from April 2003 until the merger and as a director of KCS since 1988. From 1988 until April 2003, Mr. Christmas served as President and Chief Executive Officer of KCS.

**Tucker S. Bridwell** has served as a director since May 25, 2004. Mr. Bridwell has been the President of Mansefeldt Investment Corporation and the Dian Graves Owen Foundation since September 1997 and manages investments in both entities. He has been in the energy business in various capacities for over 25 years. Mr. Bridwell served as chairman of First Permian, LLC from 2000 until its sale to Energen Corporation in April 2002. He is a certified public accountant and holds B.B.A. and M.B.A. degrees from Southern Methodist University. Mr. Bridwell is also a director of First Financial Bankshares, Inc. and Concho Resources, Inc.

## **Table of Contents**

**Thomas R. Fuller** has served as a director since March 6, 2006. Mr. Fuller is a principal with Diverse Energy Management Co., a private upstream acquisition, drilling and production company which also invests in other energy-related companies. He has been a principal with the Diverse group of companies since December 1988. Mr. Fuller has over 30 years of experience in the energy and financing industries and is a Registered Professional Engineer in Texas. Mr. Fuller received degrees from the University of Wyoming and the Louisiana State University School of Banking of the South.

**James L. Irish III** has served as a director since May 25, 2004. Mr. Irish served as a director of 3TEC Energy Corporation from 2002 until June 2003. Mr. Irish is currently senior counsel with Thompson & Knight LLP, a Texas based law firm. Mr. Irish has been an attorney with Thompson & Knight LLP serving in various capacities, including Managing Partner, since 1969. His practice has primarily included the representation of insurance companies, pension plan managers, foundations, banks and other financial institutions and managers with respect to their equity and debt oil and gas investments. Mr. Irish has also represented energy companies in connection with project financings, joint ventures, public offerings and similar matters.

**Gary A. Merriman** became a director on July 12, 2006 in conjunction with our merger with KCS. Mr. Merriman served as a director of KCS since April 2005. Mr. Merriman retired from Conoco Inc. in 2002, where he had been employed since 1976. While at Conoco, Mr. Merriman held a number of positions including, from 1999 to 2002, President of Exploration and Production for Conoco in the Americas. Prior to that, he was General Manager for Conoco's Refining and Marketing Rocky Mountain Region from 1997 to 1999, President of Conoco Indonesia from 1995 to 1997 and General Manager of North Sea Operations for Conoco UK Limited from 1992 to 1995. Mr. Merriman has over 27 years of international and domestic experience in all aspects of the oil and gas business.

**Robert G. Reynolds** became a director on July 12, 2006 in conjunction with our merger with KCS. Mr. Reynolds served as a director of KCS since 1995 and was the lead outside director of KCS since 2003. He has been an independent consulting geologist for several major and independent oil and gas companies since 1992 and was a geologist with Amoco Production Company from 1983 until 1992.

**Robert C. Stone, Jr.** has served as a director since September 2000. Currently, Mr. Stone serves as Senior Vice President/Manager of Energy Lending at Whitney National Bank in New Orleans, Louisiana and has been employed there since 2000. Prior to this position, Mr. Stone was Manager of Energy Technical Services, Energy/Maritime Division at Hibernia National Bank from 1998 to 2000 that included evaluation responsibilities for all syndicated and direct lending E&P segment clients. Mr. Stone has held senior management positions in energy banking for over 20 years, with emphasis on small-cap, public and private producers. His experience includes underwriting and managing senior debt, mezzanine and private equity to the independent sector. He began his banking career as an engineer with First National Bank of Commerce in New Orleans in 1983 after working in various engineering positions with Exxon Company, U.S.A. for seven years. He was also a Founding Governor of the City Energy Club of New Orleans and is involved with many civic organizations in New Orleans where he still resides. Mr. Stone holds both a B.S. and M.S. in Engineering from the University of Houston.

**Christopher A. Viggiano** became a director on July 12, 2006 in conjunction with our merger with KCS. Mr. Viggiano served as a director of KCS since 1988. He has been President, Chairman of the Board and majority owner of O Bryan Glass Corp., Queens, New York since December 1991. He is a Certified Public Accountant.

---

**Table of Contents**

*Committees of the Board*

Our board has four standing committees: audit, compensation, nominating and corporate governance, and reserves. Actions taken by our committees are reported to the full board. Each committee conducts an annual evaluation of its duties, except that our reserves committee is not required to conduct an annual evaluation of its duties under its charter, and each committee is expected to conduct a review of its charter, except that our nominating and corporate governance committee is not required to conduct a review of its charter under the nominating and corporate governance committee charter. Furthermore, each committee has authority to retain, set the compensation for, and terminate consultants, outside counsel and other advisers as that committee determines to be appropriate.

**Audit Committee.** The members of our audit committee are: James L. Irish III, Tucker S. Bridwell, Robert C. Stone, Jr., and Christopher A. Viggiano, with Mr. Irish serving as the chairman. Prior to our July 12, 2006 merger with KCS, our audit committee was comprised of Messrs. Irish, Bridwell and Stone, with Mr. Irish serving as the chairman. The audit committee met on four occasions during 2006. Our board has determined that all members of our audit committee are financially literate within the meaning of SEC rules, under the current listing standards of the New York Stock Exchange, or NYSE, and in accordance with our audit committee charter. Our board has also determined that all members of the audit committee are independent, within the meaning of SEC and NYSE regulations for independence for audit committee members, under our corporate governance guidelines, and in accordance with our audit committee charter, and that Mr. Stone qualifies as an audit committee financial expert under the NYSE rules and Item 407(d)(5) of Regulation S-K, and in accordance with our audit committee charter. In addition, prior to our listing with the NYSE on March 13, 2007, each member of our audit committee who served in fiscal year 2006 met the independence standards required for audit committee members under the NASDAQ Stock Market (NASDAQ) rules. Our board of directors adopted an amended audit committee charter on February 27, 2007. Please see page 11 of this proxy statement under Board of Directors; Corporate Governance Matters Director Independence for more information on how we determine the independence of our directors.

The primary functions of our audit committee are to monitor internal accounting controls and financial reporting practices, review financial statements and related information, select and retain our independent auditors, review and evaluate the performance, services, and fees of the independent auditors, pre-approve all audit and permitted non-audit services to be provided by the independent auditors, monitor the independence of the independent auditors, and produce a report for inclusion in our proxy statement. Our independent auditors report directly to the audit committee. Additionally, the audit committee discusses with management our earnings releases, including the use of pro-forma financial information, and the information and earnings guidance provided to analysts and rating agencies. The audit committee also reviews and discusses quarterly reports from independent auditors regarding critical accounting policies and practices, alternative treatments of financial information within generally accepted accounting principles, and other material written communication between the independent auditors and management.

See page 44 of this proxy statement for a copy of our audit committee's report for the 2006 fiscal year.

**Compensation Committee.** The members of our compensation committee are Gary A. Merriman, Thomas R. Fuller, and Christopher A. Viggiano, with Mr. Merriman serving as the chairman. Prior to our July 12, 2006 merger with KCS, David A.B. Brown, Daniel A. Rioux and Herbert C. Williamson, III served on the compensation committee, with Mr. Brown serving as the chairman. This committee met six times and took action by unanimous written consent two times during 2006. Our board of directors has determined that each of the current members of the compensation committee is a non-employee director in accordance with Rule 16b-3 of the 1934 Act and an outside director in accordance with Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code), as required in our compensation committee charter. Our board of directors has also determined that all members of the compensation committee who currently serve are independent pursuant to the NYSE rules and federal law and in accordance with our compensation committee charter. All directors who



---

**Table of Contents**

served on the compensation committee for fiscal year 2006 prior to our listing with the NYSE on March 13, 2007 had also been determined to be independent under NASDAQ rules. Our compensation committee is responsible for formulating and recommending to our board of directors the compensation to be paid to our executive officers, directors, and to produce an annual report for inclusion in our proxy statement. The compensation committee also administers our stock option plans, including our 1999 Incentive and Nonstatutory Stock Option Plan, 2004 Non-Employee Director Incentive Plan, and the 2004 Petrohawk Plan, and the Mission Resources Corporation 2004 Incentive Plan, the Mission Resources Corporation 1996 Stock Incentive Plan, as amended, the Mission Resources Corporation 1994 Stock Incentive Plan, the KCS Energy, Inc. 2001 Employees and Directors Stock Plan, and the KCS Energy, Inc. 2005 Employees and Directors Stock Plan (as amended, the 2005 KCS Plan ). Our board of directors adopted an amended compensation committee charter on February 27, 2007. Please see page 22 of this proxy statement under Executive Compensation Compensation Discussion and Analysis Overview of the Compensation Committee for additional information on our compensation committee.

**Compensation Committee Interlocks and Insider Participation.** See Compensation Committee Interlocks and Insider Participation on page 42 of this proxy statement.

**Compensation Discussion and Analysis.** See Executive Compensation Compensation Discussion and Analysis starting on page 22 of this proxy statement.

**Nominating and Corporate Governance Committee.** The members of our nominating and corporate governance committee are Thomas R. Fuller, Robert C. Stone, Jr., and Gary A. Merriman, with Mr. Fuller serving as the chairman. Prior to our July 12, 2006 merger with KCS, David A.B. Brown, Daniel A. Rioux and Herbert C. Williamson served on the nominating committee, with Mr. Rioux serving as the chairman. The nominating committee met one time during 2006. Our board of directors has determined that all members of the nominating and corporate governance committee who currently serve are independent pursuant to the NYSE rules and federal law and in accordance with our nominating and corporate governance committee charter. In addition, prior to our listing with the NYSE on March 13, 2007, each member of the nominating and corporate governance committee who served in fiscal year 2006 (Messrs. Fuller, Stone, Merriman, Brown, Williamson and Rioux) were independent pursuant to applicable NASDAQ rules when they served on the nominating committee. The primary functions of the nominating and corporate governance committee are to recommend candidates to the board of directors as nominees for election at the annual meeting of stockholders or to fill vacancies as they may occur, and to perform an annual performance evaluation of the board of directors. This committee also reviews candidates suggested for nomination by the stockholders. Our board of directors adopted an amended nominating and corporate governance committee charter on February 27, 2007. With respect to procedures for stockholders to suggest candidates for consideration by the committee for the 2008 annual meeting of stockholders, see Board of Directors; Corporate Governance Matters Nomination Process , Board of Directors; Corporate Governance Matters Stockholder Nomination Process and Submission of Stockholder Proposals for Our 2008 Annual Meeting of Stockholders .

**Reserves Committee.** The members of our reserves committee are Robert C. Stone, Jr., Robert G. Raynolds, and Thomas R. Fuller, with Mr. Stone serving as the chairman. Prior to our July 12, 2006 merger with KCS, our reserves committee was comprised of Messrs. Stone and Fuller, with Mr. Stone serving as the chairman. The reserves committee met on two occasions during 2006. Our board has determined that all members of our reserves committee are independent in accordance with our reserves committee charter. Our reserves committee has been formed to assist our board with oversight in the preparation by independent petroleum engineers of annual and any special reserve reports and/or audits of the estimated amounts of our consolidated hydrocarbon reserves and related information. The reserves committee retains the independent petroleum engineers who evaluate our hydrocarbon reserves and determines their independence from Petrohawk. Our board of directors adopted an amended reserves committee charter on February 27, 2007.

**Table of Contents**

**Membership and Meetings of the Board of Directors and its Committees.** During 2006, seven meetings of our board of directors were held. All directors who served on our board during 2006 attended at least 75% of the total meetings of the board (during the period in which he was a director) and each committee on which they served (during the period that he served on that committee). Our directors also took action by unanimous written consent on eighteen occasions.

Information relating to current committee membership and the number of meetings of the full board and committees held in 2006 is summarized in the following table:

Name of Director	Board of Directors	Audit Committee	Nominating and Corporate Governance Committee	Compensation Committee	Reserves Committee
Floyd C. Wilson	Chairman				
James W. Christmas	Vice Chairman				
Tucker S. Bridwell	Member	Member			
Thomas R. Fuller	Member		Chairman	Member	Member
James L. Irish III	Member	Chairman			
Gary A. Merriman	Member		Member	Chairman	
Robert G. Reynolds	Member				Member
Robert C. Stone, Jr.	Member	Member	Member		Chairman
Christopher A. Viggiano	Member	Member		Member	
<b>Number of Meetings in 2006:</b>	7	4	1	6	2

*Board of Directors; Corporate Governance Matters*

**Corporate Governance Web Page and Available Documents.** We maintain a corporate governance page on our website at [www.petrohawk.com](http://www.petrohawk.com) where you can find the following documents on our website:

our corporate governance guidelines;

our code of ethics for CEO and senior financial officers;

our code of conduct; and

the charters of the audit, nominating and corporate governance, and compensation committees.

We will also provide a printed copy of these documents, without charge, to those who request copies in writing from Joan Dunlap, Vice President, Investor Relations, Petrohawk Energy Corporation, 1000 Louisiana, Suite 5600, Houston, Texas 77002.

**Director Independence.** Prior to July 12, 2006, the date of the consummation of the merger of KCS and Petrohawk, our board of directors had nine (9) members: Floyd C. Wilson (Chairman), Tucker S. Bridwell, James L. Irish III, David B. Miller, Thomas R. Fuller, Daniel A. Rioux, Robert C. Stone, Jr., Herbert C. Williamson, III and David A.B. Brown. As of July 12, 2006, in accordance with the merger agreement and pursuant to the merger, (a) David A.B. Brown, David B. Miller, Daniel A. Rioux, and Herbert C. Williamson, III are no longer on our board of directors, and (b) our board of directors consists of James W. Christmas, Gary A. Merriman, Robert G. Reynolds, Christopher A. Viggiano, Floyd C. Wilson, Tucker S. Bridwell, James L. Irish III, Robert C. Stone, Jr., and Thomas R. Fuller. After consummation of the merger, seven of these nine directors (excluding Messrs. Wilson and Christmas) were determined to be independent directors as set forth in NASDAQ Marketplace Rule 4200(a)(15) and under federal law. The following directors who served on our board of directors during fiscal year 2006 prior to July 12, 2006 were also determined by our board of directors to be independent directors as set forth in NASDAQ Marketplace Rule 4200(a)(15) and under federal law: Messrs. Rioux, Brown and Williamson.



## Table of Contents

On February 28, 2007, we announced that we had applied to list our common stock on the NYSE under the new symbol **HK**. Our listing application was approved by the NYSE and our common stock began trading on the NYSE on March 13, 2007, and our common stock is no longer traded on NASDAQ effective at the closing of the market on March 12, 2007. Prior to March 13, 2007, we were subject to the rules of NASDAQ applicable to NASDAQ listed companies, including the NASDAQ corporate governance rules. As of March 13, 2007, we have become subject to the rules of NYSE applicable to NYSE listed companies, including the NYSE corporate governance rules.

The current listing standards of the NYSE require our board to affirmatively determine the independence of each director and to disclose such determination in the proxy statement for each annual meeting of our stockholders. The board, at its meeting held on February 27, 2007, affirmatively determined that each of Messrs. Bridwell, Fuller, Irish, Merriman, Reynolds, Stone and Viggiano is an independent director with respect to Petrohawk under the independence standards of our corporate governance guidelines, adopted as of February 27, 2007 and described below, and under the corporate governance rules of the NYSE codified in Section 303A of the NYSE Listed Company Manual.

Our board established the following standards for determining director independence in our corporate governance guidelines:

A majority of the directors on our board must be independent. No director qualifies as independent unless the board affirmatively determines that the director has no material relationship with Petrohawk, either directly, or as a partner, shareholder or officer of an organization that has a relationship with Petrohawk. A material relationship is a relationship that the board determines, after a consideration of all relevant facts and circumstances, compromises the director's independence from management. Our board's determination of independence must be consistent with all applicable requirements of the NYSE, the SEC, and any other applicable legal requirements. Our board may adopt specific standards or guidelines for independence in its discretion from time to time, consistent with those requirements. As set forth in the NYSE Listed Company Manual Section 303A.02, our board must consider the following factors that preclude a finding by the board of a member's or prospective member's independence from Petrohawk:

1. A director who is, or who has been within the last three years, an employee of Petrohawk (including in each case subsidiaries or parent entities in a consolidated group), or an immediate family member who is, or has been within the last three years, an executive officer, of Petrohawk;
2. A director who has received, or has an immediate family member who has received, during any twelve-month period within the last three years, more than \$100,000 in direct compensation from Petrohawk, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service); provided, that, compensation received by a director for former service as an interim Chairman or CEO or other executive officer need not be considered in determining independence under this test, and compensation received by an immediate family member for service as an employee of Petrohawk need not be considered in determining independence under this test;
3. (A) A director or an immediate family member who is a current partner of a firm that is Petrohawk's internal or external auditor; (B) a director who is a current employee of such a firm; (C) a director who has an immediate family member who is a current employee of such a firm and who participates in the firm's audit, assurance or tax compliance (but not tax planning) practice; or (D) a director or an immediate family member who was within the last three years (but is no longer) a partner or employee of such a firm and personally worked on Petrohawk's audit within that time;
4. A director or an immediate family member who is, or who has been within the last three years, employed as an executive officer of another company where any of Petrohawk's present executive officers at the same time serves or served on that company's compensation committee; and

---

**Table of Contents**

5. A director who is a current employee, or an immediate family member who is a current executive officer, of a company that has made payments to, or received payments from, Petrohawk for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of \$1 million, or 2% of such other company's consolidated gross revenues.

