

BETA OIL & GAS INC  
Form DEF 14A  
April 23, 2004

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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 (Amendment No. )

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 Section 240.14a-12

**BETA OIL & GAS, INC.**

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(Name of Registrant as Specified In Its Charter)

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(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:

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

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(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):

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(1) Amount Previously Paid:

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

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**BETA OIL & GAS, INC.**  
6120 South Yale Avenue  
Suite 813  
Tulsa, Oklahoma 74136

April 23, 2004

Dear Stockholder:

You are cordially invited to attend a special meeting of the stockholders of Beta Oil & Gas, Inc. to be held on May 25, 2004, at 10:00 a.m., local time, in the 19th Floor Conference Room A, Warren Place Two, 6120 South Yale Avenue, Tulsa, Oklahoma.

On December 12, 2003, we entered into a securities purchase agreement with Petrohawk Energy, LLC pursuant to which we have agreed to sell to Petrohawk 15,151,515 shares of our common stock together with five-year warrants entitling the holders to purchase up to 10,000,000 shares of common stock at an exercise price of \$1.65 per share all for an aggregate purchase price of \$25,000,000, and our five year convertible promissory note in the amount of \$35,000,000 which will, after two years, be convertible into shares of our common stock at a conversion price of \$2.00 per share.

The special meeting has been called to present to our stockholders proposals to approve the issuance of the shares of our common stock pursuant to the securities purchase agreement (including any shares to be issued upon exercise of the warrants and conversion of the note) and to approve an amendment to our articles of incorporation to increase the number of authorized shares of common stock to 100,000,000.

Approval of the Petrohawk transaction will result in a change of control of the company. Immediately following the closing of the Petrohawk transaction, Petrohawk will hold approximately 54% of our outstanding voting securities. In addition, upon conversion of the note and exercise of all of the warrants, Petrohawk would hold approximately 77% of our voting securities assuming no other shares are issued prior to those actions. Stockholders holding approximately 28% of the currently outstanding common stock have agreed to vote in favor of the Petrohawk transaction.

Our board of directors has determined that the terms of the Petrohawk transaction are fair to Beta and in the best interests of our stockholders. Our board of directors has approved the issuance and sale of the new securities in the Petrohawk transaction and the amendment to our articles of incorporation to increase our authorized capital stock. The board recommends that you vote **FOR** each of the proposals to be considered at the special meeting. In considering this transaction and its recommendation, our board was aware that Joe Burnett, our chief financial officer, and I would both be entitled to certain severance benefits if the transaction is consummated and our employment is terminated. Mr. Robert C. Stone, Jr., the only Beta director who will continue to serve on our board after the closing of the Petrohawk transaction, is expected to receive, along with all of the non-employees who become directors of Beta following the closing, a grant of 15,000 shares of our common stock as consideration for his service on our board. These interests are discussed in the proxy statement under the caption "Proposal No. 1: The Petrohawk Transaction Interests of Certain Persons in the Petrohawk Transaction."

The enclosed Notice of Special Meeting of Stockholders and Proxy Statement contain details concerning the Petrohawk transaction and the proposal to amend our articles of incorporation to increase our authorized capital stock. We urge you to read and consider these documents carefully. Whether or not you are able to attend the special meeting, it is important that your shares be represented and voted. Accordingly, be sure to complete, sign and date the enclosed proxy card and mail it in the envelope provided as soon as possible so that your shares may be represented at the meeting and voted in accordance with your wishes.

If you attend the meeting, you may vote in person, even if you previously returned your proxy card. If your shares are held in the name of a bank, brokerage firm or other nominee, please contact the party responsible for your account and direct him or her to vote your shares on the enclosed proxy card. Your vote is important regardless of the number of shares you own.

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On behalf of the board of directors and management, thank you for your continued support of Beta.

Sincerely,

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David A. Wilkins,  
President and Chief Executive Officer

The accompanying proxy statement is dated April 23, 2004 and is first being mailed, along with the proxy, to stockholders on or about April 23, 2004.

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**BETA OIL & GAS, INC.**

**NOTICE OF SPECIAL MEETING OF STOCKHOLDERS  
TO BE HELD ON MAY 25, 2004**

**TO THE STOCKHOLDERS OF BETA OIL & GAS, INC.:**

NOTICE IS HEREBY GIVEN that a special meeting of the stockholders of Beta Oil & Gas, Inc., a Nevada corporation, is scheduled to be held on May 25, 2004 at 10:00 a.m., local time, in the 19th Floor Conference Room A, Warren Place Two, 6120 South Yale Avenue, Tulsa, Oklahoma for the following purposes:

1. To consider and act upon a proposal that the following issuances of shares of our common stock pursuant to the transactions described below be approved:

the issuance to Petrohawk Energy, LLC, a Delaware limited liability company, of 15,151,515 shares of Beta's common stock, par value \$0.001 per share;

the issuance to Petrohawk of up to 10,000,000 shares of common stock upon the exercise of five-year common stock purchase warrants which are exercisable at a price of \$1.65 per share, subject to possible adjustments for stock dividends, stock splits and similar events; and

the issuance to Petrohawk of shares of common stock upon the conversion of the outstanding principal and accrued but unpaid interest payable under the terms of our five-year convertible promissory note in the original principal amount of \$35,000,000 at a conversion price of \$2.00 per share, subject to possible adjustments for stock dividends, stock splits and similar events.

These securities are all issuable to Petrohawk under the terms of a securities purchase agreement dated December 12, 2003. Under this agreement, Petrohawk will pay an aggregate of \$60,000,000 in cash for the common stock, warrants and convertible note;

2. To consider and act upon a proposal to approve an amendment to our articles of incorporation to increase our authorized common stock from 50,000,000 shares to 100,000,000 shares;
3. To consider and act upon any proposal to adjourn and reconvene the Special Meeting of Stockholders at a later date, but not later than July 24, 2004.
4. To transact such other business as may properly come before the special meeting and any adjournment thereof.

If item 2 is not approved, the transactions described in item 1 will still be consummated and the proposal to amend the articles of incorporation will be presented again to our stockholders after Petrohawk has been issued the securities provided for in the securities purchase agreement. If item 1 is not approved, item 2 will not be implemented even if it is approved.

