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HOUSTON EXPLORATION CO
Form SC 13D
July 25, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 13D

Under the Securities Exchange Act of 1934

The Houston Exploration Company
(Name of Issuer)

Common Stock
(Title of Class of Securities)
442120101

(CUSIP Number)

Sandell Asset Management Corp.
40 West 57th Street
26th Floor
New York, NY 10019
Attention : Richard Gashler, General Counsel
212-603-5700
(Name, Address and Telephone Number of Person Authorized to Receive
Notices and Communications)

July 18, 2006

(Date of Event which Requires Filing of this Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition that is the subject of this Schedule 13D, and is filing this schedule because of ss.ss. 240.13d-1(e), 240.13d-1(f) or 240.13d-1(g), check the following box .

SCHEDULE 13D

CUSIP No 84403016

1 NAME OF REPORTING PERSON

Castlerigg Master Investments Ltd.

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (a) (b)

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3 SEC USE ONLY

4 SOURCE OF FUNDS

WC

5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) or 2(e)

6 CITIZENSHIP OR PLACE OF ORGANIZATION

British Virgin Islands

7	SOLE VOTING POWER
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	0
8	SHARED VOTING POWER
	1,405,840
9	SOLE DISPOSITIVE POWER
	0
10	SHARED DISPOSITIVE POWER
	1,405,840

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

1,405,840

12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

5.04%

14 TYPE OF REPORTING PERSON

CO

1 NAME OF REPORTING PERSON

Sandell Asset Management Corp.

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (a) (b)

3 SEC USE ONLY

4 SOURCE OF FUNDS

AF

5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) or 2(e)

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6 CITIZENSHIP OR PLACE OF ORGANIZATION

Cayman Islands

7	SOLE VOTING POWER
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	0
8	SHARED VOTING POWER
	1,405,840
9	SOLE DISPOSITIVE POWER
	0
10	SHARED DISPOSITIVE POWER
	1,405,840

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

1,405,840

12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

5.04%

14 TYPE OF REPORTING PERSON

CO

1 NAME OF REPORTING PERSON

Castlerigg International Limited

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (a) (b)

3 SEC USE ONLY

4 SOURCE OF FUNDS

AF

5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) or 2(e)

6 CITIZENSHIP OR PLACE OF ORGANIZATION

British Virgin Islands

7	SOLE VOTING POWER
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH	0
8	SHARED VOTING POWER

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REPORTING PERSON WITH	1,405,840	
9	SOLE DISPOSITIVE POWER	
	0	
10	SHARED DISPOSITIVE POWER	
	1,405,840	
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON	
	1,405,840	
12	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES	<input type="checkbox"/>
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)	
	5.04%	
14	TYPE OF REPORTING PERSON	
	CO	
1	NAME OF REPORTING PERSON	
	Castlerigg International Holdings Limited	
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP	(a) <input checked="" type="checkbox"/> (b) <input type="checkbox"/>
3	SEC USE ONLY	
4	SOURCE OF FUNDS	
	AF	
5	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) or 2(e)	<input type="checkbox"/>
6	CITIZENSHIP OR PLACE OF ORGANIZATION	
	British Virgin Islands	
7	SOLE VOTING POWER	
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	0	
8	SHARED VOTING POWER	
	1,405,840	
9	SOLE DISPOSITIVE POWER	
	0	
10	SHARED DISPOSITIVE POWER	
	1,405,840	

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11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON
1,405,840

12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)
5.04%

14 TYPE OF REPORTING PERSON
CO

1 NAME OF REPORTING PERSON
Thomas E. Sandell

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (a) (b)

3 SEC USE ONLY

4 SOURCE OF FUNDS
AF

5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO
ITEMS 2(d) or 2(e)

6 CITIZENSHIP OR PLACE OF ORGANIZATION
Sweden

7	SOLE VOTING POWER
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	0
8	SHARED VOTING POWER
	1,405,840
9	SOLE DISPOSITIVE POWER
	0
10	SHARED DISPOSITIVE POWER
	1,405,840

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON
1,405,840

12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN
SHARES

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

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5.04%

14 TYPE OF REPORTING PERSON

IN

Item 1. Security and Issuer

This statement on Schedule 13D relates to the common stock, par value \$0.01 per share (the "Common Stock"), of The Houston Exploration Company, a Delaware corporation ("Issuer").