For purposes of determining independence of a director based on the tests set forth above, among other things, the following applies:

- A. In applying the test in section 5 above, both the payments and the consolidated gross revenues to be measured are those reported in the last completed fiscal year. The look-back provision for this test applies solely to the financial relationship between Petrohawk and the director or immediate family member's current employer; Petrohawk does not need to consider former employment of the director or the immediate family member.
- B. For purposes of section 5 above, contributions to the tax exempt organizations are not considered payments, although Petrohawk still considers the materiality of any such relationship in determining the independence of a director.
- C. For purposes of determining independence, an immediate family member includes a person's spouse, parents, children, siblings, mothers and fathers-in-law, sons and daughters-in-law, brothers and sisters-in-law, and anyone (other than a domestic employee) who shares such person's home, and does not include individuals who are no longer immediate family members as a result of legal separation or divorce, or those who have died or become incapacitated.

Our corporate governance guidelines set forth our policy with respect to qualifications of the members of the board, the standards of director independence, director responsibilities, board meetings, director access to management and independent advisors, director orientation and continuing education, management evaluation and succession, annual performance evaluation of the board, and executive sessions.

As discussed on page 12 of this proxy statement, our board determined that Mr. Irish is an independent director under our corporate governance guidelines and under NYSE rules and federal law. In determining that Mr. Irish is an independent director, our board considered that Mr. Irish is of counsel to Thompson & Knight LLP which we have engaged for the purpose of obtaining legal advice. In concluding that this relationship did not result in a material relationship between Petrohawk and Mr. Irish, our board considered, among other things, that Mr. Irish is no longer actively engaged in the practice of law at Thompson & Knight LLP, and that the fees and expenses paid with respect to Thompson & Knight's engagement by Petrohawk were not material to Thompson & Knight.

**Nomination Process.** Our nominating and corporate governance committee reviews possible candidates for nomination to the board of directors and recommends candidates for nomination to the board for approval. The committee and the board have adopted guidelines that describe specific traits, abilities, and experience which the committee and the board consider in selecting candidates for nomination as directors. Among the standards and qualifications the committee and the board seek are individuals of high ethical character who share our values and who possess varied backgrounds, including as chief executive officers, entrepreneurs, independent business owners, licensed attorneys, or certified public accountants. The board is expected to have some members with specialized skills in the oil and gas exploration and development industry, including individuals with strong technical backgrounds. Absent special circumstances, we are generally of the view that the continuing service of qualified incumbents promotes stability and continuity in the board room, giving us the benefit of the familiarity and insight into our affairs that directors have accumulated during their tenure, while contributing to our board's ability to work as a collective body. Accordingly, it is the general policy of the committee to nominate qualified incumbent directors who continue to satisfy the committee's membership criteria, whom the committee believes will continue to make important contributions to the board and who consent to stand for reelection and continue their service on the board. The nominating and corporate governance committee is responsible for assessing the

## Table of Contents

appropriate mix of skills and characteristics required of directors in the context of perceived needs of the board at any given point in time and reviews and updates the criteria for nomination as they determine to be necessary.

**Stockholder Nomination Process.** Our nominating and corporate governance committee considers suggestions from many sources, including management, directors, and stockholders regarding possible candidates for nomination to the board of directors. Any such suggestion by a stockholder should be submitted to the nominating and corporate governance committee in writing, c/o David S. Elkouri, Secretary, at 1000 Louisiana, Suite 5600, Houston, Texas, 77002. The information should include the name and address of the stockholder suggesting the individual as they appear on our books, the number and class of shares owned beneficially and of record by the stockholder, the suggested individual's name and address, a description of all arrangements or understandings (if any) between the stockholder and the individual being suggested for the committee's consideration, the information about the individual being suggested that would be required to be included in a proxy statement filed with the SEC, and an indication of the individual's willingness to be named as a nominee and to serve as a director of Petrohawk if nominated by the committee and the board. The recommendation must be accompanied by the candidate's written consent to being named in our proxy statement as a nominee for election to the board of directors and to serving as a director, if elected. The recommendation and the director candidate's written consent must be provided to us for an annual meeting of stockholders in accordance with the provisions of

Submission of Stockholder Proposals for Our 2008 Annual Meeting of Stockholders starting on page 55 below and must otherwise comply with all the provisions set forth in Rule 14a-8 under the 1934 Act, and any other requirements of state law. We may also require any proposed nominee to furnish such other information as we or the committee may reasonably require to determine the eligibility of the nominee to serve as a director. For the deadline for stockholder suggestions of individuals to be considered by the committee for nomination as a candidate to be elected at the 2008 annual meeting of stockholders, see Submission of Stockholder Proposals for Our 2008 Annual Meeting of Stockholders. Candidates who have been suggested by stockholders are evaluated by the nominating and corporate governance committee in the same manner as are other candidates. Our nominating and corporate governance committee has not previously retained a third-party search firm to identify candidates, but may do so in the future in its discretion.

The nominating and corporate governance committee did not receive any stockholder recommendations for nomination to our board of directors in connection with this year's annual meeting. The nominating and corporate governance committee has recommended Messrs. Fuller, Raynolds and Viggiano, who are current Class III directors, for reelection as the term of their class, Class III, is expiring on our classified board of directors.

**Communications with the Board.** Our stockholders may communicate concerns to any specific director, board committee or to the full board of directors by sending letters addressed to such directors, board committee or the full board of Petrohawk Energy Corporation at 1000 Louisiana, Suite 5600, Houston, Texas 77002, Attention: Chief Ethics Officer. The Chief Ethics Officer will then, as appropriate, forward the communication to the intended director or directors, board committee or the full board of directors. If the stockholder wishes the communication to be confidential, then the communication should be provided in a form that will maintain confidentiality such as stamping the envelope and the contents as confidential.

**Communications with the Non-Management Directors.** Interested parties may communicate concerns to the non-management members of our board of directors by sending a communication to the chairman of the audit committee, James L. Irish III, 1700 Pacific Avenue #3300, Dallas, Texas 75201. The chairman of the audit committee will then forward such communication to all of our other non-management directors.

**Executive Sessions.** Prior to being amended as of February 27, 2007, and for the fiscal year 2006, our corporate governance guidelines provided that the independent directors are required to hold executive sessions at least twice annually with only independent directors present (in accordance with the applicable NASDAQ rules). The chairman of the audit committee was expected to preside over executive sessions. During 2006, our independent directors held four executive sessions without management present, and the chairman of the audit

## **Table of Contents**

committee presided over each executive session. Prior to being amended as of February 27, 2007, our corporate governance guidelines also provided that non-employee directors may meet periodically in executive session without management present. The corporate governance guidelines adopted as of February 27, 2007 in connection with our listing with the NYSE currently provide that non-management directors must meet at regularly scheduled executive sessions without management, and if the group of non-management directors includes directors who are not independent under the NYSE rules, we must at least once a year schedule an executive session including only the independent directors. Our lead director, who is currently Mr. Irish and who is an independent and non-management director, presides over the executive sessions of our non-management directors.

**Board Attendance of Stockholder Meetings.** Historically, we have held board meetings at the time of our annual meetings of stockholders and have informally encouraged our directors to attend the annual meeting of stockholders. We had no formal policy in this regard until the adoption of our corporate governance guidelines on June 3, 2004, as amended on February 27, 2007. Our corporate governance guidelines provide that our directors are encouraged to attend annual meetings of our stockholders. Six members of our board attended last year's annual meeting of stockholders.

## **CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS**

In February 2006, we repurchased approximately 3.3 million shares of our common stock held by EnCap Investments, L.P., an investment management and merchant banking firm focused on the upstream and midstream sectors of the oil and gas industry, and certain of its affiliates (collectively EnCap) at a price per share equal to the net proceeds per share that we received from a private offering of 13.0 million of our shares of common stock that closed on the same day as the EnCap repurchase. The approximately 3.3 million shares were repurchased by us for \$46.2 million. The EnCap repurchase was approved by a majority of disinterested directors present at our December 28, 2005 board meeting, and those directors were Robert C. Stone, Jr., David A.B. Brown and Floyd C. Wilson.

Mr. James L. Irish III, an independent member of our board of directors, is of counsel to Thompson & Knight LLP, which we have engaged for the purpose of obtaining legal advice.

## **RELATED PARTY TRANSACTION REVIEW POLICIES AND PROCEDURES**

A transaction or series of similar transactions to which we are a party in which the amount involved exceeds \$120,000 and involves a director, executive officer, 5% holder or any immediate family members of these persons are generally evaluated by a special committee of disinterested directors formed by our board of directors to evaluate such transactions. In addition, our code of conduct provides that every employee should disclose any material transaction or relationship that could reasonably be expected to give rise to a conflict of interest to our Chief Ethics Officer, and every member of our board should disclose any material transaction or relationship that could be expected to give rise to a conflict of interest to the chairman of the audit committee. The audit committee has the authority to evaluate any such conflicts of interest and recommend actions to be taken by our board in connection with such conflicts of interest or to report the existence of any such conflicts of interest to the full board for it to take action.

## **SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the 1934 Act requires our directors, certain officers and holders of 10% or more of any class of our stock to report to the SEC, by a specified date, initial reports of ownership and reports of changes in ownership of our stock and other equity securities. To our knowledge based solely on a review of copies of reports filed under Section 16(a) furnished to us, our directors, executive officers and holders of 10% or more of our shares complied with these requirements, except that Robert G. Raynolds (one report relating to one transaction), Tucker S. Bridwell (one report relating to one transaction), David B. Miller (one report relating to fifteen transactions), William N. Hahne (one report relating to one transaction), and Richard K. Stoneburner (one report relating to one transaction) were late filing Forms 4.

**Table of Contents****MANAGEMENT**

The following table sets forth the names and ages of all of our executive officers and certain other significant employees, the positions and offices with us held by such persons, the terms of their office and the length of their continuous service as an executive officer or significant employee:

<b>Name</b>	<b>Executive Officer/ Significant Employee Since</b>	<b>Age</b>	<b>Position</b>
Floyd C. Wilson	May 2004	60	Chairman of the Board, President and Chief Executive Officer
Shane M. Bayless	May 2004	40	Executive Vice President Chief Financial Officer, Treasurer, Chief Ethics Officer and Insider Trading Compliance Officer
Larry L. Helm	July 2004	59	Executive Vice President Chief Administrative Officer
William N. Hahne	July 2006	55	Executive Vice President Chief Operating Officer
Stephen W. Herod	May 2004	48	Executive Vice President Corporate Development and Assistant Secretary
Richard K. Stoneburner	May 2004	53	Executive Vice President Exploration
Mark J. Mize	July 2005	35	Vice President, Chief Accounting Officer and Controller
H. Weldon Holcombe	March 2007	54	Senior Vice President Mid-Continent Region
Tina S. Obut	March 2007	42	Vice President Corporate Reserves

Our executive officers are appointed to serve until the meeting of the board of directors following the next annual meeting of stockholders and until their successors have been elected and qualified.

**Floyd C. Wilson** has served as Chairman of the Board, President and Chief Executive Officer since May 25, 2004. Prior to joining us, Mr. Wilson was President of PHAWK, LLC from its formation in June 2003 until May 2004. Mr. Wilson was the Chairman and Chief Executive Officer of 3TEC Energy Corporation from August 1999 until its merger with Plains Exploration & Production Company in June 2003. Mr. Wilson founded W/ E Energy Company L.L.C., formerly known as 3TEC Energy Company L.L.C. in 1998 and served as its President until August 1999. Prior to his involvement with 3TEC, Mr. Wilson founded Hugoton Energy Corporation in 1987, and served as its Chairman, President and Chief Executive Officer. In 1994, Hugoton completed an initial public offering and was merged into Chesapeake Energy Corporation in 1998. Mr. Wilson began his career in the energy business in Houston, Texas in 1970 as a completion engineer. He moved to Wichita, Kansas in 1976 to start an oil and gas operating company, one of several private energy ventures which preceded the formation of Hugoton Energy Corporation.

**Shane M. Bayless** has served as Executive Vice President Chief Financial Officer and Treasurer since August 1, 2005. Mr. Bayless served as Vice President Chief Financial Officer and Treasurer from May 25, 2004 until August 1, 2005. Additionally, Mr. Bayless is our Chief Ethics Officer and Insider Trading Compliance Officer. Prior to joining us, he was employed by PHAWK, LLC from its formation in June 2003 until May 2004. He was Vice President and Controller of 3TEC from July 2000 until 3TEC's merger with Plains Exploration & Production Company in June 2003. Mr. Bayless served as the Treasurer of 3TEC from March 2001 until June 2003. Prior to joining 3TEC, Mr. Bayless was employed by Encore Acquisition Company as Vice President and Controller from 1998 to 2000. Mr. Bayless worked as the Controller from 1996 to 1998 and as the Accounting



## Table of Contents

Manager from 1993 to 1996 at Hugoton. From 1990 to 1993, Mr. Bayless was an Audit Senior with Ernst & Young LLP. He is a Certified Public Accountant.

**Larry L. Helm** has served as Executive Vice President Chief Administrative Officer since August 1, 2005. Mr. Helm served as Vice President Chief Administrative Officer from July 15, 2004 until August 1, 2005. Prior to serving as an executive officer, Mr. Helm served on our board of directors for approximately two months. Mr. Helm was employed with Bank One Corporation from December 1989 through December 2003. Most recently Mr. Helm served as Executive Vice President of Middle Market Banking from October 2001 to December 2003. From April 1998 to August 1999, he served as Executive Vice President of the Energy and Utilities Banking Group. Prior to joining Bank One, he worked for 16 years in the banking industry primarily serving the oil and gas sector. He served as director of 3TEC Energy Corporation from 2000 to June 2003.

**William N. ( Bill ) Hahne** became Executive Vice President Chief Operating Officer on July 12, 2006 in conjunction with our merger with KCS. He joined KCS as Chief Operating Officer in April 1998 and was appointed as Senior Vice President and Chief Operating Officer in May 1998 and Executive Vice President and Chief Operating Officer in January 2002. In March 2003, he was appointed as President and Chief Operating Officer of KCS and elected as a director in May 2003. He is a Registered Petroleum Engineer and has 30 years of experience with various major independent exploration and production companies. Prior to joining KCS, Mr. Hahne was employed by LL&E from October 1993 to October 1997 where he held a number of positions, including Worldwide Operations Vice President. From October 1997 to April 1998, Mr. Hahne served as Vice President of International & Onshore for Burlington Resources Inc.

**Stephen W. Herod** has served as Executive Vice President Corporate Development since August 1, 2005. Mr. Herod served as Vice President Corporate Development from May 25, 2004 until August 1, 2005. Additionally, Mr. Herod is our Assistant Secretary. Prior to joining us, he was employed by PHAWK, LLC from its formation in June 2003 until May 2004. He served as Executive Vice President Corporate Development for 3TEC Energy Corporation from December 1999 until its merger with Plains Exploration & Production Company in June 2003 and as Assistant Secretary from May 2001 until June 2003. Mr. Herod served as a director of 3TEC from July 1997 until January 2002. Mr. Herod served as the Treasurer of 3TEC from 1999 until 2001. From July 1997 to December 1999, Mr. Herod was Vice President Corporate Development of 3TEC. Mr. Herod served as President and a director of Shore Oil Company from April 1992 until the merger of Shore with 3TEC's predecessor in June 1997. He joined Shore's predecessor as Controller in February 1991. Mr. Herod was employed by Conquest Exploration Company from 1984 until 1991 in various financial management positions, including Operations Accounting Manager. From 1981 to 1984, Superior Oil Company employed Mr. Herod as a financial analyst.

**Richard K. Stoneburner** has served as Executive Vice President Exploration since August 1, 2005. Mr. Stoneburner served as Vice President Exploration from May 25, 2004 until August 1, 2005. Prior to joining us, he was employed by PHAWK, LLC from its formation in June 2003 until May 2004. He joined 3TEC in August 1999 and was its Vice President Exploration from December 1999 until its merger with Plains Exploration & Production Company in June 2003. Mr. Stoneburner was employed by W/E Energy Company as District Geologist from 1998 to 1999. Prior to joining 3TEC, Mr. Stoneburner worked as a geologist for Texas Oil & Gas, The Reach Group, Weber Energy Corporation, Hugoton and, independently through his own company, Stoneburner Exploration, Inc. Mr. Stoneburner has over 25 years of experience in the energy business.

**Mark J. Mize** has served as Vice President, Chief Accounting Officer and Controller since July 2005. Mr. Mize joined us on November 29, 2004 as Controller. Prior to joining us, he was the Manager of Financial Reporting of Cabot Oil & Gas Corporation from January 2003 to November 2004. Prior to his employment at Cabot Oil & Gas Corporation, he was an Audit Manager with PricewaterhouseCoopers LLP from 1996 to 2002. He is a Certified Public Accountant.

**H. Weldon Holcombe** has served as Senior Vice President Mid-Continent Region since March 1, 2007. Mr. Holcombe joined us on July 12, 2006 in conjunction with our merger with KCS. With the merger of KCS

**Table of Contents**

and Petrohawk, Mr. Holcombe became responsible for all of the merged company's operations in the Mid-Continent Region including our interests in the Elm Grove and Terryville fields where he continues to oversee the growth and development of these key assets among others throughout the Mid-Continent region. Prior to the merger of KCS and Petrohawk, Mr. Holcombe served as Senior Vice President of KCS responsible for operations and engineering. Prior to joining KCS in 1996 he spent many years with Exxon Company in project and management positions associated with sour gas treatment, drilling, completions and reservoir management.

**Tina S. Obut** has served as Vice President Corporate Reserves since March 1, 2007. Ms. Obut joined us in April 2006 as Manager of Corporate Reserves. Prior to joining us, Ms. Obut was employed by El Paso Production Company as Manager of Reservoir Engineering Evaluations from July 2004 until April 2006. From 2001 to 2004, Ms. Obut was Planning and Asset Manager at Mission Resources. From 1992 to 2001, Ms. Obut was a Vice President with Ryder Scott Company, and from 1989 to 1992, she worked as a reservoir engineer with Chevron. Ms. Obut is a Registered Petroleum Engineer.