Approval of proposal 1 and consummation of the proposed transaction will effectively transfer control of Beta Oil & Gas, Inc. to Petrohawk Energy, LLC.

Stockholders of record at the close of business on April 16, 2004 are entitled to notice of and to vote at the special meeting and any adjournment thereof. All stockholders are cordially invited to attend the special meeting in person. However, to assure your representation at the meeting, you are

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urged to complete, sign and date the enclosed form of proxy and return it promptly in the envelope provided. Stockholders attending the meeting may revoke their proxy and vote in person.

BY ORDER OF THE BOARD OF DIRECTORS

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Joseph L. Burnett, Secretary

April 23, 2004

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*BETA OIL & GAS, INC.*

**PROXY STATEMENT  
FOR A  
SPECIAL MEETING OF THE STOCKHOLDERS TO BE HELD MAY 25, 2004**

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## SUMMARY OF PROXY STATEMENT

*The following is a brief summary of certain information contained elsewhere in this proxy statement. This summary is not intended to be a complete description of the matters covered in this proxy statement and is qualified in its entirety by reference to the more detailed information contained or incorporated by reference in this proxy statement or in the documents attached as appendices hereto. Stockholders are urged to read this proxy statement, including all materials incorporated herein by reference, and the appendices hereto in their entirety.*

*This proxy statement contains forward-looking statements that involve risks and uncertainties. Actual results could differ materially from those discussed in the forward-looking statements as a result of certain factors. See the section of this proxy statement entitled "Forward-Looking Statements."*

### The Special Meeting

A special meeting of the stockholders of Beta Oil & Gas, Inc., a Nevada corporation ("Beta", the "Company" or "we" or "us"), will be held on May 25, 2004, at 10:00 a.m., local time, in the 19th Floor Conference Room A, Warren Place Two, 6120 South Yale Avenue, Tulsa, Oklahoma. Stockholders of record at the close of business on April 16, 2004, the record date for the special meeting, may vote at the special meeting.

At the special meeting, Beta's stockholders will be asked to approve:

the issuance of shares of our common stock in connection with a financing transaction in which we will issue and sell common stock, a convertible note and warrants to Petrohawk Energy, LLC ("Petrohawk"); and

an amendment to our articles of incorporation to increase our authorized capital stock.

For additional information regarding the special meeting and voting at the special meeting, see "General Information" beginning on page 6.

**This proxy statement and the accompanying proxy card are first being mailed to stockholders on or about April 23, 2004.**

### Proposal 1: The Petrohawk Transaction

On December 12, 2003, we entered into a securities purchase agreement (which we generally refer to as the purchase agreement) with Petrohawk pursuant to which we have agreed to issue to Petrohawk for an aggregate of \$60,000,000 in cash:

15,151,515 shares of our common stock;

five year warrants to purchase up to an additional 10,000,000 shares of our common stock at an exercise price of \$1.65 per share; and

a convertible promissory note in the face amount of \$35,000,000 which will be convertible after two years into shares of our common stock at a conversion price of \$2.00 per share.

Because issuance of the shares of common stock to Petrohawk in connection with this transaction will result in a change of control of Beta, we are required by the rules of The Nasdaq Stock Market to obtain stockholder approval of the issuance of the shares.

The transactions contemplated by the purchase agreement are required to be consummated at a closing that we expect to occur immediately following the approval of the proposal by our stockholders.

The proceeds from the sale of the securities will be added to our working capital and be available for the acquisition, development and exploration of oil and gas properties.

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### ***Background of Transaction*** (see discussion beginning on page 15)

For a description of the events leading to the approval by our board of directors of the Petrohawk transaction and the agreements related thereto, see "Proposal No. 1: The Petrohawk Transaction Background of the Petrohawk Transaction," below.

### ***Petro Capital Advisors, LLC Fairness Opinion*** (see discussion beginning on page 23)

In connection with its consideration and approval of the Petrohawk transaction, our board of directors received an opinion from Petro Capital Advisors, LLC with respect to the fairness, from a

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financial point of view, of the Petrohawk transaction to Beta. For important information regarding the Petro Capital opinion, including the limitations of the opinion, see "Proposal No. 1: The Petrohawk Transaction Petro Capital Advisors, LLC Fairness Opinion," below.

### *Certain Risks Associated with the Proposed Petrohawk Transaction (see discussion beginning on page 12)*

The proposed Petrohawk transaction involves risks, including risks related to:

the dilutive effect on the ownership interests and voting power of existing stockholders;

the influence of Petrohawk and its affiliates on us and our board of directors following the transaction;

our outstanding long-term indebtedness, which will increase substantially, and our debt-to-equity ratio, which will be negatively affected;

our ability to deploy profitably the new capital that will be invested by Petrohawk;

the possible deterrence of any other offers to acquire us;

a "market overhang" which may be presented by the outstanding warrants and convertible note which could restrict or limit increases in the market value of our common stock;

the decision by our board of directors not to request an update of the fairness opinion delivered by Petro Capital in November 2003, despite a substantial increase in our proved oil and gas reserves as of December 31, 2003;

restrictions on our ability to utilize our current net operating loss carry-forwards for federal income tax purposes that will result from the change of control contemplated by the transaction; and

the substantial fee that our financial advisor will be entitled to receive if the transaction is consummated.

For detailed information regarding these risks, see "Proposal No. 1: The Petrohawk Transaction Certain Risks Associated with the Proposed Petrohawk Transaction" below.