The principal executive offices of Issuer are located at:

1100 Louisiana, Suite 2000
Houston, Texas 77002

Item 2. Identity and Background

(a). NAME

The names of the persons filing this statement on Schedule 13D are: Castlerigg Master Investments Ltd., a British Virgin Islands company ("Castlerigg Master Investments"), Sandell Asset Management Corp., a Cayman Islands company ("SAMC"), Castlerigg International Limited, a British Virgin Islands company ("Castlerigg International"), Castlerigg International Holdings Limited, a British Virgin Islands company ("Castlerigg Holdings" and, collectively with Castlerigg Master Investments and Castlerigg International, the "Fund"), and Thomas E. Sandell, a citizen of Sweden ("Sandell") (together, the "Reporting Persons").

The shares of common stock beneficially owned by the Reporting Persons are owned directly by Castlerigg Master Investments. Castlerigg Holdings is the controlling shareholder of Castlerigg Master Investments and Castlerigg International is the controlling shareholder of Castlerigg Holdings.

SAMC is the investment manager of the Fund. The controlling shareholder of SAMC is Sandell.

(b). RESIDENCE OR BUSINESS ADDRESS

The principal business address for each of Castlerigg Master Investments, Castlerigg International and Castlerigg Holdings is c/o Citco Fund Services (Curacao) N.V., Kaya Flamboyan 9, P.O. Box 812, Curacao, Netherlands, Antilles.

The principal business address for each of SAMC and Sandell is 40 West 57th Street, 26th Floor, New York, New York, 10019.

(c). PRESENT PRINCIPAL OCCUPATION OR EMPLOYMENT AND THE NAME, PRINCIPAL BUSINESS AND ADDRESS OF ANY CORPORATION OR OTHER ORGANIZATION IN WHICH SUCH EMPLOYMENT IS CONDUCTED

The Fund is a private investment fund whose investment objective is to achieve superior investment returns, focusing primarily on a global, event-driven investment strategy, including global, event-driven risk arbitrage, reorganizations, mergers, spin-offs, liquidations and distressed securities and other situations.

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The principal business of SAMC is providing investment management services.

Information regarding the directors, executive officers and/or control persons of Castlerigg Master Investments, Castlerigg International, Castlerigg Holdings, SAMC, and Sandell (collectively, the "Instruction C Persons") is set forth in Appendix III attached hereto.

(d), (e). CRIMINAL CONVICTIONS; CIVIL PROCEEDINGS

During the last five years, none of the Reporting Persons have: (i) been convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors) or (ii) been a party to a civil proceeding of a judicial or administrative body of competent jurisdiction and as a result of such proceeding was or is subject to a judgment, decree or final order enjoining future violations or prohibiting activities subject to federal or state securities laws or finding any violation of such laws.

(f). CITIZENSHIP

Castlerigg Master Investments, Castlerigg International and Castlerigg Holdings are British Virgin Islands companies.

SAMC is a Cayman Islands company.

Sandell is a citizen of Sweden.

Item 3. Source and Amount of Funds or Other Consideration

Castlerigg Master Investments acquired the 1,405,840 shares of the Common Stock at an aggregate cost of \$84,835,389.32. The funds used to purchase the shares of Common Stock were obtained from a combination of the general working capital of the investment entities managed by the Reporting Persons and margin account borrowings made in the ordinary course of business.

Item 4. Purpose of Transaction

The Reporting Persons acquired the shares of Common Stock for investment purposes in the ordinary course of business because they believed the shares to be undervalued in the market.

Following up on a meeting the Reporting Persons attended with the Issuer on July 13, 2006, SAMC sent on July 25, 2006 a letter (the "Letter") to the Board of Directors of the Issuer. In the Letter, the Reporting Persons expressed their view that the most efficient way to maximize shareholder value is through a sale of the Issuer. SAMC also stated its belief that the Issuer should not use any of the proceeds it received from the Gulf of Mexico asset sales or the use of its significantly underlevered balance sheet to acquire any additional onshore reserves. Instead, SAMC advocates that the Issuer deploy its overcapitalized balance sheet to undertake a Dutch tender at a meaningful premium for the Issuer's undervalued Common Stock in conjunction with a sale of the Issuer immediately thereafter. A copy of the letter is attached hereto as Exhibit A.