**Table of Contents****SECURITY OWNERSHIP OF EXECUTIVE OFFICERS AND DIRECTORS**

The following sets forth beneficial ownership of our common stock by each director and each nominee for director, each executive officer named in the Summary Compensation Table for 2006 set forth under Executive Compensation 2006 Compensation Program Summary Compensation Table for 2006, and all directors and executive officers of the Company as a group, based upon information known to us as of April 16, 2007. The Percent of Class column below represents the percentage of outstanding shares of our common stock plus shares issuable upon exercise of all options, stock-settled stock appreciation rights, warrants and similar derivative securities that are currently exercisable or that may become exercisable within 60 days of April 16, 2007, assuming the stock options, stock-settled stock appreciation rights, warrants and similar derivative securities owned by all other stockholders are not exercised. As of April 16, 2007, there were 168,907,468 shares of our common stock outstanding, and an additional 7,081,190 option shares, stock-settled appreciation rights, warrants and similar derivative securities were exercisable within the 60 days. Unless otherwise indicated, the named person below has the sole voting and dispositive powers with respect to the shares of our common stock set forth opposite such person's name. The total number also includes, where applicable, restricted shares of common stock granted to each non-employee director under Petrohawk's Second Amended and Restated 2004 Non-Employee Director Incentive Plan, as amended, and the 2005 KCS Plan and restricted shares of common stock granted to each officer under the 2004 Petrohawk Plan. Information is provided for reporting purposes only and should not be construed as an admission of actual beneficial ownership.

Name and Address of	Amount and Nature of	Percent
Beneficial Owner	Beneficial Ownership	of Class
Floyd C. Wilson	4,307,733 <sup>1</sup>	2.55%
James W. Christmas	2,874,752 <sup>2</sup>	1.70%

<sup>1</sup> Includes options, warrants and/or similar derivative securities to purchase 1,499,195 shares of Petrohawk common stock which are currently exercisable or may become exercisable on or before June 15, 2007. Includes 2,120,000 shares of Petrohawk common stock pledged as security by Mr. Wilson.

<sup>2</sup> Mr. Christmas has sole voting and dispositive power over 1,591,837 shares of Petrohawk common stock and shared voting and dispositive power over 360,252 shares of Petrohawk common stock. Includes 59,400 shares held in trust for Mr. Christmas children as to which Mr. Christmas disclaims any beneficial ownership. Includes options and/or similar derivative securities to purchase 863,263 shares of Petrohawk common stock which are currently exercisable or may become exercisable on or before June 15, 2007. Includes 1,952,089 shares of Petrohawk common stock in a margin account owned by Mr. Christmas.

**Table of Contents**

Name and Address of	Amount and Nature of	Percent of
Beneficial Owner	Beneficial Ownership	Class
Tucker S. Bridwell	664,093 <sub>3</sub>	*
Thomas R. Fuller	10,182 <sub>4</sub>	*
James L. Irish III	54,944 <sub>5</sub>	*
Gary A. Merriman	36,720 <sub>6</sub>	*
Robert G. Raynolds	949,387 <sub>7</sub>	*

- \* The percentage of shares beneficially owned by each director or each executive officer does not exceed one percent of the shares of our common stock outstanding.
- <sup>3</sup> Includes (a) 59,872 shares of Petrohawk common stock over which Mr. Bridwell has sole voting and sole dispositive power; (b) 256,612 shares of Petrohawk common stock and 53,522 shares of Petrohawk common stock underlying warrants over which Mr. Bridwell has sole voting and sole dispositive power; and (c) 234,618 shares of Petrohawk common stock and 59,469 shares of Petrohawk common stock underlying warrants over which Mr. Bridwell has shared voting and shared dispositive power. With respect to the shares and warrants described in subparagraph (b) in this footnote 3, Mr. Bridwell has sole voting and sole dispositive power over these shares and shares underlying warrants due to his position as President of Dian Graves Owen Foundation. With respect to the shares and shares underlying warrants described in subparagraph (c) in this footnote 3, Mr. Bridwell has shared voting and shared dispositive power with Mrs. Dian Graves Stai.
- <sup>4</sup> Mr. Fuller has an indirect interest in 2,000 shares of Petrohawk common stock.
- <sup>5</sup> Includes 5,947 shares of Petrohawk common stock underlying warrants.
- <sup>6</sup> Includes options and/or similar derivative securities to purchase 21,335 shares of Petrohawk common stock which are currently exercisable or may become exercisable on or before June 15, 2007.
- <sup>7</sup> Includes the following: (a) 17,617 shares held in trust established for the benefit of Mr. Raynolds' children as to which Mr. Raynolds disclaims any beneficial ownership; (b) 797,532 shares held by a family trust for which Mr. Raynolds is a co-trustee and holds a remainder interest in such trust and has shared voting and investment power but disclaims beneficial ownership except to the extent of his pecuniary interest therein; and (c) 3,478 shares held by a SEP IRA over which Mr. Raynolds has sole voting and sole dispositive power. Also includes options and/or similar derivative securities to purchase 30,815 shares of Petrohawk common stock which are currently exercisable or may become exercisable on or before June 15, 2007.

**Table of Contents**

Name and Address of	Amount and Nature of	Percent
Beneficial Owner	Beneficial Ownership	of Class
Robert C. Stone, Jr.	110,000 <sup>8</sup>	*
Christopher A. Viggiano	96,015 <sup>9</sup>	*
Shane M. Bayless	484,902 <sup>10</sup>	*
Larry L. Helm	473,410 <sup>11</sup>	*
Stephen W. Herod	553,202 <sup>12</sup>	*
William N. Hahne	1,132,404 <sup>13</sup>	*
Richard K. Stoneburner	396,600 <sup>14</sup>	*
All Executive Officers and Directors as a group (14 persons)	12,144,344	7.19%

- \* The percentage of shares beneficially owned by each director or each executive officer does not exceed one percent of the shares of our common stock outstanding.
- <sup>8</sup> Includes options and/or similar derivative securities to purchase 87,500 shares of Petrohawk common stock which are currently exercisable or may become exercisable on or before June 15, 2007.
- <sup>9</sup> Includes options and/or similar derivative securities to purchase 30,815 shares of Petrohawk common stock which are currently exercisable or may become exercisable on or before June 15, 2007.
- <sup>10</sup> Includes options and/or similar derivative securities to purchase 175,000 shares of Petrohawk common stock which are currently exercisable or may become exercisable on or before June 15, 2007 and 80,491 shares of Petrohawk common stock underlying warrants. Includes 53,334 shares of unvested restricted common stock of Petrohawk over which Mr. Bayless has sole power to vote but disposition rights are currently restricted.
- <sup>11</sup> Includes options and/or similar derivative securities to purchase 200,000 shares of Petrohawk common stock which are currently exercisable or may become exercisable on or before June 15, 2007 and 65,570 shares of Petrohawk common stock underlying warrants. Includes 53,334 shares of unvested restricted common stock of Petrohawk over which Mr. Helm has sole power to vote but disposition rights are currently restricted.
- <sup>12</sup> Includes options and/or similar derivative securities to purchase 175,000 shares of Petrohawk common stock which are currently exercisable or may become exercisable on or before June 15, 2007 and 107,321 shares of Petrohawk common stock underlying warrants. Includes 53,334 shares of unvested restricted common stock of Petrohawk over which Mr. Herod has sole power to vote but disposition rights are currently restricted.
- <sup>13</sup> Includes options and/or similar derivative securities to purchase 695,474 shares of Petrohawk common stock which are currently exercisable or may become exercisable on or before June 15, 2007. Includes 50,000 shares of unvested restricted common stock of Petrohawk over which Mr. Hahne has sole power to vote but disposition rights are currently restricted.
- <sup>14</sup> Includes options and/or similar derivative securities to purchase 175,000 shares of Petrohawk common stock which are currently exercisable or may become exercisable on or before June 15, 2007 and 53,660 shares of Petrohawk common stock underlying warrants. Includes 53,334 shares of unvested restricted common stock of Petrohawk over which Mr. Stoneburner has sole power to vote but disposition rights are currently restricted.

**Table of Contents****EXECUTIVE COMPENSATION**

*The following discussion of executive compensation contains descriptions of various employment-related agreements and employee benefit plans. These descriptions are qualified in their entirety by reference to the full text of the referenced agreements and plans, which have been filed by us as exhibits to our reports on Forms 10-K, 10-Q and 8-K filed with the SEC.*

***Compensation Discussion and Analysis*****Introduction**

The following discussion provides an overview of the compensation committee of our board of directors, the background and objectives of our compensation programs for our senior management, and the material elements of the compensation of each of our executive officers identified in the following table, whom we refer to as our named executive officers:

<b>Name</b>	<b>Title</b>
Floyd C. Wilson	President, Chief Executive Officer and Chairman of the Board (our principal executive officer)
Larry L. Helm	Executive Vice President-Chief Administrative Officer
Shane M. Bayless	Executive Vice President-Chief Financial Officer and Treasurer (our principal financial officer)
William N. Hahne	Executive Vice President and Chief Operating Officer
Stephen W. Herod	Executive Vice President-Corporate Development
Richard K. Stoneburner	Executive Vice President-Exploration

**Overview of the Compensation Committee**

The compensation committee of the board of directors is comprised entirely of independent directors in accordance with the NASDAQ Marketplace Rules and the rules of the New York Stock Exchange governing listed companies. Until our merger with KCS on July 12, 2006, our compensation committee was composed of David A.B. Brown, Daniel A. Rioux and Herbert C. Williamson, III. In conjunction with the merger, these individuals are no longer serving as directors, and the current members of our compensation committee are Gary A. Merriman (Chairman), Christopher A. Viggiano, and Thomas R. Fuller.

The primary duties and responsibilities of the compensation committee are to establish and implement our compensation policies and programs for senior management, including the named executive officers. The compensation committee has the authority under its charter to engage the services of outside advisors, experts and others to assist it. A copy of our compensation committee charter is available on our website at [www.petrohawk.com](http://www.petrohawk.com) under the section *About Us Corporate Governance*. The compensation committee also periodically reviews and assesses the adequacy of its charter and recommends any proposed changes to our board of directors for approval.

The compensation committee works with our chief administrative officer and human resources department to establish an agenda for each meeting of the compensation committee and, with the assistance of outside advisors, to prepare meeting materials. Our chief executive officer, chief administrative officer, general counsel and other members of our management and outside advisors may be invited to attend all or a portion of a compensation committee meeting depending on the nature of the matters to be discussed. Only members of the

## **Table of Contents**

compensation committee vote on items before the compensation committee; however, the compensation committee and board of directors often solicit the views of the chief executive officer on compensation matters, including as they relate to the compensation of the other senior management, including the other named executive officers.

### **Objectives of Our Compensation Program**

Our success depends on the continued contributions of our senior management and other key employees. Our compensation program is intended to attract, motivate and retain experienced and qualified personnel by providing compensation that is competitive in relation to our peers while recognizing overall business results and individual merit, and which supports the attainment of our strategic objectives by tying the interests of senior management and key employees to those of our stockholders through the use of equity-based compensation.

### **Design of Our Compensation Program**

Our compensation program for senior management, including the named executive officers is designed to:

provide compensation that is competitive with our compensation peer group;

balance short-term and long-term goals through the use of annual cash incentives and grants of long-term equity incentives; and

deliver a mix of fixed and at-risk compensation that is directly related to stockholder value and our overall performance.

Each element of compensation is reviewed and considered with the other elements of compensation to ensure that it is consistent with the goals and objectives of both that particular element of compensation and our overall compensation program. In designing the compensation program and in determining senior management compensation, including the compensation of the named executive officers, we also considered the following factors:

the external challenges to our ability to attract and retain strong management;

our operating and financial performance compared with targeted goals;

each individual's contributions to our overall results; and

our size and growth relative to companies in our compensation peer group.

We also use tally sheets that provide a summary of the compensation history of senior management, including base salary, annual bonus and equity awards, as well as the equity ownership of senior management acquired independent of our compensation program. In establishing compensation, we also utilize compensation data ( Survey Data ) regarding the practices of other companies, including our compensation peer group. Survey Data includes data that is prepared internally from publicly available information and compensation survey data prepared by third parties. For 2006, Survey Data included data prepared by Effective Compensation, Inc. ( ECI ), which we utilized to establish base salary and overall compensation, as well as bonuses for 2005 performance that were paid in 2006. We utilized Survey Data prepared by both ECI and Longnecker & Associates ( Longnecker ) in establishing bonuses for 2006 performance that were paid during 2007. We also utilized the Longnecker Survey Data to establish 2007 salary for the named executive officers and their long-term incentive compensation. Longnecker provides no other services for us.

We utilize Survey Data to ensure that our executive compensation program is competitive with our compensation peer group. The Survey Data is a compilation of compensation and other data based upon the compensation consultants' review of our compensation peer group as well as other companies that participate in energy and general industry surveys.





## **Table of Contents**

In developing our compensation structure, we review the compensation and benefit practices, as well as levels of pay, of a compensation peer group of companies selected by the compensation committee from domestic oil and natural gas exploration and development companies of a similar size with similar drilling budgets and that compete with us for talent. While we periodically review, evaluate and update our compensation peer group, for the compensation structure developed for 2006 the compensation peer group consisted of the following nine companies:

Cabot Oil & Gas Corporation

Comstock Resources, Inc.

Encore Acquisition Company

Energy Partners, Ltd.

The Houston Exploration Company

Newfield Exploration Company

Southwestern Energy Company

Stone Energy Corporation

St. Mary Land & Exploration Company

We also utilized the Survey Data in three forms, one based upon responses from the 87 exploration and production companies that participated in ECI's 2005 compensation survey, and two custom forms based upon the companies included in the survey that are close to our size in terms of capitalization, and the companies included in the survey that are both close to our size in terms of capitalization and which are publicly-held. The companies included in the custom survey results overlap to some degree with the companies included in our compensation peer group; for example, the companies included in the latter data consisted of KCS (with which we merged in 2006), Energy Partners, Ltd., Newfield Exploration Company, Range Resources Corporation, Southwestern Energy Company, Spinnaker Exploration Company, St. Mary Land & Exploration Company, Stone Energy Corporation, Swift Energy Company, and The Houston Exploration Company.

We target total compensation for our management that falls at the 75th percentile of our compensation peer group. We believe compensation at this level is required for us to attract and retain talented management capable of executing our rapid growth business plan and managing our business in a competitive environment. We also compete with much larger companies for management talent and, in certain circumstances, we may be required to provide compensation that deviates from the compensation peer group target.

### **2006 Compensation Program**

#### *Elements of Compensation*

The principal elements of our executive compensation program are base salary, annual cash incentives, long-term equity incentives in the form of stock options, restricted stock grants and, more recently, stock appreciation rights, as well as post-termination severance (under certain circumstances), and other benefits and perquisites, consisting of life and health insurance benefits, a qualified 401(k) savings plan, the

reimbursement of automobile expenses for our chief executive officer and the reimbursement of certain club dues for our chief executive officer and chief financial officer.

***Base Salary***

We review base salaries for our chief executive officer and other executives annually to determine if a change is appropriate. In reviewing base salaries, we consider several factors, including a comparison to base

**Table of Contents**

salaries paid for comparable positions in our compensation peer group and the compensation reflected in the Survey Data, the relationship among base salaries paid within our company and individual experience and contributions. Our intent is to fix base salaries at levels that we believe are consistent with our program design objectives, including the ability to attract, motivate and retain individuals in a competitive environment. During 2006, we increased the base salaries of the named executive officers based upon our analysis of competitive market practice. Mr. Hahne, formerly President and Chief Operating Officer of KCS, was hired at his current position and 2006 compensation level based upon an employment agreement negotiated with him prior to our merger with KCS.

Base salaries for our named executive officers in 2006 were as follows:

Name	Amount of Base Salary Increase for 2006		2006 Base Salary
Floyd C. Wilson	\$	150,000	\$ 500,000
Larry L. Helm	\$	75,000	\$ 300,000
Shane M. Bayless	\$	75,000	\$ 275,000
William N. Hahne			\$ 350,000
Stephen W. Herod	\$	75,000	\$ 250,000
Richard K. Stoneburner	\$	75,000	\$ 250,000

Subsequent to 2006, and effective March 1, 2007, we again increased the base salaries of the named executive officers based upon our annual analysis of competitive market practice. Information regarding the incremental increase for 2007 in the base salary of each of the named executive officers is set forth below under the heading *Compensation Adjustments and Long-term Incentive Awards Subsequent to Fiscal Year End*.

**Annual Cash Incentives**

Annual cash incentive compensation is intended to focus and reward individuals on measures identified as having a positive impact on our annual business results. For 2006, the following factors were utilized to determine annual cash incentives:

increases in proved reserves and annual production rates;

reserve replacement;

finding and development costs relative to our compensation peer group;

improvements in operating cash flow, and in cash flow multiples on an actual basis and relative to our compensation peer group;

lease operating expenses on an actual basis and relative to our compensation peer group;

general and administrative expenses on an actual basis and relative to our compensation peer group; and

qualitative factors considered significant by the compensation committee.

We did not establish specific threshold performance targets or specifically allocate a particular weight to any of the elements considered in setting incentive compensation for 2006. Instead, we considered all of these factors relative to business objectives, expectations under then-existing and current market conditions and cash incentives paid to senior management by our compensation peer group and as reflected in the Survey Data.

## Edgar Filing: PETROHAWK ENERGY CORP - Form DEF 14A

We then determined whether performance for the year warranted additional compensation and, if so, how much and the manner in which it was to be allocated among members of senior management, including the

## **Table of Contents**

named executive officers. We solicited the views of the chief executive officer in determining the manner in which incentive compensation should be allocated to other members of management.