### *Interests of Certain Persons in the Petrohawk Transaction (see discussion beginning on page 33)*

In considering the recommendation of the board with respect to the Petrohawk transaction, stockholders should be aware that David A. Wilkins, our president and chief executive officer and a director, Robert C. Stone, Jr., a director, and Joseph L. Burnett, our chief financial officer, have interests in the Petrohawk transaction that are in addition to the interests of stockholders in general. Mr. Wilkins and Mr. Burnett hold stock options and warrants covering 600,000 shares (which are currently vested with respect to 133,000 shares) and 255,000 shares (which are currently vested with respect to 188,333 shares) respectively which will, upon consummation of the transaction, vest in full. The period in which they may exercise their options after termination of employment has been extended from 90 days after termination of employment to five years from the date of closing of the Petrohawk transaction or until they would have otherwise expired absent termination of employment, whichever is earlier. In addition, Mr. Wilkins and Mr. Burnett will be eligible to receive severance payments of \$160,000 and \$125,000 respectively, which equal one year's salary, upon termination of their employment. The board was aware of these interests and considered them along with the other matters described herein in approving the Petrohawk transaction and determining to recommend the Petrohawk transaction to the stockholders for approval. Mr. Stone and all of the other persons who are not employees of Beta who will be serving on our board after the closing are each expected to receive grants of 15,000 shares of our common stock as consideration for their board service. This proposal was not decided upon and announced by Petrohawk until March of 2004, long after our board approved the purchase agreement.

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### ***Purchase Agreement*** (see discussion beginning on page 35)

The issuance of the securities and the other transactions contemplated by the purchase agreement are subject to several closing conditions, including:

the approval by our stockholders of the issuance of the common stock contemplated by the Petrohawk transaction at the special meeting; and

our taking of all action necessary to effect the appointment of new directors as designated by Petrohawk and a Petrohawk stockholder pursuant to the purchase agreement.

We are required to pay a termination fee of \$1,000,000 if:

the purchase agreement is terminated before closing pursuant to its terms because we accept a superior proposal which the board of directors determines would be more favorable to our stockholders;

stockholder approval is not obtained or the transaction otherwise fails to close by May 31, 2004 and a proposal to acquire us has been made or another person has made publicly known an intention to make such a proposal, and within 12 months of the termination of the purchase agreement, we consummate a merger, acquisition, consolidation or other business combination or a person acquires beneficial ownership of 50% of the power to vote for our directors; or

the agreement is terminated because of a material breach of our representations, warranties, covenants or agreements which is not cured within 20 days.

Petrohawk is required to pay us a termination fee of \$1,000,000 if we terminate the purchase agreement because of a material breach in Petrohawk's representations, warranties, covenants or agreements which is not cured within 20 days.

### ***Convertible Note*** (see discussion beginning on page 46)

The convertible note is in the original principal amount of \$35,000,000, is unsecured and matures on the fifth anniversary of the closing. This note will bear interest at an annual rate of 8%, payable quarterly.

Any time after the two-year period following the closing, we may prepay the note without penalty or premium. Also at any time after the two-year period following the closing, the holder of the note may convert the outstanding principal and accrued but unpaid interest on the note into shares of common stock at a conversion price of \$2.00 per share, subject to adjustment for stock dividends, stock splits and similar events.

### ***Warrants*** (see discussion beginning on page 47)

The warrants entitle the holder, upon exercise, to purchase up to 10,000,000 shares of common stock at an exercise price of \$1.65 per share, subject to possible adjustments for stock dividends, stock splits and similar events. The warrants are exercisable, in whole or in part, at any time before the fifth anniversary of the closing. The warrant exercise price may be paid in cash, by delivering to us warrants or common stock having a fair market value equal to the warrant exercise price, by offsetting the principal balance of the convertible note, or a combination of the foregoing.

### ***Registration Rights*** (see discussion beginning on page 47)

At the closing, we will enter into a registration rights agreement with Petrohawk which will give Petrohawk the right to require us to register for public sale the shares of common stock acquired at the time of the closing and any shares acquired upon the exercise of the warrants and conversion of the convertible note. The registration rights agreement also provides Petrohawk with piggyback registration rights with respect to registrations of the offer and sale of any shares of common stock we may effect for our own account.

### ***New Board of Directors and Management*** (see discussion beginning on page 55)

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Under the purchase agreement, a new board of directors will be appointed effective upon the closing. There will be seven directors, six of whom will be designated by Petrohawk and its principal

owners and one of whom will be designated by our existing board of directors. At the closing, all of our officers and all of our directors other than Robert C. Stone, Jr. are required to deliver their resignations. By voting in favor of the Petrohawk transaction, stockholders are also in effect voting to replace the current board of directors. Floyd C. Wilson will become the new chairman of the board, president and chief executive officer. It is expected that our headquarters will be moved to Houston, Texas within a short time following the closing.

**Proposal 2: Increase in Authorized Capital Stock** (see discussion beginning on page 67)

In order to provide a sufficient number of shares of capital stock to meet our current and future needs, including shares of common stock to be issued and reserved for issuance in the Petrohawk transaction, the board of directors has proposed that our articles of incorporation be amended to increase our authorized shares of common stock from 50,000,000 shares to 100,000,000 shares.

**Stockholder Approval**

*Issuance of Shares of Common Stock.* We are seeking stockholder approval of the issuance of shares of common stock pursuant to the Petrohawk transaction under the rules of The Nasdaq Stock Market. The Nasdaq Marketplace Rules require stockholder approval for transactions involving the issuance or potential issuance of securities which results in a change of control of the company. See "Proposal No. 1: The Petrohawk Transaction Stockholder Approval," below. Stockholder approval of the transaction is not otherwise required under Nevada law or our articles of incorporation or by-laws. If the Petrohawk transaction is not approved by our stockholders, we may elect to terminate the purchase agreement, or we may attempt to renegotiate the terms of the Petrohawk transaction with Petrohawk and, if successful, in our attempts to renegotiate submit the revised transaction to our stockholders for approval. If the stockholders fail to approve the Petrohawk transaction, Petrohawk will have the right to unilaterally terminate the purchase agreement.

*Increase In Our Authorized Common Stock.* We are seeking stockholder approval of an amendment to our articles of incorporation which will increase our authorized common stock in accordance with applicable Nevada corporate law. As described more fully in "Proposal No. 2: Increase in Authorized Capital Stock," the increase in common stock under Proposal No. 2 is necessary to provide for a sufficient number of shares of common stock to be issued or reserved for issuance in the Petrohawk transaction and for current employee stock options, as well as to provide for additional shares of common stock and preferred stock which could be used in connection with acquisitions or additional financing. If Proposal No. 2 is approved, we will not file the Certificate of Amendment to increase our authorized capital stock unless Proposal No. 1 is also approved and we believe it is likely that the Petrohawk transaction will be consummated. If Proposal No. 2 is not approved, the Petrohawk transaction will still be consummated. Petrohawk has agreed that if Proposal No. 2 is not approved at this special meeting, it will cause the proposal to be considered again at a stockholder meeting held after the closing and it has agreed to vote its shares for approval of the amendment. This would assure approval of the amendment at such meeting.