Except as described above, none of the Reporting Persons has any plans or proposals which relate to, or could result in, any of the matters referred to in paragraphs (a) through (j), inclusive, of the instructions to Item 4 of Schedule 13D. The Reporting Persons may, at any time and from time to time, review or

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reconsider their position and/or change their purpose and/or formulate plans or proposals with respect thereto. Representatives of SAMC may engage in discussions with members of the Issuer's board of directors as well as with other shareholders of the Issuer regarding the suggestions contained in the Letter and other matters of interest to the Issuer's shareholders.

Although none of the Reporting Persons has any specific plan or proposal to acquire or dispose of the shares of Common Stock, each Reporting Person at any time and from time to time may (i) acquire additional shares or securities of the Issuer, (ii) dispose of any or all of its securities of the Issuer, or (iii) enter into privately negotiated derivative transactions with institutional counterparties to hedge the market risk of some or all of their positions in its securities of the Issuer, depending upon an ongoing evaluation of the investment in such securities, prevailing market conditions, other investment opportunities, liquidity requirements of the Reporting Persons, and/or other investment considerations.

Item 5. Interest in Securities of the Issuer

(a). The Reporting Persons as a group beneficially own 1,405,840 shares of Common Stock, representing 5.04% of the outstanding shares of Common Stock.

(b). None of the Reporting Persons has sole power to vote or to direct the vote or sole power to dispose or to direct the disposition of the Shares.

Each of the Reporting Persons has shared power to vote and to direct the vote and shared power to dispose and to direct the disposition of the 1,405,840 shares of Common Stock held by Castlerigg Master Investments.

(c). A list of the transactions in the Issuer's Common Stock that were effected by the Reporting Persons during the past sixty days is attached as Appendix I.

(d). N/A

(e). N/A

Item 6. Contracts, Arrangements, Understandings or Relationships with Respect to Securities of the Issuer

See Item 5(c) for information regarding certain options.

Item 7. Material to Be Filed as Exhibits

The following documents are filed as exhibits:

Appendix I: List of the transactions in the Issuer's Common Stock that were effected by the Reporting Persons during the past sixty days.

Appendix II: Joint Filing Agreement.

Appendix III: Instruction C Person Information.

Signature

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After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Dated: July 25, 2006

CASTLERIGG MASTER INVESTMENTS LTD.

By: /s/Thomas E. Sandell

Thomas E. Sandell, Director

SANDELL ASSET MANAGEMENT CORP.

By: /s/Thomas E. Sandell

Thomas E. Sandell, Director

CASTLERIGG INTERNATIONAL LIMITED

By: /s/Thomas E. Sandell

Thomas E. Sandell, Director

CASTLERIGG INTERNATIONAL HOLDINGS LIMITED

By: /s/Thomas E. Sandell

Thomas E. Sandell, Director

/s/Thomas E. Sandell

Thomas E. Sandell

APPENDIX I
TRANSACTIONS EFFECTED DURING THE PAST SIXTY DAYS

Date of transaction	Person effecting transaction	Amount of securities Bought/ (Sold)	Price per share or unit	Where and how the transaction was effected
6/6/2006*	Castlerigg Master Investments	80,240	\$52.95460	Privately negotiated transaction

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6/8/2006*	Castlerigg Master Investments	100,000	52.50080	Privately negotiated transaction
7/18/2006****	Castlerigg Master Investments	100,000	52.97	Privately negotiated transaction
7/18/2006****	Castlerigg Master Investments	80,240	53.45	Privately negotiated transaction
7/18/2006****	Castlerigg Master Investments	4,300	62.60	Privately negotiated transaction
7/18/2006****	Castlerigg Master Investments	93,600	62.15	Privately negotiated transaction
7/18/2006****	Castlerigg Master Investments	100,000	62.88	Privately negotiated transaction
7/18/2006****	Castlerigg Master Investments	15,700	62.35	Privately negotiated transaction
7/18/2006****	Castlerigg Master Investments	100,000	62.57	Privately negotiated transaction
7/18/2006****	Castlerigg Master Investments	30,400	61.56	Privately negotiated transaction

* These transactions represent privately negotiated back-to-back call and put transactions with a financial institution through which the Reporting Persons acquired an economic interest in such shares of Common Stock and as a result they were subject to the same economic gain or loss as if they had purchased the underlying shares.