We did not establish any specific targets or limits on the amount of annual cash incentives for which senior management was eligible, either collectively or individually. Annual cash incentive compensation is discretionary and may vary greatly from year to year and from executive to executive as a consequence of corporate performance and individual contribution relative to the factors listed above and other factors that we may consider important, which may carry varying weight over time depending on the circumstances. Annual cash incentives for each year are determined during the February following the end of the year, when our results for the preceding year become available.

Mr. Hahne, who joined us in July 2006 in conjunction with the KCS merger, is entitled to specific bonuses based upon express criteria that were negotiated as part of his employment agreement and based on competitive market practice at that time. For more information see *Employment Contracts, Termination of Employment and Change in Control Agreements* .

The annual cash incentives awarded to the named executive officers for fiscal year 2006 performance are included in the Summary Compensation Table for 2006 on page 36. The table reflects awards for 2006 performance that were paid during February 2007. Footnote 1 to the Summary Compensation Table for 2006 also includes disclosure of annual cash incentive awards for 2005 performance that were paid during 2006.

### ***Long-term Incentives***

Long-term incentives comprise a significant portion of a senior executive's compensation package. Long-term incentives are consistent with our objective of providing an at-risk component of compensation. Our business strategy embraces the consolidation trend in our industry and providing long-term incentive award opportunities for senior executives and key employees both align their interests with those of our stockholders and help to offset the negative implications that such a strategy may have on our ability to attract and retain talented management and key employees. In establishing long-term incentive awards we endeavor to remain consistent with the Survey Data while taking into account each individual's performance.

The compensation committee approved the mix of long-term incentives awarded to senior executives in 2006 to include stock options and restricted stock, each of which is discussed in more detail below. During 2007, the compensation committee approved our use of stock appreciation rights and effective March 2, 2007, awarded grants of stock appreciation rights to senior executives. The compensation committee approves the total stock options, restricted stock and stock appreciation rights that will be made available to all employees as well as the size of individual grants for each member of senior management. All grants are made in accordance with our Equity-Based Incentive Grant Policy, which sets forth the timing of awards and the procedures for making awards and, in the case of stock options and stock appreciation rights, for determining the exercise price or grant value, respectively, of the award. The amounts granted vary each year and are based on management's performance, our analysis of compensation peer group data, the Survey Data and management's total compensation package. Previous awards and grants, whether vested or unvested, may be considered by the compensation committee in establishing the current year's awards and grants.

### ***2004 Employee Incentive Plan***

On June 3, 2004, our compensation committee and our board of directors approved the Petrohawk Energy Corporation 2004 Employee Incentive Plan, referred to, as amended, as the 2004 Petrohawk Plan in this proxy statement. On July 15, 2004, the 2004 Petrohawk Plan was approved by our stockholders. Increases to the number of shares available under the 2004 Petrohawk Plan were subsequently approved by our stockholders in November 2004, July 2005 and July 2006. Subject to certain adjustments that may be required from time to time to prevent dilution or enlargement of the rights of participants under the 2004 Petrohawk Plan, currently a

## **Table of Contents**

maximum of 7.05 million shares of common stock may be issued under the 2004 Petrohawk Plan. Please see Proposal 2 Amendment to the Petrohawk Energy Corporation Third Amended and Restated 2004 Employee Incentive Plan below for a more detailed description of the 2004 Petrohawk Plan and the proposed amendment to the 2004 Petrohawk Plan for approval by our stockholders which would increase, if approved by our stockholders, the maximum number of shares of our common stock issuable under the 2004 Petrohawk Plan from 7.05 million shares to 12.55 million shares and the maximum number of shares of incentive stock, restricted stock and stock appreciation rights issuable under the 2004 Petrohawk Plan from 3.25 million shares to 3.610 million shares.

The 2004 Petrohawk Plan facilitates the issuance of future long-term incentive awards as part of our comprehensive compensation structure and is administered by a committee of non-employee directors of our board of directors, currently our compensation committee. For the year ended December 31, 2006, approximately 316 persons received awards under the 2004 Petrohawk Plan.

The 2004 Petrohawk Plan permits the granting of awards in the form of options to purchase our common stock, shares of restricted stock, shares of incentive stock (stock issued without restrictions) and stock appreciation rights. The 2004 Petrohawk Plan permits 50% of the shares, or 3.525 million shares, under the plan to be issued as shares of restricted stock or incentive stock. If Proposal 2 is approved by our stockholders, the number of shares issuable under the 2004 Petrohawk Plan as shares of restricted stock, incentive stock or stock appreciation rights would become 3.610 million shares. Recipients are not permitted to receive in any one year options or stock appreciation rights to purchase or receive in excess of 200,000 shares or grants of restricted or incentive stock in excess of 100,000 shares. As of December 31, 2006, no incentive stock had been issued and a total of 838,888 shares of common stock had been issued as restricted stock and 3,720,253 shares were issuable upon the exercise of outstanding stock options.

The 2004 Petrohawk Plan will expire on June 2, 2014. No grants will be made under the 2004 Petrohawk Plan after that date, but all grants made on or prior to such date will continue in effect thereafter subject to the terms thereof and of the 2004 Petrohawk Plan. Our board of directors may, in its discretion, terminate the 2004 Petrohawk Plan at any time. The termination of the 2004 Petrohawk Plan would not affect the rights of participants or their successors under any awards outstanding and not exercised in full on the date of termination. The board may at any time and from time to time amend the 2004 Petrohawk Plan in whole or in part. Any amendment which must be approved by our stockholders in order to comply with the terms of the 2004 Petrohawk Plan, applicable law or the rules of the principal securities exchange, association or quotation system on which our common stock is then traded or quoted will not be effective unless and until such approval has been obtained. The board is not permitted, without the further approval of the stockholders, to make any alteration or amendment which would materially increase the benefits accruing to participants under the 2004 Petrohawk Plan, increase the aggregate number of shares which may be issued pursuant to the provisions of the 2004 Petrohawk Plan, change the class of individuals eligible to receive awards under the 2004 Petrohawk Plan or extend the term of the 2004 Petrohawk Plan.

### *1999 Incentive and Non-Statutory Stock Option Plan*

On August 20, 1999, our board of directors approved the Petrohawk Energy Corporation 1999 Incentive and Non-Statutory Stock Option Plan (the 1999 Plan ). On September 11, 2000, the 1999 Plan was approved by our stockholders. An amendment to the 1999 Plan to increase the number of shares available under the 1999 Plan was subsequently approved by our stockholders on June 20, 2003. As a consequence of the adoption of the 2004 Petrohawk Plan, we no longer issue grants under the 1999 Plan. As of December 31, 2006, a total of 195,000 shares of common stock were issuable upon the exercise of outstanding stock options under the 1999 Plan.

### *Incentive Plans Assumed in Connection with Acquisitions*

In July 2006, as part of our merger with KCS, we assumed the KCS Energy, Inc. 2001 Employees and Directors Stock Plan (the 2001 KCS Plan ) and the KCS Energy, Inc. 2005 Employees and Directors Stock Plan

## **Table of Contents**

(referred to, as amended, as the 2005 KCS Plan in this proxy statement; we refer to both of these plans collectively as, the KCS Plans ).

If Proposal 2 is approved by our stockholders, we will no longer grant any awards of equity incentives under the 2005 KCS Plan.

Only former employees and directors of KCS that are currently employed by us are eligible to participate in the KCS Plans. The KCS Plans are administered by our compensation committee. As of the date of this proxy statement, Mr. Hahne is the only named executive officer eligible to participate in the KCS Plans. Subject to certain adjustments that may be required from time to time to prevent dilution or enlargement of the rights of participants under the KCS Plans, a maximum of 7,774,217 shares of common stock were issuable under the KCS Plans as of December 31, 2006, all of which were issuable under the 2005 KCS Plan. The 2005 KCS Plan permits the granting of awards of options to purchase our common stock, shares of restricted stock, shares of incentive stock (stock issued without restrictions), and stock appreciation rights. No new awards are permitted under the 2001 KCS Plan. All awards outstanding under the 2001 KCS Plan will expire on or before March 30, 2011. The 2005 KCS Plan will expire on March 31, 2015. All awards outstanding under the 2005 KCS Plan will expire on or before March 31, 2025.

To date, we have not issued any awards under the KCS Plans to any of the named executive officers. However, the 2005 KCS Plan may be utilized by our compensation committee to grant awards to eligible participants, including eligible executives, in lieu of granting awards under our 2004 Petrohawk Plan. In the event the 2005 KCS Plan is utilized, the purpose of the grant, the type of award utilized and, to the extent practicable under the terms of such plan, the provisions of each such award shall be identical in all respects to the 2004 Petrohawk Plan.

In July 2005, as part of our merger with Mission Resources Corporation, we also assumed the Mission Resources Corporation 2004 Incentive Plan (the Mission Plan ); however, we do not issue new awards under the Mission Plan. As of December 31, 2006, there were options for the purchase of a total of 167,796 shares of our common stock outstanding under the Mission Plan. All awards outstanding under the Mission Plan will expire on or before April 12, 2015.

The long-term incentive information related to the named executive officers during fiscal year 2006 is included in the Summary Compensation Table for 2006 on page 36. Additional information on long-term incentive awards for 2006 is shown in the Grants of Plan-Based Awards in 2006 Table on page 37 and the Outstanding Equity Awards at December 31, 2006 Table on page 38.

### ***Stock Options***

An important objective of the long-term incentive program is to strengthen the relationship between the long-term value of our stock price and the potential financial gain for employees. Stock options provide senior management and key employees with the opportunity to purchase our common stock at a price fixed on the grant date regardless of future market price. A stock option becomes valuable only if our common stock price increases above the option exercise price and the holder of the option remains employed during the period required for the option to vest, thus providing an incentive for an option holder to remain employed by us. Stock options link a portion of the option holder's compensation to stockholders' interests by providing an incentive to increase the market price of our stock.

Option grants to senior management are generally considered annually, at the same time as grants are considered for the general eligible employee population, in February, after our year-end results become available. Our practice is that the exercise price for each stock option is the market value on the date of grant, which is normally the date that our compensation committee approves the award at a meeting of the compensation committee. Our current policy provides for grants to be made during a trading window, as set forth in our Insider

## **Table of Contents**

Trading Policy, and within such window only at such time as there is no material non-public information regarding the company. Under our 2004 Petrohawk Plan, the Mission Plan and the KCS Plans the option price may not be less than the fair market value (the closing market price) of the shares on the date of grant. With respect to employees who are not executive officers, the compensation committee may delegate its authority to make such grants to our Chief Executive Officer by specifying the grant date, the total number of shares that may be subject to grants and other material terms of the grants. All proposed stock options to new-hire employees are required to be approved by our compensation committee. Alternatively, our compensation committee may authorize in writing, in advance of any fiscal quarter, the number of shares underlying stock options that may be granted to new hire employees for the following fiscal quarter and provide that our Chief Executive Officer may allocate such stock options at his discretion. The grant date in this instance is generally the date of hire.

Stock options generally vest and become exercisable one-third annually after the original grant date. In certain instances, however, stock options may vest on an accelerated basis, such as in the event an executive's employment is terminated by us without cause or by the executive with good reason, in the event that the executive terminates his employment within a certain period following a transaction that effects a change in the control of our company, or in the event of the executive's death or disability while employed by us. Under these circumstances all stock options held by the executive may automatically vest and become exercisable in accordance with the terms outlined in the stock option award agreement or the employment agreement, if applicable. The employment agreements that we entered into with the named executive officers during 2006 provide for all stock options held by an executive to automatically vest and become exercisable in the event his employment is terminated by us without cause or by the executive with or without good reason within a two year period following a change of control of our company.

There is a limited term in which an executive can exercise stock options, known as the option term. The option term is generally ten years from the date of grant, which is the maximum term of an option permitted under the 2004 Petrohawk Plan, the Mission Plan and the KCS Plans. At the end of the option term, the right to purchase shares pursuant to any unexercised option expires.

The exercise prices of the stock options granted to the named executive officers during fiscal year 2006 are shown in the Grants of Plan-Based Awards in 2006 Table on page 37. Additional information on these grants, including the number of shares subject to each grant, also is shown in the Grants of Plan-Based Awards in 2006 Table.

### ***Restricted Stock Awards***

During 2006, we granted restricted stock awards to various officers (including our named executive officers) and key employees under the 2004 Petrohawk Plan. Restricted stock awards are shares of our common stock that are awarded with the restriction that the executive remain with us through certain vesting dates. Prior to the restrictions thereon lapsing, the participant may not sell, transfer, pledge, assign or take any similar action with respect to the shares of restricted stock which the participant owns. Once the restrictions lapse with respect to shares of restricted stock, the participant owning such shares will hold freely-transferable shares, subject only to any restrictions on transfer contained in our certificate of incorporation, bylaws and insider trading policies, as well as any applicable federal or state securities laws. Despite the restrictions, each participant will have full voting rights and will receive any dividends or other distributions, if any, with respect to the shares of restricted stock which the participant owns.

The compensation committee does take prior grants into account in the design of future programs and awards. Restricted stock awards to senior management are generally considered annually, in February, after our year-end results become available, and at the same time as grants to the general eligible employee population are considered.

Restricted stock awards provide the opportunity for capital accumulation and more predictable long-term incentive value. The purpose of granting restricted stock awards is to encourage ownership, encourage retention



## **Table of Contents**

of our senior management and result in business decisions that may drive stock price appreciation. Recognizing that our business is subject to significant fluctuations in commodity prices that may cause the market value of our common stock to fluctuate, we also intended the awards to provide an incentive for senior management to remain with us throughout commodity price and business cycles.

Restricted stock awards generally vest one-third annually after the original award date. As a consequence, the recipients do not become unconditionally entitled to retain any of the shares of restricted stock until one year following the date of grant, subject to certain exceptions related to termination of employment. Any unvested restricted stock awards generally are forfeited if the executive terminates employment with us. In certain instances, however, restricted stock awards may vest on an accelerated basis, such as in the event of the executive's employment is terminated by us without cause or by the executive with good reason, in the event that the executive terminates his employment within a certain period following a transaction that effects a change in the control of our company, or in the event of the executive's death or disability while employed by us. Under these circumstances all restricted stock awards held by the executive may automatically vest in accordance with the terms outlined in the restricted stock award agreement or the employment agreement, if applicable. The employment agreements that we entered into with the named executive officers during 2006 provide for all restricted stock awards held by an executive to automatically vest in the event his employment is terminated by us without cause or by the executive with or without good reason within a two year period following a change of control of our company.

The restricted stock grants to the named executive officers during fiscal year 2006 are shown in the Grants of Plan-Based Awards in 2006 Table on page 37.

### ***Stock Appreciation Rights***

Though not utilized during 2006, the 2004 Petrohawk Plan permits awards of stock appreciation rights. A stock appreciation right is very similar to a stock option, in that it represents the right to realize the increase in market price, if any, of a fixed number of shares over the grant value of the right, which is equal to the market price of our common stock on the date of grant. However, whereas to realize the value of a stock option the holder must pay the exercise price in exchange for shares of stock underlying the option, the value embodied by the stock appreciation right, if any, may be settled in exchange for shares of common stock valued on the date of settlement.

Stock appreciation rights provide incentives for the recipient that are very similar to the incentives provided by stock options, in that the stock appreciation right becomes valuable only if our common stock price increases above the grant value of the right and the holder of the right remains employed during the period required for the right to vest, thus providing an incentive for the holder to remain employed by us. Stock appreciation rights link a portion of the holder's compensation to stockholders' interests by providing an incentive to increase the market price of our stock.

Grants of stock appreciation rights to senior management are generally considered annually, at the same time as grants are considered for the general eligible employee population, in February, after our year-end results become available. Our practice is that the grant value for each stock appreciation right is the market value of our common stock on the date of grant, which is normally the date that our compensation committee approves the award at a meeting of the compensation committee. Our current policy provides for grants to be made during a trading window, as set forth in our Insider Trading Policy, and within such window only at such time as there is no material non-public information regarding the company. With respect to employees who are not executive officers, the compensation committee may delegate its authority to make such grants to our Chief Executive Officer by specifying the grant date, the total number of shares that may be subject to grants and other material terms of the grants. All proposed grants of stock appreciation rights to new-hire employees are required to be approved by our compensation committee. Alternatively, our compensation committee may authorize in writing, in advance of any fiscal quarter, the number of shares underlying stock appreciation rights that may be granted to

## **Table of Contents**

new hire employees for the following fiscal quarter and provide that our Chief Executive Officer may allocate such stock options at his discretion. The grant date in this instance is generally the date of hire.

Stock appreciation rights generally vest one-third annually after the original grant date. In certain instances, however, stock appreciation rights may vest on an accelerated basis, such as in the event an executive's employment is terminated by us without cause or by the executive with good reason, in the event that the executive terminates his employment within a certain period following a transaction that effects a change in the control of our company, or in the event of the executive's death or disability while employed by us. Under these circumstances all stock appreciation rights held by the executive may automatically vest in accordance with the terms outlined in the stock appreciation award agreement or the employment agreement, if applicable. The employment agreements that we entered into with the named executive officers during 2006 provide for all stock appreciation awards held by an executive to automatically vest in the event his employment is terminated by us without cause or by the executive with or without good reason within a two year period following a change of control of our company.

There is a limited term in which an executive can exercise a stock appreciation right, known as the term. The term is generally ten years from the date of grant, which is the maximum term permitted under the 2004 Petrohawk Plan. At the end of the term, the right to receive the value of the stock appreciation right expires.

We did not award any stock appreciation rights to senior management or other employees during 2006. Information regarding the stock appreciation rights awarded to the named executive officers during 2007 is set forth below under the heading *Compensation Adjustments and Long-term Incentive Awards Subsequent to Fiscal Year End*.