**Recommendations by the Board**

The board of directors, including all of the independent directors, has determined that both the proposed Petrohawk transaction and increase in our authorized capital stock are in the best interests of us and our stockholders and recommends approval of both of those proposals by our stockholders. Mr. Wilkins, one of our directors who is also an employee, will have his options covering 600,000 shares vested in full and extended for five years after the closing if the Petrohawk transaction is approved and consummated and he will be entitled to a severance payment of \$160,000 upon termination of his employment. In addition, Mr. Burnett, our chief financial officer, will have his options covering 255,000 shares vested in full and extended for five years after the closing if the Petrohawk transaction is approved and consummated, and he will be entitled to a severance payment of \$125,000 upon termination of his employment. The board was aware of these interests and considered them along with the other matters described herein in approving the Petrohawk transaction and

determining to recommend the Petrohawk transaction to the stockholders for approval. Mr. Stone, Jr., one of our directors, who will be serving on our board after the closing is expected to receive a grant of 15,000 shares of our common stock as consideration for his board service. This decision was not made and announced by Petrohawk until March of 2004, long after our board approved the purchase agreement. See "Proposal No. 1: The Petrohawk Transaction Interests of Certain Persons in the Petrohawk Transaction."

**Proposal 3: Adjournments of Special Meeting**

We are asking for the authority to vote your shares for a proposed adjournment of the meeting if it is needed. See "Proposal No. 3: Adjournment of Special Meeting."

**GENERAL INFORMATION**

**Proxy Solicitation**

This proxy statement is furnished to the holders of our common stock and preferred stock in connection with the solicitation by our board of directors of proxies for use at the special meeting to be held on May 25, 2004, at 10:00 a.m., local time, or at any adjournment thereof. The purposes of the meeting and the matters to be acted upon are set forth in the accompanying Notice of Special Meeting of Stockholders. The board is not currently aware of any other matters that will come before the special meeting.

Our principal executive offices are located at 6120 South Yale Avenue, Suite 813, Tulsa, Oklahoma 74136.

We will make arrangements with brokerage houses and other custodians, nominees and fiduciaries to send proxies and proxy material to the beneficial owners of the shares and will reimburse them for their expenses in so doing. Should it appear desirable to do so in order to ensure adequate representation of shares at the special meeting, officers, agents or employees of Beta and/or Petrohawk may communicate with stockholders, banks, brokerage houses and others by telephone, facsimile or in person to request that proxies be furnished. All expenses incurred in connection with this solicitation will be borne by us.

We have retained Georgeson Shareholder to assist with the solicitation of proxies for a fee not to exceed \$7,500, plus reimbursement for out-of-pocket expenses.

Certain stockholders of Beta who together own approximately 28% of our voting shares, including two of our directors Robert E. Davis, Jr. and Rolf N. Hufnagel, have entered into a stockholders agreement with Petrohawk and us pursuant to which they have agreed to vote all of the voting shares of Beta owned by them or over which they have voting control in favor of both proposals being presented at the special meeting.

**Revocability and Voting of Proxy**

A form of proxy for use at the special meeting and a return envelope for the proxy are enclosed. Stockholders may revoke the authority granted by their execution of proxies at any time before their effective exercise by filing with the Secretary of Beta, at our headquarters at 6120 South Yale Avenue, Suite 813, Tulsa, Oklahoma 74136, a written notice of revocation, or a duly executed proxy bearing a later date, or by voting in person at the special meeting. Shares of common stock and preferred stock represented by executed and unrevoked proxies will be voted in accordance with the choice or instructions specified thereon. If no specifications are given, the proxies intend to vote the shares represented thereby to approve Proposal No. 1 and Proposal No. 2 and, if needed, Proposal No. 3, as set forth in the accompanying Notice of Special Meeting of Stockholders and, in accordance with their best judgment, on any other matters which may properly come before the special meeting.

**Record Date and Voting Rights**

Stockholders of record at the close of business on April 16, 2004 are entitled to notice of and to vote at the special meeting. As of the record date, 12,429,307 shares of common stock were issued and outstanding, and there were 604,271 shares of our preferred stock issued and outstanding. Each share of common stock and each share of preferred stock is entitled to one vote on all matters that may properly come before the special meeting. The common stock and preferred stock vote together as one class. The holders of a majority of the outstanding shares of common stock and preferred stock, present in person or by proxy, will constitute a quorum at the special meeting.

Approval of Proposal No. 1 (issuance of common stock pursuant to the Petrohawk transaction) and Proposal No. 3 (adjournments of special meeting) require a majority of the total votes cast on the proposal in person or by proxy. Each outstanding share of common stock and each outstanding share of preferred stock is entitled to one vote. Approval of Proposal No. 2 (increase in authorized common stock) requires the affirmative vote of a majority of the total votes represented by the outstanding common stock and preferred stock. Stockholders will not have appraisal or similar rights with respect to Proposal No. 1 or Proposal No. 2. See the section of the summary above entitled "Stockholder Approval" for information regarding the effect of a failure to approve Proposal No. 1 and/or Proposal No. 2.

With respect to all three proposals, abstentions and broker non-votes will be counted to determine whether a quorum is present. In determining whether Proposal No. 1 and Proposal No. 3 have received the requisite number of favorable votes, abstentions and broker non-votes will not be counted as part of the total number of votes cast on such proposal and will have no effect in determining whether the proposal has been approved by the stockholders. With respect to Proposal No. 2, both abstentions and broker non-votes will have the same effect as votes against the proposal. A broker non-vote occurs when a nominee holding shares of common stock for a beneficial owner does not vote on a particular proposal because the nominee does not have discretionary voting power with respect to that item and has not received instructions from the beneficial owner.