**** These transactions represent the exercise of call options and the termination of the related put options with the same counterparty.

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JOINT FILING AGREEMENT

The undersigned hereby agree that the statement on Schedule 13D with respect to the common stock of The Houston Exploration Company dated as of July 25, 2006 is, and any further amendments thereto signed by each of the undersigned shall be, filed on behalf of each of the undersigned pursuant to and in accordance with the provisions of Rule 13d-1(k)(1) under the Securities Exchange Act of 1934, as amended.

Dated: July 25, 2006 CASTLERIGG MASTER INVESTMENTS LTD.

By: /s/Thomas E. Sandell

Thomas E. Sandell, Director

SANDELL ASSET MANAGEMENT CORP.

By: /s/Thomas E. Sandell

Thomas E. Sandell, Director

CASTLERIGG INTERNATIONAL LIMITED

By: /s/Thomas E. Sandell

Thomas E. Sandell, Director

CASTLERIGG INTERNATIONAL HOLDINGS LIMITED

By: /s/Thomas E. Sandell

Thomas E. Sandell, Director

/s/Thomas E. Sandell

Thomas E. Sandell

Appendix III

Information Regarding The Instruction C Persons

Castlerigg Master Investments Ltd. Executive Officers

Name Title

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NONE

Castlerigg Master Investments Ltd. Directors

The following table sets forth the name and mailing address (business or residence) of each of the directors of Castlerigg Master Investments Ltd., and the principal occupation and citizenship of each of those directors who are natural persons.

Name and Title	Principal Occupation	Address	Citizenship
Thomas E. Sandell	Portfolio Manager	40 West 57th Street, 26th Floor New York, NY 10019	Sweden
Daniel Mignon	Executive of an investment manager	Le Prince de Galles 10 Avenue de Grande-Bretagne MC-98000 Monte-Carlo Monaco	Belgium
InterCaribbean Services Ltd.	N/A	c/o Citco BVI Limited Citco Building Wickhams Cay PO Box 662 Road Town, Tortola British Virgin Islands	N/A

Castlerigg International Limited Executive Officers

Name	Title
Thomas E. Sandell	President

Castlerigg International Limited Directors

The following table sets forth the name and mailing address (business or residence) of each of the directors of Castlerigg International Limited, and the principal occupation and citizenship of each of those directors who are natural

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persons.

Name	Principal Occupation	Address	
Thomas E. Sandell	Portfolio Manager	40 West 57th Street, 26th Floor New York, NY 10019	Sweden
Daniel Mignon	Executive of an investment manager	Le Prince de Galles 10 Avenue de Grande-Bretagne MC-98000 Monte-Carlo Monaco	Belgium
InterCaribbean Services Ltd.	N/A	c/o Citco BVI Limited Citco Building Wickhams Cay PO Box 662 Road Town, Tortola British Virgin Islands	N/A

Castlerigg International Holdings Limited Executive Officers

Name	Title
NONE	

Castlerigg International Holdings Limited Directors

The following table sets forth the name and mailing address (business or residence) of each of the directors of Castlerigg International Holdings Limited, and the principal occupation and citizenship of each of those directors who are natural persons.

Name	Principal Occupation	Address	
------	----------------------	---------	--

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Thomas E. Sandell	Portfolio Manager	40 West 57th Street, 26th Floor New York, NY 10019	Sweden
Daniel Mignon	Executive of an investment manager	Le Prince de Galles 10 Avenue de Grande-Bretagne MC-98000 Monte-Carlo Monaco	Belgium
InterCaribbean Services Ltd.	N/A	c/o Citco BVI Limited Citco Building Wickhams Cay PO Box 662 Road Town, Tortola British Virgin Islands	N/A

Sandell Asset Management Corp. Executive Officers

The following table sets forth the name, title, principal occupation and citizenship of each of the executive officers of Sandell Asset Management Corp.. The business address of each person named below is 40 West 57th Street, 26th Floor, New York, N.Y. 10019. In each case, the principal occupation is represented by the person's title.