### ***Retirement Benefits***

We do not maintain a defined benefit pension plan or retiree medical program that covers members of senior management. Retirement benefits to our senior management, including the named executive officers, are currently provided principally through a tax-qualified profit sharing and 401(k) plan (our Savings Plan), in which eligible salaried employees may participate. Pursuant to the Savings Plan, employees may elect to reduce their current annual compensation up to the lesser of 75% or the statutorily prescribed limit of \$15,500 in calendar year 2007 (plus up to an additional \$5,000 in the form of catch-up contributions for participants age 50 and above), and have the amount of any reduction contributed to the Savings Plan. Our Savings Plan is intended to qualify under sections 401(a) and 401(k) of the Code, so that contributions by us or our employees to the Savings Plan and income earned on contributions are not taxable to employees until withdrawn from the Savings Plan and so that contributions will be deductible by us when made. We match 100% of the amount an employee contributes to the Savings Plan, subject to a 10% maximum based on the employee's compensation as defined in the Savings Plan. Executives participate in the Savings Plan on the same basis as other employees.

The Savings Plan provides for 26 different investment options, for which the participant has sole discretion in determining how both the employer and employee contributions are invested. The independent trustee of the Savings Plan then invests the assets of the Savings Plan as directed by participants. The Savings Plan does not provide our employees the option to invest directly in our securities. The Savings Plan offers in-service withdrawals in the form of after-tax account distributions and age 59.5 distributions.

We believe that the Savings Plan supports the objectives of our compensation structure, including the ability to attract and retain senior and experienced mid- to late-career executives for critical positions within our organization.

### ***Perquisites***

Our chief executive officer is entitled under his employment agreement to receive a vehicle allowance and reimbursement for admission to, and the dues for, one club membership. Our chief financial officer is entitled under his employment agreement to be reimbursed for admission to, and the dues for, one club membership.

---

## **Table of Contents**

Our use of perquisites as an element of compensation is limited and is largely based on historical practices. We do not view perquisites as a significant element of our compensation structure but do believe that they can be used in conjunction with base salary to attract, motivate and retain individuals in a competitive environment. The compensation committee annually reviews the perquisites provided to determine if they are appropriate and if any adjustments are warranted.

### **Employment Contracts, Termination of Employment and Change-in-Control Arrangements**

On July 11, 2006, we entered into employment agreements with each of the named executive officers (other than Mr. Hahne whose employment agreement is effective as of July 12, 2006). During 2006 we faced increasing competition for management talent at the same time as anticipated changes to our board of directors and the constitution of our compensation committee as a consequence of our pending merger with KCS created greater uncertainty for management. Additionally, the management of KCS had employment agreements, including Mr. Hahne, and it was necessary for us to negotiate a new agreement with Mr. Hahne to secure his services following our merger with KCS. These factors led us to conclude that it was appropriate and in our best interests to enter into employment agreements with each of the named executive officers.

#### ***Term of Employment Agreements***

The term of Mr. Hahne's employment is one year from the effective date of his employment agreement. The initial term of employment of each of our other executives is two years from the effective date of their employment agreements. Each agreement with an executive other than Mr. Hahne provides for automatic one year extensions unless either party provides written notice six months prior to expiration of the initial term or any extension.

#### ***Compensation and Benefits***

The salary payable to each of the named executives is the amount set forth under the heading *2006 Base Salary* in the table above. The salary of each executive is subject to periodic review and may be increased from time to time by the compensation committee. Each executive is eligible to receive bonuses, grants of stock options, restricted stock or other equity awards as determined in the discretion of the compensation committee. Each of the executives is also entitled to reimbursement for reasonable business expenses and to participate in our life, health, and dental insurance programs, and all other employee benefit plans which we may, from time to time, make available.

Mr. Hahne's employment agreement entitles him to a bonus payment equal to \$350,000 if he is still employed by us at the end of the initial term of his employment. Further, if Mr. Hahne is employed by us at such time and our 2007 second quarter average daily production is greater (excluding the effects of acquisitions and divestitures) than our 2006 second quarter daily average production pro forma for our merger with KCS, Mr. Hahne is entitled to an additional bonus of \$17,500 per percentage point increase, up to \$350,000. In addition, Mr. Hahne received 50,000 shares of our restricted common stock, which he will forfeit if he is terminated by us for cause or he terminates his employment without good reason prior to one year after the date of the agreement. All restrictions on the restricted common stock will lapse two years after the date of the agreement. Mr. Hahne also received an option to purchase 75,000 shares of our common stock at an exercise price of \$12.36 per share, which was the closing price on July 12, 2006, the effective date of his employment agreement. One-third of the shares associated with the option vested immediately and the other two thirds will vest one year from the date of the agreement. The option expires two years from the end of the term of the agreement.

#### ***Termination Provisions and Severance Payments***

We may terminate each executive's employment upon disability, for cause or without cause. Each executive may terminate his employment based on uncured material breaches of his employment agreement by us, a

---

**Table of Contents**

reduction in the base compensation payable to him, a material reduction in the scope of his office and responsibilities, a failure by us to continue any compensation or benefit plan that is material to the executive's total compensation or the permanent relocation of the executive outside of the metropolitan area of Houston, Texas. If the employment of any of the executives is terminated by death or disability or by us for cause, such executive (or his or her personal representative in the event of death) is entitled to receive his accrued unpaid base compensation, plus an optional bonus to be determined by the compensation committee.

If the employment of any executive, other than Mr. Hahne whose agreement is discussed below, is terminated by us without cause or by such executive with good reason, and such termination is not within two years after a change in control, such executive will be entitled to the accrued portion of unpaid salary, a severance payment equal to his highest one year's total compensation (i.e., gross annual salary plus annual bonus) during any year of his employment with us, payment of the premiums for medical and dental insurance for him and his entire family for one year following termination, and the full vesting of all his unvested options and all restrictions removed from his shares of restricted stock. If such executive is terminated by us without cause or such executive terminates his employment with the Company *with or without* good reason, and such termination is within two years after a change in control, such executive will be entitled to receive the accrued portion of unpaid salary, a severance payment equal to two times his highest one year's total compensation, payment of the premiums for medical and dental insurance for him and his entire family for two years following termination, and the full vesting of all his unvested options and all restrictions removed from his shares of restricted stock. If the employment of such executive is terminated by such executive without good reason and not within two years after a change in control, such executive is entitled to receive his accrued unpaid base compensation.

If Mr. Hahne's employment is terminated by us without cause or by him with good reason, and such termination is not within two years after a change in control, he will be entitled to the accrued portion of unpaid salary, a severance payment equal to the amount of total compensation anticipated to be paid during the initial one year term of his agreement, payment of his medical insurance premiums until the earlier of three years after termination or the date he becomes employed and receives substantially similar benefits, and the full vesting of all his unvested options. If Mr. Hahne's employment is terminated by us without cause or by him *with or without* good reason, and such termination is within two years after a change in control, he will be entitled to receive the accrued portion of unpaid salary, a severance payment equal to two times his highest one year's gross annual salary or if he has not worked a full year, the amount of total compensation anticipated to be paid during the one year term of his agreement, payment of the premiums for medical and dental insurance for him and his entire family for a three year period following termination, and the full vesting of all his unvested options. If Mr. Hahne's employment is terminated by him without good reason and not within two years after a change in control, Mr. Hahne is entitled to receive his accrued unpaid base compensation and payment of his medical insurance premiums until the earlier of the date three years after termination or the date he becomes employed and receives substantially similar benefits.

Mr. Hahne has agreed that for one year following July 12, 2006, unless terminated by us, he will not engage in or become interested in financially as a principal, employee or partner any business engaged in leasing, acquiring, exploring, producing, gathering or marketing hydrocarbons or related products. Each executive has agreed that during the term of his employment agreement and for six months following termination of his employment, he will not induce or attempt to induce any employee of the Company to leave the Company.

The employment agreements with the named executive officers generally define a change of control to mean any of the following events:

any person or group becomes the beneficial owner (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of more than 35% of the total voting power of our outstanding voting stock;

our merger with or consolidation into another entity and, immediately after giving effect to the merger or consolidation, one or both of the following occurs: (a) less than 50% of the total voting power of the

**Table of Contents**

outstanding voting stock of the surviving or resulting entity is then beneficially owned in the aggregate by our stockholders immediately prior to such merger or consolidation, or (b) the individuals who were members of our board of directors immediately prior to the execution of the agreement providing for the merger or consolidation do not constitute at least a majority of the members of the board of directors of the surviving or resulting entity;

we sell, assign, convey, transfer, lease or otherwise dispose of all or substantially all of our assets to a third party in one transaction or a series of related transactions;

individuals who constitute our board of directors cease for any reason to constitute at least a majority of our board of directors unless such persons were elected, appointed or nominated by a vote of at least a majority of our incumbent directors; or

the complete liquidation or dissolution of our company.

In our view, having the change of control and severance protections helps to maintain the named executive officer's objectivity in decision-making and provides another vehicle to align the interests of our named executive officer with the interests of our stockholders.

The following table sets forth the estimated amounts that would be payable to each of the named executives upon a termination under the scenarios outlined above, excluding termination for cause or on account of death or disability, assuming that such termination occurred on December 31, 2006 but taking into effect salary increases set forth on page 25 of this proxy statement and assuming that the amount of the bonus used in the calculation is the highest bonus amount paid to such named executive officer, and using the closing price of our common stock at December 29, 2006 for purposes of the calculations as required by the SEC. There can be no assurance that these scenarios would produce the same or similar results as those disclosed if a termination occurs in the future.

	Severance Payment(A)	Early Vesting of Restricted Stock/Options(B)	Other(C)	Total(D)
<b><u>Without Cause/For Good Reason</u></b>				
Floyd C. Wilson	\$ 1,400,000	\$ 575,000	\$ 13,005	\$ 1,988,005
Larry L. Helm	\$ 615,000	\$ 364,159	\$ 9,923	\$ 989,082
Shane M. Bayless	\$ 565,000	\$ 364,159	\$ 13,005	\$ 942,164
William N. Hahne	\$ 700,000(E)	\$ 575,000	\$ 29,769	\$ 1,304,769
Stephen W. Herod	\$ 625,000	\$ 364,159	\$ 13,005	\$ 1,002,164
Richard K. Stoneburner	\$ 525,000	\$ 364,159	\$ 13,005	\$ 902,164
<b><u>Change of Control</u></b>				
Floyd C. Wilson	\$ 2,800,000	\$ 575,000	\$ 26,010	\$ 3,401,010
Larry L. Helm	\$ 1,230,000	\$ 364,159	\$ 19,846	\$ 1,614,005
Shane M. Bayless	\$ 1,130,000	\$ 364,159	\$ 26,010	\$ 1,520,169
William N. Hahne	\$ 1,400,000(E)	\$ 575,000	\$ 29,769	\$ 2,004,769
Stephen W. Herod	\$ 1,250,000	\$ 364,159	\$ 26,010	\$ 1,640,169
Richard K. Stoneburner	\$ 1,050,000	\$ 364,159	\$ 26,010	\$ 1,440,169

(A) Represents total annual compensation (current salary plus 2006 bonus) multiplied, in the event of a change of control, by 2.

(B) As stated above, the value of unvested restricted stock and stock options that would vest under each of these termination scenarios is based on our common stock price at December 29, 2006. Amounts do not include the dollar value of restricted stock or stock options that vested prior to December 31, 2006.

(C) Includes an estimate of health insurance benefits to be provided under each of the scenarios based on actual amounts paid out in 2006.

(D) Excludes gross-up payments, if any, to cover excise taxes imposed under Code Sections 4999 or 409A.

## **Table of Contents**

- (E) Excludes from the calculation of total annual compensation the potential bonus payment of up to \$350,000 if our production in the second quarter of 2007 is higher than our production in the second quarter of 2006 pursuant to certain provisions contained in Mr. Hahne's employment agreement described on page 32.

### ***Board Representation***

Mr. Wilson's employment agreement provides that he will be nominated as a member of our board of directors, and that we will use our best efforts to cause him to be elected, appointed, or re-elected or re-appointed, as a director.

### **Indemnification Agreements**

We have entered into an indemnification agreement with each of our independent, non-management directors and senior executives. These agreements provide for us to, among other things, indemnify such persons against certain liabilities that may arise by reason of their status or service as directors or officers, to advance their expenses incurred as a result of a proceeding as to which they may be indemnified and to cover such person under any directors' and officers' liability insurance policy we choose, in our discretion, to maintain. These indemnification agreements are intended to provide indemnification rights to the fullest extent permitted under applicable indemnification rights statutes in the State of Delaware and are in addition to any other rights such person may have under our certificate of incorporation, bylaws and applicable law. We believe these indemnification agreements enhance our ability to attract and retain knowledgeable and experienced executives and independent, non-management directors.

### **Tax Deductibility**

Section 162(m) of the Code limits the deductibility of compensation in excess of \$1 million paid to our chief executive officer and our four other highest-paid executive officers unless certain specific and detailed criteria are satisfied. We believe that it is often desirable and in our best interests to deduct compensation payable to our executive officers. However, we also believe that there are circumstances where our interests are best served by maintaining flexibility in the way compensation is provided, even if it might result in the non-deductibility of certain compensation under the Code. In this regard, we consider the anticipated tax treatment to our company and our executive officers in the review and establishment of compensation programs and payments; however, we may from time to time pay compensation to our executives that may not be deductible, including discretionary bonuses or other types of compensation outside of our plans.

Although equity awards may be deductible for tax purposes by us, the accounting rules pursuant to FAS 123(R) require that the portion of the tax benefit in excess of the financial compensation cost be recorded to paid-in-capital.

**Table of Contents****Summary Compensation Table for 2006**

The table below sets forth information regarding 2006 compensation for our named executive officers:

<b>Name and Principal Position</b>	<b>Year</b>	<b>Salary (\$)</b>	<b>Bonus (\$)<sup>(1)</sup></b>	<b>Stock Awards (\$)<sup>(2)</sup></b>	<b>Option Awards (\$)<sup>(2)</sup></b>	<b>All Other Compensation (\$)</b>	<b>Total (\$)</b>
Floyd C. Wilson Chairman, President and Chief Executive Officer	2006	\$ 500,000	\$ 800,000	\$ 443,106	\$ 115,945	\$ 20,000 <sup>(3)</sup>	\$ 1,887,939
Larry L. Helm Executive Vice President Chief Administrative Officer	2006	\$ 300,000	\$ 300,000	\$ 273,497	\$ 71,923	\$ 20,000 <sup>(3)</sup>	\$ 965,420
Shane M. Bayless Executive Vice President Chief Financial Officer	2006	\$ 275,000	\$ 275,000	\$ 273,497	\$ 62,624	\$ 15,000 <sup>(3)</sup>	\$ 901,828
William N. Hahne Executive Vice President and Chief Operating Officer	2006	\$ 163,107	\$ 225,000	\$ 173,097	\$ 188,014		\$ 750,933
Stephen W. Herod Executive Vice President Corporate Development	2006	\$ 234,469	\$ 350,000	\$ 273,497	\$ 62,624	\$ 15,000 <sup>(3)</sup>	\$ 935,590
Richard K. Stoneburner Executive Vice President Exploration	2006	\$ 234,469	\$ 250,000	\$ 273,497	\$ 62,624	\$ 20,000 <sup>(3)</sup>	\$ 840,590

- (1) Represents bonuses based upon 2006 performance that were paid during March 2007. During March 2006, bonuses were paid to the named executive officers (other than Mr. Hahne who was not employed at the time) for 2005 performance. The bonuses paid during 2006 for 2005 performance were as follows: Mr. Wilson \$500,000, Mr. Helm \$225,000, Mr. Bayless \$200,000, Mr. Herod \$175,000, and Mr. Stoneburner \$175,000.
- (2) Represents the dollar amount recognized for financial statement reporting purposes with respect to the 2006 fiscal year for the fair value of awards granted in 2006 as well as prior fiscal years, as determined in accordance with FAS 123R. Pursuant to SEC rules, the amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions. Please see the discussion of the assumptions made in the valuation of these awards in Note 1 Summary of Significant Accounting Policies to the audited consolidated financial statements included in the annual report accompanying this proxy statement. See the Grants of Plan-Based Awards Table for information on awards made in 2006. These amounts reflect our accounting expense for these awards, and do not correspond to the actual value that will be recognized by the named executive officers.
- (3) Represents the matching contribution that we make on account of employee contributions under our tax-qualified profit sharing and 401(k) plan.

**Table of Contents****Grants of Plan-Based Awards in 2006**

The table below sets forth information regarding grants of plan-based awards made to our named executive officers during 2006.

Name	Grant Date	Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Awards: Number of Securities Underlying Options	Exercise or Base Price of Option Awards	Grant Date Fair Value of Stock and Option Awards
		Threshold	Target	Maximum			
		(#)	(#)	(#) <sup>(1)</sup>	(#)	(\$/Sh) <sup>(2)</sup>	(\$) <sup>(3)</sup>
Floyd C. Wilson	02/03/06	N/A	N/A	50,000			\$ 791,000
Larry L. Helm	02/03/06	N/A	N/A	25,000			\$ 395,500
Shane M. Bayless	02/03/06	N/A	N/A	25,000			\$ 395,500
William N. Hahne	07/12/06	N/A	N/A	50,000			\$ 618,000
					75,000 <sup>(2)(4)</sup>	\$ 12.36	\$ 287,850
Stephen W. Herod	02/03/06	N/A	N/A	25,000			\$ 385,500
Richard K. Stoneburner	02/03/06	N/A	N/A	25,000			\$ 395,500

- (1) Represents shares of restricted stock issued under our 2004 Petrohawk Plan. Other than the award to Mr. Hahne, which vests in its entirety on the second anniversary of the date of grant, the shares of restricted stock vest in three equal installments on each anniversary of the date of grant, in each case provided that the recipient has been continuously employed at such date.
- (2) The exercise price of the award is equal to the closing market price of our common stock on the date of grant.
- (3) Represents the full grant date fair value determined in accordance with FAS 123R. Please see the discussion of the assumptions made in the valuation of these awards in Note 1 Summary of Significant Accounting Policies to the audited consolidated financial statements included in the annual report accompanying this proxy statement. Generally, the full grant date fair value is the amount that we would expense in its financial statements over the award's vesting schedule. These amounts reflect our accounting expense, and do not correspond to the actual value that will be recognized by the named executive officers.
- (4) Stock option granted to Mr. Hahne under the 2004 Petrohawk Plan in accordance with the terms of his employment agreement. The option vested immediately as to one-third and the remaining two-thirds will vest on the one year anniversary of the date of grant.