At the special meeting, ballots will be distributed with respect to each proposal to be voted upon to each stockholder (or the stockholder's proxy if not the management proxy holders) who is present and did not deliver a proxy to the management proxy holders. The ballots will then be tallied, one vote for each share of common stock owned of record and one vote per share of preferred stock owned of record, the votes being in three categories: FOR, AGAINST or ABSTAIN.

Votes at the special meeting will be tabulated by an inspector of election appointed by us.

#### **FORWARD-LOOKING STATEMENTS**

From time to time, in written reports and oral statements, we may discuss our expectations regarding our future performance. Generally, these statements relate to business plans or strategies, projected or anticipated benefits or other consequences of such plans or strategies or other actions taken or to be taken by us, including the impact of such plans, strategies or actions on our results of operations or components thereof, projected or anticipated benefits from operational changes, acquisitions or dispositions made or to be made by us, or projections involving anticipated revenues, costs, earnings or other aspects of our results of operations. The words "expect," "believe," "anticipate," "project," "estimate," "intend" and similar expressions, and their opposites, are intended to identify forward-looking statements. These forward-looking statements are not guarantees of future performance but rather are based on currently available competitive, financial and economic data and management's operating plans. These forward-looking statements involve risks and uncertainties that could render actual results materially different from management's expectations. Such risks and uncertainties include, without limitation, whether the Petrohawk transaction will be consummated, as well as business conditions and growth and consolidation in the oil and gas industry and the energy business generally and in the economy in general, risks related to our ability to generate capital to complete our planned drilling and exploration activities, risks inherent in oil and gas acquisitions, exploration, drilling, development and production, fluctuations in oil and gas prices, government regulations and environmental matters and other risk factors described from time to time in our reports filed with the SEC as well as the risks associated with the proposed Petrohawk transaction which are described below under "Proposal No. 1 The Petrohawk Transaction Certain Risks Associated with the Proposed Petrohawk Transaction."

All statements herein that are not statements of historical fact are forward-looking statements. Although we believe that the expectations reflected in such forward looking statements are reasonable, there can be no assurance that those expectations will prove to have been correct. Certain other important factors that could cause actual results to differ materially from management's expectations are disclosed in this proxy statement and in our other filings with the SEC. All written forward-looking statements by or attributable to management in this proxy statement are expressly qualified in their entirety by the risk factors and the cautionary statements mentioned above. Investors must recognize that events could turn out to be significantly different from what management currently expects.

### SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

#### Current Beneficial Ownership

The following table reflects, as of March 1, 2004, the beneficial ownership of our common stock and preferred stock by (i) all persons known by us to be beneficial owners of more than 5% of each class of stock, (ii) each of our directors, (iii) each of the persons who will become a director in connection with the closing of the Petrohawk transaction in accordance with the terms of the purchase agreement (see "Director and Executive Officer Information" on page 50); (iv) each of our executive officers named in the Summary Compensation Table below, and (v) all of our executive officers and directors as a group and provides the percentage of outstanding shares of stock of each class held. The table also shows the number of shares of common stock and the percentage of the outstanding common stock that will be owned by the persons described above and Petrohawk if the issuance of the securities under Proposal No. 1 is approved and consummated.

Name of Beneficial Owner	Shares of Common Stock Beneficially Owned(1)	Percent of Class(2)	Shares of Common Stock Beneficially Owned After the Issuance of Securities to Petrohawk(1)	Percent of Class After Issuance of Securities to Petrohawk(2)(3)
Robert E. Davis, Jr	364,583(4)	2.91%	364,583	1.21%
Steve A. Antry 11814 S. Sheridan Road Tulsa, OK 74008	1,138,000(5)	9.14%	1,138,000	4.11%
Robert C. Stone, Jr.	180,000(6)	1.43%	195,000(6)(16)	*
David A. Wilkins	166,667(7)	1.32%	600,000	2.12%
Rolf N. Hufnagel	820,000(8)	6.57%	820,000	2.96%
David A. Melman	50,000(9)	*	50,000	*
Joseph L. Burnett	189,333(10)	1.50%	256,000	*
Floyd C. Wilson			25,151,515(15)	66.82%
David B. Miller			25,151,515(13)(14)	66.82%
D. Martin Phillips			25,151,515(13)(14)	66.82%
Larry L. Helm			15,000(16)	*
Tucker Bridwell			15,000(16)	*

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James L. Irish III			15,000(16)		*
Petrohawk Energy, LLC 1100 Louisiana, Suite 3650 Houston, Texas 77002			25,151,515(12)		66.82%
EnCap Energy Capital Fund IV, L.P. 1100 Louisiana, Suite 3150 Houston, Texas 77002			25,151,515(13)(14)		66.82%
EnCap Energy Acquisition IV-B, Inc. 1100 Louisiana, Suite 3150 Houston, Texas 77002			25,151,515(13)(14)		66.82%
EnCap Energy Capital Fund IV-B, L.P. 1100 Louisiana, Suite 3150 Houston, Texas 77002			25,151,515(13)(14)		66.82%
EnCap Equity Fund IV GP, L.P. 1100 Louisiana, Suite 3150 Houston, Texas 77002			25,151,515(13)(14)		66.82%
EnCap Investments L.P. 1100 Louisiana, Suite 3150 Houston, Texas 77002			25,151,515(13)(14)		66.82%
EnCap Investments GP, L.L.C. 1100 Louisiana, Suite 3150 Houston, Texas 77002			25,151,515(13)(14)		66.82%
RNBD GP LLC 1100 Louisiana, Suite 3150 Houston, Texas 77002			25,151,515(13)(14)		66.82%
Gary R. Petersen 1100 Louisiana, Suite 3150 Houston, Texas 77002			25,151,515(13)(14)		66.82%
Robert L. Zorich 1100 Louisiana, Suite 3150 Houston, Texas 77002			25,151,515(13)(14)		66.82%
All officers and directors as a group	1,770,583(11)	13.73%	2,285,583(17)		6.46%

\*

Represents less than 1% of that class of stock outstanding.