Name	Title	Citizenship
Thomas E. Sandell	Chairman of the Board of Directors Chief Executive Officer and Portfolio Manager	Sweden
Timothy O'Brien	Chief Financial Officer	United States of America
Richard Gashler	General Counsel	United States of America

Sandell Asset Management Corp. Directors

The following table sets forth the name, mailing address (business or residence), present principal occupation or employment and citizenship of each of the directors of Sandell Asset Management Corp.

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Name	Principal Occupation	Address	Citizenship
Thomas E. Sandell	Portfolio Manager	40 West 57th Street, 26th Floor New York, NY 10019	Sweden
Daniel Mignon	Executive of an investment manager	Le Prince de Galles 10 Avenue de Grande-Bretagne MC-98000 Monte-Carlo Monaco	Belgium

EXHIBIT A

[Sandell Asset Management Letterhead]

July 25, 2006

VIA FACSIMILE
Board of Directors
The Houston Exploration Company
1100 Louisiana Street
Suite 2000
Houston, TX 77002

Attention:
Mr. William Hargett
Chairman, President and Chief Executive Officer

Dear Sirs:

Sandell Asset Management Corp. ("Sandell") and the private investment funds advised by Sandell (the "Sandell Funds" or we) are the beneficial owners of 1,405,840 shares of common stock of The Houston Exploration Company ("THX" or the "Company"), representing approximately 5.04% of THX's outstanding shares.

We are writing to follow up on our meeting with senior management on Thursday, July 13, 2006. Like you, we continue to believe that the Company's assets remain significantly undervalued and are encouraged by the Board's decision to engage Lehman Brothers to explore strategic alternatives. However, among the options that are being considered, we want to reiterate unequivocally our view that given the large disparity between public market trading and strategic transaction valuations, the most efficient way to maximize and realize shareholder value is through a sale of the Company.

During our meeting, management took great effort to lay out details of the Company's onshore operations and highlighted the unrecognized value enhancing opportunities of various projects particularly those associated with THX's properties in the Rockies. All of that reinforces our view that the Company is a highly attractive acquisition target. We believe the complexity of the various resource plays also makes it more likely that the value of these assets would be better recognized by strategic and financial buyers, rather than in the public markets.

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We also want to register our strong opposition to any deployment of proceeds from THX's recent Gulf of Mexico asset sales or the use of the significantly underlevered balance sheet(1), to acquire additional onshore reserves. In our opinion, such a move not only runs counter to the sizeable future high-impact drilling inventory THX already owns (as highlighted in management's presentation), it is also fraught with execution risks. The

(1) Pro forma 1Q06 total debt of \$318.3MM less \$324.9MM of cash held in 1031 Trust. Source: THX 8-K dated July 10, 2006.

Company's stock currently trades around \$61.87(2) which from the Board's perspective obviously reflects a substantial discount to fair value given your recent decision to reject a fully financed \$62.00 cash offer. In this regard, rather than making additional onshore acquisitions, shareholder interests are much better served by using the overcapitalized balance sheet to undertake a Dutch tender at a meaningful premium for THX's undervalued stock in conjunction with a sale of the Company immediately thereafter.

As a major institutional shareholder, we expect our views to be given serious consideration by the Board. We believe that a majority of shareholders would support our call to the Board to undertake an auction process to sell the Company in order to maximize shareholder value. As we have stated before, time is of the essence and it is neither prudent nor responsible of the Board to take a protracted strategic review of alternatives.

We remain available to discuss the issues raised in this letter and will continue to monitor the actions of the Company and the Board. The absence of any decisive measures to deliver value would only necessitate action by shareholders at the next Annual Meeting.

Very truly yours,

SANDELL ASSET MANGEMENT CORP.

/s/ Thomas E. Sandell

Thomas E. Sandell
Chief Executive Officer

(2) THX closing price as of July 24, 2006.