**Table of Contents****Outstanding Equity Awards at December 31, 2006**

The following table summarizes the number of securities underlying outstanding plan awards for each named executive officer as of December 31, 2006.

Name	Option Awards				Option Expiration Date	Stock Awards			
	Number of Securities Underlying Unexercised Options	Number of Securities Underlying Unexercised Options	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options	Option Exercise Price		Number of Shares or Units of Stock That Have Not Vested	Market Value of Shares or Units of Stock That Have Not Vested	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested
	Exercisable (#)	Unexercisable (#)	(#)	(\$)		(#) <sup>(1)</sup>	(\$) <sup>(2)</sup>	(#)	(\$)
Floyd C. Wilson	150,000			\$ 7.50		50,000	\$ 575,000		
	175,000			\$ 8.51					
Larry L. Helm	75,000			\$ 7.50		31,667	\$ 364,159		
	125,000			\$ 8.51					
Shane M. Bayless	75,000			\$ 7.50		31,667	\$ 364,159		
	100,000			\$ 8.51					
William N. Hahne	695,473 <sup>(3)</sup>	75,000		\$ 12.36 <sup>(4)</sup>	07/12/2016	50,000	\$ 575,000		
Stephen W. Herod	75,000			\$ 7.50		31,667	\$ 364,159		
	100,000			\$ 8.51					
Richard K. Stoneburner	75,000			\$ 7.50		31,667	\$ 364,159		
	100,000			\$ 8.51					

(1) Awards held by executives other than Mr. Hahne vest in three equal installments on each anniversary of the date of grant, beginning on the first anniversary of the date of grant, provided that the recipient has been continuously employed at such date. Mr. Hahne's awards vest in their entirety on the second anniversary of the date of grant.

(2) Calculated based upon the trading stock price of our common stock at end of the fiscal year of \$11.50 times the number of unvested awards.

(3) These options were awarded to Mr. Hahne by KCS prior to his employment by us. As a consequence of our merger with KCS and our assumption of KCS's stock incentive plans, each of these options was converted into an option to purchase our common stock. The following table reflects the number of shares and exercise prices of these awards as adjusted to take into account the exchange ratio in the merger:

Shares	Exercise Price
39,114	5.75
39,114	7.59
2	1.17
246,540	2.20
75,000	12.36
118,528	0.73
53,337	10.22
79,018	2.24
47,411	4.40
47,411	5.62

- <sup>(4)</sup> Represents the exercise price of the option granted to Mr. Hahne in connection with his employment by us. The option vested on date of grant as to one-third of the shares covered thereby. The remaining two-thirds will vest on the one year anniversary of the date of grant. For the exercise prices of exercisable options granted to Mr. Hahne while an executive of KCS, see footnote (3), above.

**Table of Contents****Compensation Adjustments and Long-Term Incentive Awards Subsequent to Fiscal Year End**

Subsequent to December 31, 2006, as part of the analysis of executive compensation that is undertaken annually by our compensation committee, we approved increases in the base salaries of each of our named executive officers and granted awards to each executive officer of long-term equity incentives under our 2004 Petrohawk Plan. These incentives were in the form of grants of restricted stock and of stock appreciation rights that will be settled in shares of common stock. The restricted stock grants and stock appreciation rights vest over a period of three years. The incremental increase in salary and the number of shares covered by the equity awards for each named executive officer are set forth in the table below. The exercise price per share for each stock appreciation right reflected in the following table is \$11.64, which was the closing stock price of our common stock on the date of grant, March 2, 2007.

	Salary Increase	2007 Base Salary	Restricted Stock Award	Stock Appreciation Rights
Name	(\$)	(\$)	(#)	(#)
Floyd C. Wilson	100,000	600,000	75,000	150,000
Larry L. Helm	15,000	315,000	30,000	60,000
Shane M. Bayless	15,000	290,000	30,000	60,000
William N. Hahne		350,000		
Stephen W. Herod	25,000	275,000	30,000	60,000
Richard K. Stoneburner	25,000	275,000	30,000	60,000

**Option Exercises and Stock Vested**

The following table summarizes restricted stock vesting for our named executive officers in 2006. No stock options were exercised by the named executive officers during 2006.

Name	Option Awards		Stock Awards	
	Number of Shares	Value Realized	Number of Shares	Value Realized
	Acquired on Exercise	on Exercise	Acquired on Vesting	on Vesting
	(#)	(\$)	(#) <sup>(1)</sup>	(\$) <sup>(2)</sup>
Floyd C. Wilson				
Larry L. Helm			3,333	\$ 39,496
Shane M. Bayless			3,333	\$ 39,496
William N. Hahne				
Stephen W. Herod			3,333	\$ 39,496
Richard K. Stoneburner			3,333	\$ 39,496

<sup>(1)</sup> Represents vesting of one-third of restricted stock grant to each individual made on August 1, 2005.

<sup>(2)</sup> Calculated by multiplying the closing sales price of our common stock on the date of vesting of \$11.85 by the number of shares vesting.

**Equity Compensation Plan Information**

The following table sets forth certain information as of December 31, 2006 with respect to compensation plans (including individual compensation arrangements) under which our equity securities are authorized for issuance. The numbers of shares of stock issuable upon exercise of options and the per share option exercise prices, and the number of securities remaining available for future issuance under equity compensation plans used in the following table reflect an adjustment for the one-for-two reverse stock split effective May 26, 2004. Under NYSE rules, we are permitted to grant awards under certain circumstances pursuant to the 2005 KCS Plan, which we assumed as a consequence of our merger with KCS in July 2006. The number of shares available for



**Table of Contents**

issuance pursuant to awards under this plan are reported below as Equity compensation plans not approved by security holders. We will not issue any future awards under the 2005 KCS Plan in the event that our stockholders approve the amendments to the 2004 Petrohawk Plan, as set forth in Proposal 2 in this proxy statement.

<b>Plan Category</b>	<b>Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights(a)</b>	<b>Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights</b>	<b>Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column(a))</b>
Equity compensation plans approved by security holders <sup>(1)</sup>	6,017,558	\$ 7.50	2,503,850
Equity compensation plans not approved by security holders <sup>(2)</sup>	484,760	\$ 8.75	7,774,217
<b>Total</b>	<b>6,502,318</b>	<b>\$ 7.59</b>	<b>10,278,067</b>

<sup>(1)</sup> Represents information for the 2004 Petrohawk Plan, 2004 Non-Employee Director Incentive Plan, and 1999 Incentive and Nonstatutory Stock Option Plan. Also includes 1,933,039 shares covered by the 2001 KCS Energy, Inc. Employee and Directors Stock Plan which we assumed in our merger with KCS and 167,796 shares under plans that we assumed in our merger with Mission Resources Corporation. We do not issue new grants under these assumed plans.

<sup>(2)</sup> Represents shares under the 2005 KCS Plan that we assumed in our merger with KCS and that we may issue to former KCS employees currently employed by us.

**Table of Contents****DIRECTOR COMPENSATION***2006 Director Compensation*

The table below sets forth certain information concerning the compensation earned in 2006 by our non-employee directors for service on our board of directors during 2006.

Name	Fees Earned or Paid in Cash	Stock Awards <sup>(1)(2)(3)</sup>	Option Awards	All Other Compensation	Total <sup>(4)</sup>
James W. Christmas	\$ 11,005	\$ 142,519			\$ 153,524
Tucker S. Bridwell	\$ 21 <sup>(5)</sup>	\$ 97,763 <sup>(5)</sup>			\$ 97,784
Robert G. Reynolds	\$ 505 <sup>(5)</sup>	\$ 104,156 <sup>(5)</sup>			\$ 104,661
James L. Irish III	\$ 35,000	\$ 97,763			\$ 132,763
Christopher A. Viggiano	\$ 13,156	\$ 104,156			\$ 117,312
Thomas R. Fuller	\$ 20,527	\$ 114,731			\$ 135,258
Gary A. Merriman	\$ 12,656	\$ 104,156			\$ 116,812
Robert C. Stone, Jr.	\$ 31,875	\$ 97,763			\$ 129,638

- (1) Prior to each calendar quarter, in lieu of cash fees for the quarter, directors may elect to receive shares of common stock in an amount equal to such fees, calculated on the closing price of shares of our common stock on the NASDAQ on the last day of such quarter.
- (2) Represents the dollar amount recognized for financial statement reporting purposes with respect to the 2006 fiscal year for the fair value of awards granted in 2006 as well as prior fiscal years, as determined in accordance with FAS 123R. Pursuant to SEC rules, the amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions. Please see the discussion of the assumptions made in the valuation of these awards in Note 1 Summary of Significant Accounting Policies to the audited consolidated financial statements included in the annual report accompanying this proxy statement. These amounts reflect our accounting expense for these awards, and do not correspond to the actual value that will be recognized by our directors.
- (3) The grant date fair value of each of these awards, determined in accordance with FAS 123R, was:

Stock									
Date	Price	Christmas	Reynolds	Viggiano	Merriman	Bridwell	Irish	Stone Jr.	Fuller
7/12/2006	\$ 12.36	\$ 92,700	\$ 92,700	\$ 92,700	\$ 92,700				
8/11/2006	\$ 10.23	\$ 76,725	\$ 25,575	\$ 25,575	\$ 25,575	\$ 51,150	\$ 51,150	\$ 51,150	\$ 25,575
5/25/2006	\$ 11.88					\$ 59,400	\$ 59,400	\$ 59,400	
3/6/2006	\$ 12.74								\$ 95,550
Total		\$ 169,425	\$ 118,275	\$ 118,275	\$ 118,275	\$ 110,550	\$ 110,550	\$ 110,550	\$ 121,125

Generally, the full grant date fair value is the amount that we would expense in its financial statements over the award's vesting schedule. These amounts reflect our accounting expense, and do not correspond to the actual value that will be recognized by our directors.

- (4) Represents the numerical sum of the dollar amounts reflected in each other column for each director.
- (5) Messrs. Bridwell and Reynolds elected to receive a portion of their board fees in shares of common stock.

*Discussion of Director Compensation Table*

Employee directors receive no additional compensation for service on our board of directors or any committee of the board of directors. All directors receive actual expense reimbursements associated with attending board and committee meetings. Prior to August 11, 2006, our non-employee directors each received \$20,000 in cash per year (payable on a quarterly basis in the amount of \$5,000). The chairman of our audit

**Table of Contents**

committee received an additional \$5,000 per year (payable on a quarterly basis in the amount of \$1,250). Further, each member of our audit committee (other than the chairman) received an additional \$2,500 per year (payable on a quarterly basis in the amount of \$625). Directors are entitled to elect quarterly to be paid in shares of our common stock in lieu of cash, with the number of shares determined by dividing such fees by the trading price per share of our common stock on the last day of each calendar quarter.

In addition, under the 2004 Petrohawk Plan, we granted each non-employee director 7,500 shares of our restricted common stock at the time such non-employee director became a director. Each grant of 7,500 restricted shares vested fully after the non-employee director completed six months of service on our board. In addition, we granted 5,000 shares of our restricted common stock with the same vesting provisions annually to each non-employee member of the board on the anniversary of his or her appointment or election to the board.

Effective August 11, 2006, pursuant to a recommendation from our compensation committee, our board of directors increased the annual equity grant to non-employee directors from 5,000 shares of restricted stock to 10,000 shares of our restricted common stock, except that the vice chairman of our board of directors will receive grants of 15,000 shares of our restricted common stock annually. Also as recommended by our compensation committee, the number of shares of restricted common stock to be granted to new non-employee directors was increased from 7,500 shares to 10,000 shares.

Beginning on September 30, 2006, annual cash retainers paid to each non-employee director were also increased from \$20,000 to \$50,000, payable quarterly. Also beginning on September 30, 2006, additional annual compensation for board committee service, which is payable quarterly, was authorized, as follows:

	<b>Committee Chairperson</b>	<b>Committee Member (excluding Chairperson)</b>
<b>Board Committee</b>	<b>Compensation</b>	<b>Compensation</b>
Audit	\$ 15,000	\$ 5,000
Compensation	\$ 7,500	\$ 2,500
Reserves	\$ 5,000	\$ 2,000

Board members may elect to take all or a portion of the cash compensation mentioned above in our common stock, but such election must be made prior to the beginning of the quarter for which the compensation would be paid and shall be irrevocable for that quarter.

**COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION**

As of December 31, 2006, Messrs. Merriman, Viggiano and Fuller served on the compensation committee of our board of directors. Prior to July 12, 2006, Messrs. Brown, Rioux and Williamson served on our compensation committee. No member of the compensation committee served as one of our officers or employees or of any of our subsidiaries during 2006. In addition, during 2006, none of our executive officers served as a director or as a member of the compensation committee of a company which employs any of our directors.

**Table of Contents**

**COMPENSATION COMMITTEE REPORT**

We have reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K, starting on page 22 of this proxy statement, with management. Based on our review and discussion with management, we have recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement.

MEMBERS OF THE COMMITTEE:

Gary A. Merriman (Chairman)

Christopher A. Viggiano

Thomas R. Fuller

*(The foregoing Compensation Committee Report does not constitute soliciting material and should not be deemed to be filed or incorporated by reference into any other filing of Petrohawk under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that Petrohawk specifically incorporates the Report by reference therein.)*



**Table of Contents**

**ACCOUNTANTS AND AUDIT COMMITTEE**

***Audit Committee Report***

Dear Stockholder:

The Audit Committee has reviewed and discussed with management of Petrohawk and Deloitte & Touche LLP ( Deloitte ), the independent registered public accounting firm serving as the independent auditor of Petrohawk, the audited financial statements of Petrohawk as of, and for the fiscal year ended, December 31, 2006 (the Audited Financial Statements ). In addition, we have discussed with Deloitte the matters required to be discussed by the statement on Auditing Standard No. 61, as amended (AICPA, *Professional Standards*, Vol. 1. AU section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T.

The Audit Committee also has received the written disclosures and the letter from Deloitte required by Independence Standards Board Standard No. 1 (Independence Standards Board Standard No. 1, *Independence Discussions with Audit Committees*), as adopted by the Public Company Accounting Oversight Board in Rule 3600T, and the Committee has discussed with that firm its independence from Petrohawk. Upon such review, the Audit Committee has concluded that the independent auditors are independent from Petrohawk and its management. We have also discussed with management of Petrohawk and Deloitte such other matters and received such assurances from them as we deemed appropriate.

Management is responsible for Petrohawk's internal controls and the financial reporting process. Deloitte is responsible for performing an independent audit of Petrohawk's financial statements and of its internal control over financial reporting in accordance with generally accepted auditing standards and issuing a report thereon. The Audit Committee's responsibility is to monitor and oversee these processes.

Based on the foregoing monitoring and oversight process, discussions with management and a review of the report of Deloitte with respect to the Audited Financial Statements, and relying thereon, the Committee has recommended to the Board the inclusion of the Audited Financial Statements in Petrohawk's Annual Report on Form 10-K for the year ended December 31, 2006 for filing with the SEC.

The Audit Committee has considered the requirements of the Sarbanes-Oxley Act of 2002 with respect to the responsibilities of audit committees of public companies. The Audit Committee and the Board of Petrohawk are committed to compliance with all provisions of that statute and related regulations. Actions will be taken by the Audit Committee and the Board as statutory and regulatory provisions become effective for Petrohawk and for audit committees and independent auditors generally.

**MEMBERS OF THE COMMITTEE:**

James L. Irish III (Chairman)  
Robert C. Stone, Jr.  
Tucker S. Bridwell  
Christopher A. Viggiano

*(The foregoing Audit Committee Report does not constitute soliciting material and should not be deemed filed or incorporated by reference into any other filing of Petrohawk under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that Petrohawk specifically incorporates the Report by reference therein.)*

**Table of Contents*****Independent Registered Public Accounting Firm***

Deloitte is the independent registered public accounting firm selected by our audit committee as the independent auditor for the fiscal year ended December 31, 2006. Our audit committee has also appointed Deloitte as the independent auditor for the fiscal year ended December 31, 2007, and is proposing ratification of such appointment to our stockholders.

***Attendance of the Annual Meeting by Deloitte Representative***

A representative of Deloitte is expected to be present at the annual meeting of the stockholders. Deloitte will have the opportunity to make a statement if it desires to do so, and the Deloitte representative is expected to be available to respond to appropriate questions.

***Fees***

The following table presents fees billed for professional audit services rendered by Deloitte, our principal accounting firm, for the audit of our annual financial statements for the years ended December 31, 2005 and December 31, 2006, and fees for other services rendered by Deloitte during those periods. Except as set forth below, we paid all such fees.

	2006	2005
Audit Fees	\$ 1,651,307	\$ 1,210,150
Audit-Related Fees	\$ 45,000	\$
Tax Fees	\$	\$
All Other Fees	\$	\$
<b>Total</b>	<b>\$ 1,696,307</b>	<b>\$ 1,210,150</b>

As used above, the following terms have the meanings set forth below:

**Audit Fees.** The fees for professional services rendered by Deloitte for the audit of our annual financial statements, for the review of the financial statements included in our quarterly reports on Form 10-Q and for services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements, including but not limited to registration statements on Forms S-3, S-4 and S-8, for the years ended December 31, 2006 and December 31, 2005.