(1)

Unless otherwise indicated, all shares of stock are held directly with sole voting and investment power. Securities not outstanding, but included in the beneficial ownership of each such person

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are deemed to be outstanding for the purpose of computing the percentage of outstanding securities of the class owned by such person, but are not deemed to be outstanding for the purpose of computing percentage of the class owned by any other person. The total number includes shares issued and outstanding as of March 1, 2004, plus shares which the owner shown above has the right to acquire within 60 days after March 1, 2004. Information is provided for reporting purposes only and should not be construed as an admission of actual beneficial ownership.

- (2) For purposes of calculating the percent of the class outstanding held by each owner shown above with a right to acquire additional shares, the total number of shares excludes the shares which all other persons have the right to acquire within 60 days after March 1, 2004, pursuant to the exercise of outstanding stock options and warrants.
- (3) The percentages are based on the assumption that 27,690,322 shares of common stock and 604,271 shares of preferred stock will be outstanding immediately following the issuance of the securities to Petrohawk. The table also assumes that the Petrohawk transaction will be consummated upon the terms of the transaction documents described in this proxy statement.
- (4) Includes 114,583 shares of common stock underlying stock options.
- (5) Shares held with spouse as community property. Includes 25,000 warrants held on behalf of minor children.
- (6) Includes 175,000 shares of common stock underlying stock options.
- (7) Represents shares of common stock underlying stock options.
- (8) Includes 50,000 shares of common stock underlying stock options.
- (9) Represents shares of common stock underlying stock options.
- (10) Includes 183,333 shares of common stock before closing the Petrohawk transaction and 255,000 shares of common stock after closing the Petrohawk transaction which are issuable upon exercise of outstanding stock options and warrants.
- (11) Total for the 6 persons who were officers or directors prior to the issuance of the securities to Petrohawk. This includes 100,000 shares of common stock underlying stock warrants and 611,250 shares of common stock underlying stock options.
- (12) Includes 15,151,515 shares of common stock and warrants to purchase 10,000,000 shares of common stock exercisable within 60 days after the date hereof.
- (13) Represents shares owned by Petrohawk. These entities or persons may be deemed to share voting and dispositive control over the shares of common stock owned by Petrohawk. EnCap Energy Capital Fund IV, L.P. and EnCap Energy Acquisition IV-B, Inc., each of which is a member of Petrohawk, have the contractual right to nominate a majority of the members of the board of directors of Petrohawk pursuant to Petrohawk's limited liability company agreement. These two entities are controlled indirectly by David B. Miller, Gary R. Petersen, D. Martin Phillips and Robert L. Zorich. In addition, Mr. Miller and Mr. Phillips are members of Petrohawk's board of directors. Messrs. Miller, Petersen, Phillips and Zorich are the members of RNBD GP LLC which in turn has management control, directly or indirectly, over the other EnCap entities listed on this beneficial ownership table, including EnCap Investments GP, L.L.C., EnCap Investments L.P., EnCap Equity Fund IV GP, L.P., EnCap Energy Capital Fund IV-B, L.P., EnCap Energy Capital Fund IV, L.P. (a member of Petrohawk) and EnCap Energy Acquisition IV-B, Inc. (a member of Petrohawk). All the EnCap entities listed in the preceding sentence, other than the two EnCap entities which are members of Petrohawk, have management control, directly or indirectly, over these two EnCap entities with membership in Petrohawk.

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- (14) Each of EnCap Energy Capital Fund IV, L.P., EnCap Energy Acquisition IV-B, Inc., EnCap Energy Capital Fund IV-B, L.P., EnCap Equity Fund IV GP, L.P., EnCap Investments L.P., EnCap Investments GP, L.L.C., RNBD GP LLC, David B. Miller, Gary R. Petersen, D. Martin Phillips, and Robert L. Zorich disclaim beneficial ownership of the reported securities in excess of such entity's or person's respective pecuniary interest in the securities.
- (15) Represents shares owned by Petrohawk. Floyd C. Wilson may be deemed to share the voting and dispositive control over the shares of common stock owned by Petrohawk. FCW, LLC, a member of Petrohawk, has the contractual right to nominate one of the members of the board of managers of Petrohawk pursuant to Petrohawk's governing documents and has nominated Floyd C. Wilson, a majority member of FCW, LLC. Floyd C. Wilson disclaims beneficial ownership of the reported securities in excess of his pecuniary interest in the securities.
- (16) Includes 15,000 shares expected to be granted after the closing to each of the non-employee directors who will then be serving on our board for his service on the board of directors.
- (17) Total for nine persons who will be officers or directors after the issuance of the securities to Petrohawk will be 25,391,515 shares (representing 67.15% of the shares then outstanding) after the closing of the Petrohawk transaction and the termination or resignation of all of the current directors and executive officers other than Mr. Stone. This will include 15,216,515 shares of common stock, 10,000,000 shares of common stock underlying stock purchase warrants and 175,000 shares underlying stock options.

**PROPOSAL NO. 1:**

**THE PETROHAWK TRANSACTION**

The first proposal to be considered and voted upon at the special meeting is the issuance of common stock in connection with the Petrohawk transaction. Pursuant to the securities purchase agreement entered into with Petrohawk on December 12, 2003, at closing we will issue to Petrohawk:

15,151,515 shares of common stock;

warrants entitling the holder to purchase up to 10,000,000 shares of common stock at an exercise price of \$1.65 per share of common stock, subject to adjustment as described below under "Terms of the Warrants;" and

a convertible promissory note in the original principal amount of \$35,000,000 which is convertible after two years into shares of our common stock at a conversion price of \$2.00 per share, subject to adjustment as described below under "Terms of the Convertible Note."

As the consideration for these securities, Petrohawk has agreed to pay us a total of \$60,000,000 in cash, of which \$25,000,000 is attributable under the purchase agreement to the shares of common stock and warrants and \$35,000,000 is attributable to the convertible note. For a description of the events leading to the approval by our board of directors of the Petrohawk Transaction and the agreements related thereto, see "Background of the Petrohawk Transaction" below.