**Audit-Related Fees.** The fees for assurance and related services by Deloitte that are reasonably related to the performance of the audit or review of our financial statements and are not otherwise reported under **Audit Fees**. We engaged Deloitte for the following professional services that would be considered audit related services for the year ended December 31, 2006: services relating to the audit of our 401(k) plan for the fiscal year 2006. The audit of our 401(k) plan for the year ended December 31, 2006 is expected to be performed by Deloitte in 2007, and consequently, we have not yet paid the amount of \$45,000 which is expected to be incurred in connection with this audit. We did not engage Deloitte for any services that would be considered audit related services for the year ended December 31, 2005.

**Tax Fees.** The fees for professional services rendered by Deloitte for tax compliance, tax advice, and tax planning. We did not engage Deloitte for any professional services for tax compliance, tax advice or tax planning for the years ended December 31, 2006 and December 31, 2005.

**All Other Fees.** The fees for products and services provided by Deloitte, other than for the services reported under the headings **Audit Fees**, **Audit-Related Fees** and **Tax Fees**, for the period in question. We did not engage Deloitte for any additional professional services other than as disclosed above for the years ended December 31, 2006 and December 31, 2005.

**Table of Contents**

*Audit Committee Pre-Approval Policy*

All audit fees, audit related fees and tax fees as described above for the years ended December 31, 2006 and December 31, 2005, as applicable, were pre-approved by our audit committee, which concluded that the provision of such services by Deloitte was compatible with the maintenance of Deloitte's independence in the conduct of its auditing functions. Our audit committee's pre-approval policy provides that pre-approval of all such services must be approved separately by the audit committee. The audit committee has not delegated any such pre-approval authority to anyone outside the audit committee. Each member of the audit committee has the authority to pre-approve non-audit services up to \$50,000 to be performed by our auditors.

**Table of Contents**

**PROPOSALS FOR CONSIDERATION AT THE ANNUAL MEETING OF STOCKHOLDERS**

**PROPOSAL 1 ELECTION OF DIRECTORS**

Our bylaws specify that we shall not have less than one nor more than eleven directors, and each director holds office until the annual stockholders meeting at which such director's class is up for re-election and until the director's successor is duly elected and qualified, or until such director's earlier death, resignation or removal. As of the date of this proxy statement, our board of directors consists of nine directors, seven of whom have been determined to be independent directors as forth in the corporate governance rules of the NYSE codified in Section 303A of the NYSE Listed Company Manual. Our certificate of incorporation provides that our board of directors is classified into three classes: Class I, Class II and Class III, each class being a three year term of office. As discussed more fully under Our Board of Directors and Its Committees starting on page 7, three of our current directors, Thomas R. Fuller, Robert G. Reynolds and Christopher A. Viggiano have been nominated for reelection at the 2007 annual meeting of our stockholders because of the expiration of the term of their class, Class III, on our classified board of directors.

If any nominee should for any reason become unable to serve prior to the date of the annual meeting, the shares represented by all valid proxies will be voted for the election of such other person as the board may designate as a replacement following recommendation by the nominating and corporate governance committee, or the board may reduce the number of directors to eliminate the vacancy.

Directors are elected by a plurality vote of the shares present at the annual meeting, meaning that the director nominee with the most affirmative votes for a particular slot is elected for that slot. Any shares not voted (whether by withholding the vote, broker non-vote or otherwise) have no impact in the election of directors, except to the extent the failure to vote for an individual results in another candidate receiving a larger number of votes in person and represented by proxy at the annual meeting. If you sign your proxy card but do not give instructions with respect to the voting of directors, your shares will be voted for Messrs. Fuller, Reynolds and Viggiano.

Additional information regarding Messrs. Fuller, Reynolds and Viggiano and all of our other directors can be found under Our Board of Directors and Its Committees starting on page 7 of this proxy statement, under Security Ownership of Executive Officers and Directors starting on page 19, and under Director Compensation starting on page 41.

**THE BOARD OF DIRECTORS UNANIMOUSLY PROPOSES AND RECOMMENDS THAT YOU VOTE FOR EACH OF THE NOMINEES FOR THE BOARD OF DIRECTORS.**

---

**Table of Contents**

**PROPOSAL 2 AMENDMENT TO THE PETROHAWK ENERGY CORPORATION THIRD AMENDED AND RESTATED 2004 EMPLOYEE INCENTIVE PLAN**

*General*

We are requesting that our stockholders vote in favor of approving the amendment to the Petrohawk Energy Corporation Third Amended and Restated 2004 Employee Incentive Plan, referred to as the 2004 Petrohawk Plan in this proxy statement. The amendment was approved by our board of directors on May 8, 2007, subject to stockholder approval.

On July 15, 2004, our stockholders approved the 2004 Petrohawk Plan. As originally approved by our stockholders, the 2004 Petrohawk Plan provided that the aggregate number of shares of incentive stock, restricted stock and shares of common stock that may be issued under stock options granted under the 2004 Petrohawk Plan would not exceed 750,000 shares, and, in addition, the aggregate number of shares of incentive stock and restricted stock that may be granted under the 2004 Petrohawk Plan would not exceed 375,000 shares. On November 29, 2004, the 2004 Petrohawk Plan was amended to increase the aggregate number of shares of common stock (including common stock options) that may be issued under the 2004 Petrohawk Plan from 750,000 shares to 2.75 million shares, and to increase the number of shares of incentive stock and restricted stock issuable under the 2004 Petrohawk Plan from 375,000 shares to 1.375 million shares. On July 28, 2005, the 2004 Petrohawk Plan was amended to increase the aggregate number of shares of common stock that may be issued under the 2004 Petrohawk Plan from 2.75 million shares to 4.25 million shares. In connection with the merger of KCS and Petrohawk, the 2004 Petrohawk Plan was amended to increase the aggregate number of shares of common stock (including common stock options) that may be issued under the 2004 Petrohawk Plan from 4.25 million shares to 7.05 million shares, and to increase the number of shares of incentive stock and restricted stock issuable under the 2004 Petrohawk Plan from 2.125 million shares to 3.525 million shares. On February 27, 2007, the 2004 Petrohawk Plan was amended to provide for the issuance of stock appreciation rights. Our board of directors believes that it is in our and our stockholders' best interest to amend the 2004 Petrohawk Plan to increase the aggregate number of shares of common stock (including shares of common stock issuable under or covered by common stock options and stock appreciation rights) that may be issued under the 2004 Petrohawk Plan from 7.05 million shares to 12.55 million shares and to increase the number of shares of incentive stock, restricted stock and stock appreciation rights issuable under the 2004 Petrohawk Plan from 3.525 million shares to 3.610 million shares.

If this Proposal 2 is approved by our stockholders, no further grants will be made under the 2005 KCS Plan (which has 7,459,332 shares of our common stock available for issuance as of May 21, 2007), and all future grants will be made under the 2004 Petrohawk Plan. If this Proposal 2 is not approved by our stockholders, then we reserve the right to issue shares under the 2005 KCS Plan.

The compensation committee and the board of directors believe that it would be in our and our stockholders' best interest for our stockholders to approve the amendment to the 2004 Petrohawk Plan, increasing the number of shares of common stock available for issuance under the 2004 Petrohawk Plan by 5.5 million shares of Petrohawk common stock issuable under the 2004 Petrohawk Plan, for an aggregate of 7,221,605 shares of our common stock available for issuance under the 2004 Petrohawk Plan as of May 21, 2007.

The amendment to the 2004 Petrohawk Plan is being proposed because our compensation committee and our board believe that this will give our management more flexibility in having all of our employees be able to participate in our incentive compensation program. Currently, the shares of common stock underlying options, restricted stock, stock appreciation rights and other derivative securities issuable under the 2005 KCS Plan are only available for issuance to our employees and non-employee directors who were employees and non-employee directors of KCS prior to our July 12, 2006 merger with KCS, and therefore, are not available for issuance to our employees who are not former KCS employees. Our compensation committee and our board believe that it would be in our and our stockholders' best interest for our stockholders to approve the amendment.

---

**Table of Contents**

to the 2004 Petrohawk Plan in order to provide incentives to all of our employees to contribute to Petrohawk's continued success, to provide all of our employees with a proprietary ownership interest in our company, to maintain competitive compensation levels, to attract and retain competent and talented employees, and to provide incentives to all of our employees for continued service. In addition, our board and our compensation committee believe that there will be more administrative ease in administering just one plan, as opposed to administering both the 2005 KCS Plan and the 2004 Petrohawk Plan, since, if this proposal is approved by our stockholders, no further grants will be made under the 2005 KCS Plan, and all of the future grants to our employees will be made under the 2004 Petrohawk Plan.

The proposed amendment to the 2004 Petrohawk Plan will make available stock options, stock appreciation rights, restricted stock, and incentive stock awards to our management and employees representing, in the aggregate, up to approximately 7.5% of our outstanding common stock. All our employees are eligible to receive awards and grants under the 2004 Petrohawk Plan, and as of May 1, 2007, there were approximately 328 Petrohawk employees eligible to receive such awards and grants. Our board of directors and management believe that the amendment to the 2004 Petrohawk Plan will help attract and retain competitively superior employees and promote long-term growth and profitability by aligning employee and stockholder interests. **A summary of the essential features of the 2004 Petrohawk Plan is provided below, but is qualified in its entirety by reference to the full text of the 2004 Petrohawk Plan.**

*Material Terms*

**Maximum Number of Shares Issuable; Adjustment.** The maximum number of shares that may be subject to stock options and stock appreciation rights granted under the 2004 Petrohawk Plan to an employee during any calendar year will continue to be limited to 200,000 shares (subject to adjustment in the event of a recapitalization or other corporate action affecting the number of shares outstanding), and the maximum number of shares of restricted stock and incentive stock that may be issued to an employee during any calendar year will continue to be limited to 100,000 shares (subject to adjustment in the event of a recapitalization or other corporate action affecting the number of shares outstanding). The shares with respect to which stock options, stock appreciation rights, restricted stock, and incentive stock may be granted are shares of common stock as presently constituted. The 2004 Petrohawk Plan provides that if we recapitalize, reclassify our capital stock, or otherwise change our capital structure (a recapitalization), the number and class of shares of stock covered by a stock option or a stock appreciation right theretofore granted shall be adjusted so that such option or stock appreciation right shall thereafter cover the number and class of shares of stock and securities to which the optionee would have been entitled pursuant to the terms of the recapitalization if, immediately prior to the recapitalization, the optionee had been the holder of record of the number of shares of stock then covered by such option or stock appreciation right.

**Corporate Change.** The 2004 Petrohawk Plan provides that, upon a corporate change, our compensation committee may accelerate the vesting of stock options and stock appreciation rights, cancel stock options or stock appreciation rights and make payments in respect thereof in cash, adjust the outstanding options or stock appreciation rights as appropriate to reflect such corporate change, or provide that each option or stock appreciation right shall thereafter be exercisable for the number and class of securities or property to which the optionee would have been entitled had the option or stock appreciation right already been exercised. The 2004 Petrohawk Plan provides that a corporate change occurs (a) if Petrohawk is to be dissolved and liquidated, (b) if Petrohawk is not the surviving entity in any merger, consolidation or other reorganization (or survives only as a subsidiary of an entity other than a previously wholly owned subsidiary of Petrohawk), (c) if Petrohawk sells, leases, or exchanges all or substantially all of its assets, (d) if any person, entity or group acquires or gains ownership or control of more than 50% of Petrohawk's outstanding shares of voting stock, or (e) if after a contested election of directors, the persons who were directors before such election cease to constitute a majority of the board. In addition, upon a corporate change, our compensation committee may remove restrictions to which any restricted stock is subject including removing the restricted period, require the mandatory surrender to

## Table of Contents

us of some or all of the restricted stock held by any grantees in exchange for an amount of cash determined by the compensation committee, adjust the outstanding restricted stock to reflect such corporate change or provide that the number and class of shares of restricted stock shall be adjusted so that such restricted stock shall thereafter cover the number and class of shares of stock or other securities or property to which the grantee would have been entitled had the grantee been the holder of record of the such shares of stock (which was not restricted) immediately prior to such corporate change.

**Amendment or Termination of the 2004 Petrohawk Plan.** Our board of directors may terminate the 2004 Petrohawk Plan with respect to any shares for which options, stock appreciation rights, restricted stock, or incentive stock have not theretofore been granted. The board may amend the 2004 Petrohawk Plan; however, it may not amend the 2004 Petrohawk Plan without stockholder approval if the amendment: (i) would materially increase the benefits accruing to participants under the 2004 Petrohawk Plan, (ii) increase the aggregate number of shares which may be issued pursuant to the provisions of the 2004 Petrohawk Plan, (iii) change the class of individuals eligible to receive options, stock appreciation rights, restricted stock and incentive stock grants under the 2004 Petrohawk Plan, or (iv) extend the term of the 2004 Petrohawk Plan.

**Administration of the 2004 Petrohawk Plan.** Pursuant to the provisions of the 2004 Petrohawk Plan, our board of directors has appointed the compensation committee to administer the 2004 Petrohawk Plan. Our compensation committee currently consists of Messrs. Merriman, Fuller and Viggiano. The compensation committee has the sole authority to select the participants from among those individuals eligible under the 2004 Petrohawk Plan and to establish the number of shares of restricted stock and/or incentive stock which may be granted and shares which may be subject to each stock option and stock appreciation right, subject to the limitations set forth in the 2004 Petrohawk Plan.

**Type of Grants Under the 2004 Petrohawk Plan.** Our compensation committee may grant to our employees incentive stock, restricted stock, stock appreciation rights and options to purchase shares of our common stock. The compensation committee has the power to determine the terms upon which restricted stock, incentive stock, stock appreciation rights and stock options will be granted, including the number of shares of restricted stock and incentive stock to issue, the restrictions applicable to such shares of restricted stock, including vesting requirements, and, with respect to stock options and stock appreciation rights, the number of shares of common stock subject to each option or stock appreciation right, the exercisability and vesting requirements of each stock option or stock appreciation right, and the form of consideration payable upon the exercise of such stock option (i.e., whether cash or exchange of existing shares of our common stock in a cashless transaction or a combination thereof). The form of consideration payable upon the exercise of a stock appreciation right is shares of our common stock. The option price of shares of common stock issued under each stock option or stock appreciation right is equal to the fair market value of shares subject to the stock option or stock appreciation right on the date the stock option and each stock appreciation right is granted. Stock options granted under the 2004 Petrohawk Plan may be incentive stock options or non-statutory stock options. As of May 21, 2007, the closing sales price per share of our common stock as reported on the NYSE was \$15.90 per share.

**Eligibility of Participants, Term and Transferability.** Restricted stock, incentive stock, stock appreciation rights and stock options may be granted under the 2004 Petrohawk Plan only to individuals who are employees of Petrohawk or its parent or subsidiary corporation at the time of grant. No incentive stock option is granted to an employee who owns or who would own immediately before the grant of such incentive stock option more than 10% of the total combined voting power of all classes of our stock or our parent or subsidiary corporation, unless (i) at the time such stock option is granted the option price is 110% of the fair market value of the shares granted on the date of the grant and (ii) such stock option by its terms is not exercisable after the expiration of five years from the date of grant. The term of each stock option granted to other employees may not be more than ten years from the date of the grant. To the extent that the aggregate fair market value (determined at the time the respective incentive stock option is granted) of shares with respect to which incentive stock options are exercisable for the first time by an individual during any calendar year under all incentive stock option plans of

**Table of Contents**

Petrohawk and its parent and subsidiary corporations exceeds \$100,000, such excess incentive stock options are to be treated as non-statutory stock options. Restricted stock, stock appreciation rights and stock options granted under the 2004 Petrohawk Plan are not to be transferable other than by will or the laws of descent and distribution or pursuant to a qualified domestic relations order; provided, however, only with respect to non-statutory stock options and stock appreciation rights, the compensation committee may, in its discretion, authorize all or a portion of the options or stock appreciation rights to be granted on terms which permit transfer by the optionee to (i) the members of the optionee's immediate family, (ii) a trust or trusts for the exclusive benefit of such immediate family, or (iii) a partnership in which such members of such immediate family are the only partners, provided that there may be no consideration for any such transfer. The 2004 Petrohawk Plan further provides that following any permitted transfer, the option shall continue to be subject to the same terms and conditions as were applicable immediately prior to transfer. Restricted stock, incentive stock and the shares of common stock transferred to an optionee as a result of the exercise of an option are considered restricted securities under Rule 144 as promulgated under the 1933 Act and may only be resold or transferred in compliance with such rule and the registration requirements or an exemption from such requirements under the 1933 Act. The 2004 Petrohawk Plan shall terminate and no further restricted stock, incentive stock, stock appreciation rights or stock options shall be issued under the 2004 Petrohawk Plan after June 2, 2014.

**Awards Granted.** As of May 21, 2007, options representing approximately 4,001,570 shares of common stock, stock appreciation rights representing approximately 1,041,200 shares of common stock, and 1,323,088 shares of restricted stock have been awarded under the 2004 Petrohawk Plan.

**Outstanding Equity Awards Under All Stock Plans:**

The following represents outstanding equity awards under all equity plans as of May 21, 2007:

	Number of Securities to be Issued Upon Exercise of Outstanding Options and Rights	Weighted- Average Exercise Price of Outstanding Options and Rights	Average Remaining Contractual Life (Years)
Non-Statutory Stock Options	3,138,400	\$ 6.03	7.41
Incentive Stock Options	2,911,384	\$ 9.75	8.04
Stock Appreciation Rights	384,231	\$ 11.64	9.79
<b>Total:</b>	<b>6,439,336</b>	<b>\$ 8.04</b>	<b>7.84</b>

	Number of Securities to be Issued Upon Vesting
Restricted Stock	1,796,337
Performance Shares	137,297
<b>Total:</b>	<b>1,933,634</b>

As of May 21, 2007 a total of 1,721,605 shares are available for future issuance under the 2004 Petrohawk Plan, 405,000 shares are available for future issuance under the Non-Employee Director Incentive Plan and 7,459,332 shares are available for future issuance under the 2005 KCS Plan.



*U.S. Federal Income Tax Consequences*

The following is a brief summary of certain of the U.S. federal income tax consequences of certain transactions under the 2004 Petrohawk Plan as normally operated and is not intended to provide or supplement tax advice to eligible employees. The summary contains general statements based on current U.S. federal income tax statutes, regulations and currently available interpretations thereof. This summary is not intended to be exhaustive and does not describe state, local or foreign tax consequences or the effect, if any, of gift, estate and inheritance taxes.

---

**Table of Contents**

**Incentive Stock Options.** Incentive stock options are subject to special federal income tax treatment. No federal income tax is imposed on the optionee upon the grant or the exercise of an incentive stock option. However, the difference between the fair market value of the stock on the date of exercise and the exercise price must generally be included in the optionee's alternative minimum taxable income for the year in which such exercise occurs.

The federal income tax consequences to the optionee from the sale of stock acquired from the exercise of an incentive stock option are complex. If the optionee incurs a gain on the sale, the character of the gain depends on both the length of time from the grant of the incentive stock option to the date of sale and the length of time from the exercise of the incentive stock option to the date of sale. If the optionee holds the shares acquired pursuant to the exercise of an incentive stock option for the two-year period beginning on the date that the option was granted and the one-year period beginning on the date that the option was exercised (collectively, the holding period) any appreciation of the shares above the exercise price should constitute capital gain and we would not be entitled to any deduction for federal income tax purposes in connection with the grant or exercise of the option or the disposition of the shares so acquired. On the other hand, if an optionee disposes of shares acquired pursuant to the exercise of an incentive stock option prior to the end of the holding period (a disqualifying disposition), the optionee will be treated as having received, at the time of disposition, compensation taxable as ordinary income. In such event, and subject to the application of Section 162(m) of the Code as discussed below, we may claim a deduction for compensation paid at the same time and in the same amount as compensation is treated as received by the optionee. The amount treated as compensation is the excess of the fair market value of the shares at the time of exercise over the exercise price; any amount realized in excess of the fair market value of the shares at the time of exercise would be treated as short-term or long-term capital gain, depending on the holding period of the shares. Finally, if the price received by the optionee in a disqualifying disposition is less than the fair market value of the stock on the exercise date and the disposition is a transaction in which a loss, if sustained, would otherwise be recognized, then the amount of ordinary income the optionee would recognize is the excess, if any, of the amount realized on the sale over the adjusted basis of the shares.

**Nonqualified Stock Options and SARs.** As a general rule, no federal income tax is imposed on the optionee upon the grant of a nonqualified stock option or SAR such as those under the 2004 Petrohawk Plan, and we are not entitled to a tax deduction by reason of such grant. Generally, upon the exercise of a nonqualified stock option, the optionee will be treated as receiving compensation taxable as ordinary income in the year of exercise in an amount equal to the excess of the fair market value of the shares of stock at the time of exercise over the option price paid for such shares. In the case of the exercise of a SAR, the optionee will be treated as receiving compensation taxable as ordinary income in the year of exercise in an amount equal to the cash received plus the fair market value of the shares distributed to the optionee. Upon the exercise of a nonqualified stock option or a SAR, and subject to the application of Section 162(m) of the Code as discussed below, we may claim a deduction for compensation paid at the same time and in the same amount as compensation income is recognized by the optionee assuming any federal income tax reporting requirements are satisfied. Upon a subsequent disposition of the shares received upon exercise of a nonqualified stock option or a SAR, any difference between the fair market value of the shares at the time of exercise and the amount realized on the disposition would be treated as capital gain or loss. If the shares received upon the exercise of a nonqualified stock option or a SAR are transferred to the optionee subject to restrictions, then the taxable income realized by the optionee, unless the optionee elects otherwise, and our tax deduction (assuming any federal income tax reporting requirements are satisfied) should be deferred and should be measured with reference to the fair market value of the shares at the time the restrictions lapse. The restrictions imposed on officers, directors and 10% stockholders by Section 16(b) of the 1934 Act is such a restriction during the period prescribed thereby if the exercise and any subsequent disposition could result in liability under Section 16(b).

**Restricted Stock and Bonus Stock Awards.** The recipient of a restricted stock award will not realize taxable income at the time of grant, and we will not be entitled to a deduction at that time, assuming that the restrictions applicable to such stock constitute a substantial risk of forfeiture for federal income tax purposes. When the risk of forfeiture with respect to the stock subject to the award lapses, the holder will realize ordinary

---

**Table of Contents**

income in an amount equal to the fair market value of the shares of common stock at such time, and, subject to Section 162(m) of the Code, we will be entitled to a corresponding deduction. All dividends and distributions (or the cash equivalent thereof) with respect to a restricted stock award paid to the holder before the risk of forfeiture lapses will also be compensation income to the holder when paid and, subject to Section 162(m) of the Code, be deductible as such by us. Notwithstanding the foregoing, the holder of a restricted stock award may elect under Section 83(b) of the Code to be taxed at the time of grant of the restricted stock award based on the fair market value of the shares of common stock on the date of the award, in which case (i) subject to Section 162(m) of the Code, we will be entitled to a deduction at the same time and in the same amount, (ii) dividends paid to the recipient during the period the forfeiture restrictions apply will be taxable as dividends and will not be deductible by us, and (iii) there will be no further federal income tax consequences when the risk of forfeiture lapses. Such election must be made not later than 30 days after the grant of the restricted stock or bonus stock award and is irrevocable.

**Incentive Stock Awards.** In general, a participant who receives an incentive stock award will be taxed on the fair market value of the shares of common stock on the date the shares are issued to the individual. We will be entitled to a deduction for a corresponding amount.

**Additional Tax Consequences.** Section 162(m) of the Code places a \$1 million cap on the deductible compensation that may be paid to certain executives of publicly-traded corporations. Amounts that qualify as performance-based compensation under Section 162(m)(4)(C) of the Code are exempt from the cap and do not count toward the \$1 million limit. Generally, options granted with an exercise price at least equal to the fair market value of the common stock on the date of grant will qualify as performance-based compensation. Other awards may or may not so qualify, depending on their terms. In addition, some awards may be covered by Section 409A of the Code. In such event, we normally would expect to design and administer any such award in a manner that ordinarily should avoid adverse federal income tax consequences under Section 409A of the Code to any affected participant. **Notwithstanding the foregoing, the 2004 Petrohawk Plan expressly provides that there is no commitment or guarantee that any federal, state or local tax treatment will apply or be available to any person who participates or is eligible to participate in the 2004 Petrohawk Plan.**

*Text of the Amendment*

To effect the increase in the aggregate number of shares of our common stock (including shares underlying options and stock appreciation rights) that may be issued under the 2004 Petrohawk Plan, it is proposed that the first two sentences in Section V of the 2004 Petrohawk Plan be deleted in their entirety and replaced with the following:

The aggregate number of shares of Restricted Stock, shares of Incentive Stock and Shares which may be covered by Stock Options and issued upon exercise of Stock Appreciation Rights granted under the Plan shall not exceed 12.55 million (12,550,000). In addition, the aggregate number of shares of Restricted Stock, Stock Appreciation Rights and Incentive Stock combined which may be issued under the Plan shall not exceed 3.610 million (3,610,000).

The affirmative vote of the majority of the shares present in person or represented by proxy at the annual meeting and voting on the proposal is required for the approval of the amendment of the 2004 Petrohawk Plan.

**THE BOARD OF DIRECTORS UNANIMOUSLY PROPOSES AND RECOMMENDS THAT YOU VOTE FOR THE AMENDMENT OF THE 2004 PETROHAWK PLAN.**

**Table of Contents**

**PROPOSAL 3 RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITOR**

The audit committee has appointed Deloitte & Touche LLP as the independent registered public accounting firm to serve as our independent auditor in respect of the fiscal year ending December 31, 2007. The audit committee recommends that our stockholders ratify this appointment.

During 2006, Deloitte & Touche LLP audited our annual consolidated financial statements and those of our subsidiaries, reviewed financial information in filings with the SEC and other regulatory agencies, audited our internal control over financial reporting for the fiscal year ended December 31, 2006 and provided various other services.

The affirmative vote of the majority of the shares present in person or represented by proxy at the annual meeting and voting on the proposal shall constitute ratification of the selection of Deloitte & Touche LLP. If our stockholders do not ratify the appointment of Deloitte & Touche LLP, the appointment of an independent registered public accounting firm to serve as the independent auditor for the fiscal year ending December 31, 2007 will be reconsidered by the audit committee.

Representatives of Deloitte & Touche LLP are expected to be present at the meeting and will have an opportunity to address the meeting and respond to appropriate questions.

**THE BOARD OF DIRECTORS UNANIMOUSLY PROPOSES AND RECOMMENDS**

**THAT YOU VOTE FOR THE RATIFICATION OF THE APPOINTMENT OF**

**DELOITTE & TOUCHE LLP AS OUR INDEPENDENT AUDITOR**

**FOR THE FISCAL YEAR ENDING DECEMBER 31, 2007.**

**Table of Contents**

**SUBMISSION OF STOCKHOLDER PROPOSALS FOR OUR 2008 ANNUAL MEETING OF STOCKHOLDERS**

Stockholder proposals intended to be presented under Rule 14a-8 under the 1934 Act for inclusion in our proxy statement and accompanying proxy for our 2008 annual meeting of stockholders, including nomination of an individual for election as a director at the 2008 annual meeting of stockholders, must be received at our principal executive offices in Houston, Texas, on or before February 4, 2008, and must meet all the requirements of Rule 14a-8. If a stockholder intends to present a proposal at our 2008 annual meeting but has not sought the inclusion of such proposal in our proxy materials, we must receive the proposal on or before May 1, 2008, or our management proxies for the 2008 annual meeting will be entitled to use their discretionary voting authority if the proposal is then raised at the meeting, without any discussion of the matter in our proxy materials, in accordance with Rule 14a-4(c) under the 1934 Act. For a description of some of the requirements for suggesting an individual for consideration by the nominating and corporate governance committee for election as a director, see Our Board of Directors and Its Committees Board of Directors; Corporate Governance Matters Stockholder Nomination Process.

Proposals and other notices should be sent to:

David S. Elkouri, Secretary

1000 Louisiana, Suite 5600

Houston, Texas 77002

The use of certified mail, return receipt requested, is suggested.

**OTHER MATTERS**

The board knows of no other proposals that may properly be presented for consideration at the annual meeting but, if other matters do properly come before the annual meeting, and provided you fill out the enclosed proxy card and return it, thereby consenting to be represented at the annual meeting by proxy, the persons named in the proxy will vote your shares according to their best judgment.

By Order of the Board of Directors

of Petrohawk Energy Corporation

**Table of Contents**

**PETROHAWK ENERGY CORPORATION**

**1000 Louisiana, Suite 5600**

**Houston, Texas 77002**

**PROXY FOR ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON JULY 18, 2007**

**PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS**

The undersigned hereby appoints Floyd C. Wilson and Shane M. Bayless and each of them, proxies with power of substitution to vote on behalf of the undersigned all shares which the undersigned may be entitled to vote at the annual meeting of stockholders of Petrohawk Energy Corporation on July 18, 2007 and any adjournments or postponements thereof, with all powers that the undersigned would possess if personally present, with respect to the matters referred to on this proxy. A majority of the proxies or substitutes present at the meeting may exercise all power granted hereby.

**(Continued and to be signed on the reverse side)**

Table of Contents

ANNUAL MEETING OF STOCKHOLDERS OF

**PETROHAWK ENERGY CORPORATION**

July 18, 2007

Please date, sign and mail  
your proxy card in the  
envelope provided as soon  
as possible.

↓ Please detach along perforated line and mail in the envelope provided. ↓

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE ELECTION OF ALL NOMINEES FOR DIRECTOR AND FOR PROPOSALS 2 AND 3.

PLEASE SIGN, DATE AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE. PLEASE MARK YOUR VOTE IN BLUE OR BLACK INK AS SHOWN HERE x

		FOR	AGAINST	ABSTAIN
1. Election of Directors.	<b>NOMINEES:</b>	..	..	..
.. <b>FOR ALL NOMINEES</b>	<input type="radio"/> Thomas R. Fuller			
	<input type="radio"/> Robert G. Raynolds			
	<input type="radio"/> Christopher A. Viggiano			
.. <b>WITHHOLD AUTHORITY</b>		..	..	..
<b>FOR ALL NOMINEES</b>				
.. <b>FOR ALL EXCEPT</b>				
(See instructions below)				
	2. Approval and Ratification of the Amendment to Petrohawk Energy Corporation Third Amended and Restated 2004 Employee Incentive Plan.			
	3. Ratification of the Appointment of Deloitte & Touche LLP as Independent Auditor for 2007.			

**This Proxy when properly executed will be voted in the manner directed herein. If no direction is made, this Proxy will be voted FOR the election of nominees in Proposal 1, FOR the ratification and approval of the amendment to the Petrohawk Energy Corporation Third Amended and Restated 2004 Employee Incentive Plan in Proposal 2, and FOR the ratification of the appointment of independent auditor in Proposal 3; and the proxies are authorized, in accordance with their judgment, to vote upon such other matters as may properly come before the meeting and any postponements or adjournments thereof.**

**INSTRUCTION:** To withhold authority to vote for any individual nominee(s), mark **FOR ALL EXCEPT** and fill in the circle next to each nominee you wish to withhold, as shown here: 1

Edgar Filing: PETROHAWK ENERGY CORP - Form DEF 14A

**PLEASE MARK, SIGN, DATE, DETACH AND RETURN THIS PROXY CARD PROMPTLY IN THE ENCLOSED ENVELOPE.**

To change the address on your account, please check the box at right and indicate your new address in the address space above. Please note that changes to the registered name(s) on the account may not be submitted via this method.

Signature of Stockholder

Date:

Signature of Stockholder

Date:

**Note:** Please sign exactly as your name or names appear on this Proxy. When shares are held jointly, each holder should sign. When signing as executor, administrator, attorney, trustee or guardian, please give full title as such. If the signer is a corporation, please sign full corporate name by duly authorized officer, giving full title as such. If signer is a partnership, please sign in partnership name by authorized person.



**Table of Contents**

**ANNUAL MEETING OF STOCKHOLDERS OF**

**PETROHAWK ENERGY CORPORATION**

**July 18, 2007**

**PROXY VOTING INSTRUCTIONS**

**MAIL** - Date, sign and mail your proxy card in the envelope provided as soon as possible

**COMPANY NUMBER**

- OR -

**TELEPHONE** - Call toll-free **1-800-PROXIES**

**ACCOUNT NUMBER**

(1-800-776-9437) from any touch-tone telephone and follow the instructions. Have your proxy card available when you call.

- OR -

**INTERNET** - Access **www.voteproxy.com** and follow the on-screen instructions. Have your proxy card available when you access the web page.

You may enter your voting instructions at 1-800-PROXIES or www.voteproxy.com up until 11:59 PM Eastern Time the day before the cut-off or meeting date.

↓ Please detach along perforated line and mail in the envelope provided **IF** you are not voting via telephone or the Internet. ↓

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE ELECTION OF ALL NOMINEES FOR DIRECTOR AND FOR PROPOSALS 2 AND 3.**

**PLEASE SIGN, DATE AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE. PLEASE MARK YOUR VOTE IN BLUE OR BLACK INK AS SHOWN HERE x**

<p>1. Election of Directors.</p> <p>.. <b>FOR ALL NOMINEES</b></p> <p><b>NOMINEES:</b></p> <p>O Thomas R. Fuller</p> <p>O Robert G. Raynolds</p> <p>O Christopher A. Viggiano</p> <p>.. <b>WITHHOLD AUTHORITY</b></p> <p><b>FOR ALL NOMINEES</b></p>	<p>2. Approval and Ratification of the Amendment to Petrohawk Energy Corporation Third Amended and Restated 2004 Employee Incentive Plan.</p> <p>3. Ratification of the Appointment of Deloitte &amp; Touche LLP as Independent Auditor for 2007.</p>	<p>FOR AGAINST ABSTAIN</p> <p>.. " " "</p> <p>.. " " "</p>
--	---	--

.. **FOR ALL EXCEPT**

(See instructions below)

**This Proxy when properly executed will be voted in the manner directed herein. If no direction is made, this Proxy will be voted FOR the election of nominees in Proposal 1, FOR the ratification and approval of the amendment to the Petrohawk Energy Corporation Third Amended and Restated 2004 Employee Incentive Plan in Proposal 2, and FOR the ratification of the appointment of independent auditor in Proposal 3; and the proxies are authorized, in accordance with their judgment, to vote upon such other matters as may properly come before the meeting and any postponements or adjournments thereof.**

**INSTRUCTION:** To withhold authority to vote for any individual nominee(s), mark **FOR ALL EXCEPT** and fill in the circle next to each nominee you wish to withhold, as shown here: 1

**PLEASE MARK, SIGN, DATE, DETACH AND RETURN THIS PROXY CARD PROMPTLY IN THE ENCLOSED ENVELOPE.**

To change the address on your account, please check the box at right and indicate .. your new address in the address space above. Please note that changes to the registered name(s) on the account may not be submitted via this method.

Signature of Stockholder

Date:

Signature of Stockholder

Date:

**Note:** Please sign exactly as your name or names appear on this Proxy. When shares are held jointly, each holder should sign. When signing as executor, administrator, attorney, trustee or guardian, please give full title as such. If the signer is a corporation, please sign full corporate name by duly authorized officer, giving full title as such. If signer is a partnership, please sign in partnership name by authorized person.