**Certain Risks Associated with the Proposed Petrohawk Transaction**

In addition to the other information contained in this proxy statement, in determining whether to approve the Petrohawk transaction, our board of directors did consider, and, in determining how to vote on this proposal, each of you should consider the following important factors:

***Our stockholders will experience substantial dilution.*** The consummation of the Petrohawk transaction will have an immediate dilutive effect on the ownership interests and voting power of our existing stockholders and the future voting power of warrant and stock option holders. Upon closing the Petrohawk transaction, Petrohawk will own approximately 55% of our outstanding shares of common stock (which will represent approximately 54% of the total voting shares after taking into account the outstanding voting shares of our preferred stock). As a consequence, for as long as Petrohawk retains over 50% of the total voting shares, Petrohawk will have complete control over the election of directors and many other matters that may be presented to the stockholders from time to time. Conversion of the convertible note into common stock or exercise of the warrants will further dilute the voting rights of existing stockholders.

***Petrohawk will assume control of our management.*** Following the closing, there is to be a board of directors consisting of seven members. Under the terms of the purchase agreement, Petrohawk and its owners will designate six of the seven members. In addition, Floyd C. Wilson, the president and chief executive officer of Petrohawk, will become the chairman of the board, president and chief executive officer of Beta. See "Director and Executive Officer Information Directors" for information regarding Mr. Wilson and the other persons who will become members of our board of directors. We anticipate that most or all of our current management personnel will have their employment with us terminated or will resign.

***The amount of our indebtedness will increase significantly.*** At December 31, 2003, our long-term indebtedness was \$13,284,652, with a debt to equity ratio of approximately 0.45 to 1.0. As a result of the Petrohawk transaction, our long-term indebtedness will increase by \$21.7 million which is the original principal amount of the convertible note of \$35 million to be issued to Petrohawk less the immediate paydown of our existing long-term debt of \$13,284,152, and we estimate that we will then

have a debt to equity ratio of approximately 0.64 to 1.0. See "Unaudited Pro Forma Consolidated Financial Information." Thus, the indebtedness incurred with respect to the convertible note is material in relation to our current level of indebtedness, our ability to service the debt from our operating cash flow and, if the convertible note is not converted to common stock, our ability to repay the principal amount of the debt in full at maturity. See "Terms of the Petrohawk Transaction Terms of the Note" and "Unaudited Pro Forma Consolidated Financial Information."

***We may not be able to profitably deploy the funds that we will receive.*** If we complete the Petrohawk transaction, our growth and profitability will be largely dependent upon our ability to profitably deploy the \$60,000,000 in new capital that we will receive. Prices of oil and natural gas are higher than they have been in recent years. As a result, acquisition prices of producing oil and gas properties, the costs of obtaining leases and drilling oil and gas wells and acquiring other oil and gas companies are expected to be higher than in recent periods. The prices of oil and gas production are volatile and could decline significantly in the future. Also, the funds provided in the Petrohawk transaction may not be adequate to complete a specific acquisition or acquisitions we may pursue, in which case we may seek additional funds by incurring additional indebtedness, issuing additional equity securities, or by other means. This could increase even more the risks of being able to produce a profitable return for our stockholders. Currently, we have no agreements, arrangements or understandings with respect to our acquisition of any entity or business except it is anticipated that the properties of Petrohawk will be offered to us after closing. See "Information About Petrohawk Properties and Operations."

***Petrohawk's ownership position could inhibit takeover offers from other companies.*** After the closing, the significant ownership interests of Petrohawk could effectively deter a third party from making an offer to buy us, which might involve a premium over the current stock price or other benefits for stockholders, or otherwise prevent changes in the control or management of us. Except as described under "Terms of the Stockholders Agreement" there are no restrictions, in the form of a standstill agreement or otherwise, on the ability of Petrohawk or its affiliates to purchase additional Beta securities and thereby further consolidate its ownership interest.

***The warrants and the conversion rights under the convertible note could result in significant "market overhang" which could restrain or limit increases in the market value of our stock.*** The 10,000,000 warrants to be issued to Petrohawk will be exercisable at any time over the five-year period beginning with the closing at an exercise price of \$1.65 per share. Additionally, beginning with the second anniversary of the closing and until its maturity at the end of five years, the \$35 million convertible note will be convertible into shares of common stock at a conversion price of \$2.00 per share. The availability of these shares at these prices could discourage potential investors in our common stock from paying as much for our shares as they would if these shares did not exist. This could restrict increases in the value of our common stock that might otherwise occur without this "market overhang."

***Consummation of the Petrohawk transaction will substantially limit our ability to use our current net operating loss carryforwards to offset future income for Federal income tax purposes.*** Because Petrohawk will obtain more than 50% of the voting power of our outstanding capital stock, we will be limited in the amount of our net operating loss carryforwards that we will be able to use on an annual basis to offset our taxable income for Federal income tax purposes. See "Tax Consequences" below. This will defer to a material extent, and could eliminate altogether, a portion of the future economic benefit that we would otherwise be entitled to under the current Federal income tax laws as a result of our past operating losses.

***Our financial advisor who rendered the fairness opinion to our board has a substantial financial interest in the consummation of the Petrohawk transaction.*** Under the terms of its amended engagement letter with us, Petro Capital Advisors, LLC received \$100,000 in connection with the delivery of its fairness opinion to the board of directors. In addition, it has been paid and will continue to be paid a monthly fee of \$6,250 unless and until the Petrohawk transaction closes, at which time the monthly fee will

terminate. If the Petrohawk transaction is completed, Petro Capital will be paid an additional \$500,000 fee (for a total of \$600,000, including the fee for the fairness opinion to the board). Thus, there is a substantial financial incentive to the board's financial advisor for the Petrohawk transaction to be approved and closed.

*The fairness opinion rendered by Petro Capital Advisors, LLC relied upon estimates of our proved oil and gas reserves which were substantially lower than the amount reported by Netherland, Sewell & Associates, Inc. as of December 31, 2003, but our board has not requested, nor has it received, an update of that opinion taking such new information into consideration.* The Petro Capital fairness opinion was rendered to our board on November 5, 2003 at the meeting at which our board considered the Petrohawk transaction and determined to proceed with finalization of documentation with respect to the transaction. As noted in the section below captioned, "Petro Capital Advisors, LLC Fairness Opinion," in rendering its opinion, Petro Capital reviewed and relied upon various studies, analyses and inquiries, including information regarding our proved oil and gas reserves. Petro Capital specifically reviewed and relied on the Ryder Scott report of its estimates of our proved oil and gas reserves at December 31, 2002 (approximately 18.3 Bcfe) and our internal update of those estimates as of September 30, 2003 (approximately 22.9 Bcfe), with its primary reliance placed on the September 30 estimate. Our board met again on December 11, 2003 to approve the Petrohawk transaction and related documentation. The purchase agreement was signed on December 12, 2003.

On February 12, 2004, we issued a press release announcing our estimated proved oil and gas reserves at the end of 2003 based on the third party engineering report issued on February 9, 2004, by Netherland, Sewell & Associates, Inc., which is described under "Recent Developments" above. Prior to signing the agreement in December 2003 and again after the issuance of the year-end reserve report for 2003, our board considered whether it should obtain an updated fairness opinion. In the board's deliberations on this issue, the board discussed the issue and considered all developments with respect to Beta since the issuance of the fairness opinion and whether any of those changes had, in the board's opinion, resulted in a fundamental or material change in the value of Beta or our securities.

After careful consideration of a number of factors, including those discussed below, the board decided that it would continue to recommend to the Beta stockholders that the Petrohawk transaction is in their best interests and should be approved. In this regard, our board determined that it did not need an updated fairness opinion to reach this conclusion. Among the factors our board considered were the following:

Prior to its decision to approve the Petrohawk transaction, and using the September 30, 2003 updated reserves estimate as its starting point, our board reviewed a range of estimates provided by management of our proved oil and gas reserves, which indicated that our estimated oil and gas reserves at year-end 2003 could be higher than our internal estimate at September 30, 2003. Estimates of our proved reserves include only those quantities of oil and gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. These estimates are adjusted from time to time to reflect actual production history, updated technical data, results of ongoing operations and prevailing product prices. The upward revisions in estimates of our reserves that occurred throughout 2003 were attributable to the drilling and workover successes in key areas of operations as supported by significant technical work. Netherland, Sewell & Associates, Inc. evaluated 100% of our oil and gas properties, including the results of our operations through the end of 2003, and prepared its estimate for the proved oil and gas reserves as of December 31, 2003. Netherland, Sewell & Associates, Inc.'s estimate of our proved reserves at year-end 2003 was higher than our internal estimate at September 30, 2003; however, it was within the range of estimates presented to our board in advance of its approval of the Petrohawk transaction.

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Although the board could have withdrawn its recommendation in favor of the Petrohawk transaction, our purchase agreement with Petrohawk does not permit us to terminate the agreement or renegotiate its terms based on changes in estimates of our proved oil and gas reserves. In this respect, our board also considered the market reaction to the news of the Petrohawk transaction, including the increases in the market price of our stock and the average daily trading volume of our stock since the date the Petrohawk proposal was first presented. In contrast, the market reaction to the release of the Netherland, Sewell & Associates, Inc. report of our estimated proved reserves at December 31, 2003 appeared to be muted.

After careful consideration of these and other factors, our board concluded that it should continue to recommend the Petrohawk transaction.

### **Use of Proceeds**

The net proceeds (after expenses of the transaction, which we estimate to be approximately \$1,775,000) from the sale of the securities will be added to our working capital and will be available for retirement of our outstanding long-term debt, the acquisition, development and exploration of oil and gas properties and for general corporate purposes. As a result of the issuance of the convertible promissory note, our long-term debt will increase by approximately \$21.7 million, which is the original principal amount of the note minus the amount of our existing debt of \$13.3 million at December 31, 2003. It is anticipated that oil and gas properties currently owned by Petrohawk will be offered to us after the closing. See "Information About Petrohawk Operations and Properties." We currently have no agreements, arrangements or understandings with respect to an acquisition of any entity or business.

### **Background of the Petrohawk Transaction**

In September 2002, our board of directors agreed that in order to improve our overall performance and create a more balanced growth model, a significant change in our senior management was necessary. Accordingly, in October 2002, our board identified and interviewed candidates for the position of president and CEO and ultimately hired David A. Wilkins to fill both positions. Mr. Wilkins came to us from Vintage Petroleum, Inc. where he had worked for approximately 10 years holding various positions with his last position being the General Manager of Latin America. Mr. Wilkins' mandate was to assess our existing asset base, focus our work effort on lower-risk opportunities, optimize operating and administrative costs, and build a new team capable of achieving our desired growth through strategic investments in exploitation, exploration and acquisitions opportunities.

Mr. Wilkins initiated his mandate by recruiting several key employees to strengthen our exploitation and development team. Our new management began the process of optimizing the existing assets including plans for disposition of assets with limited potential. In addition, the team sought out property acquisitions and new drilling opportunities that would provide attractive economic return under the reality of our limited available capital. For approximately eight months, we pursued a strategy of internal growth through cost control and the exploitation of existing assets. Our main focus became the existing properties in Louisiana and Oklahoma and a development drilling program in southern Kansas. Our board recognized that we could return to profitability through the cost control and increased operational focus that Mr. Wilkins' team brought to us but also recognized that growth potential was limited due to lack of capital availability. Discussions were held by our board and management regarding how to continue to grow through expansion of our core asset base. Given the limitations associated with growing a small company using only internal cash flow, our board decided to assess other business combinations which could possibly enhance our growth rate.

During this period the board considered a variety of possible strategic alternatives, with the objective of increasing stockholder value. Strategic alternatives that were considered included both new acquisitions of producing properties or new drilling opportunities in "niche" areas. Numerous small

acquisitions were reviewed but, with the exception of our exercise of our preferential right to purchase additional interests in two producing wells in West Texas, we submitted no formal bids for the acquisition of properties in 2003 because we did not locate any potential acquisitions that were within our strategic locations or within the price range we were willing to spend. We identified, evaluated and committed to participate, to the extent of a 35% interest, in a 13 well drilling program in south-central Kansas.

At this point in time, our board did not actively consider a sale of Beta nor did it actively pursue any mergers or investments in our company. However, we were approached with inquiries about a possible acquisition or merger of the company, only one of which made a formal proposal to our board. A brief description of the proposal made to our board follows.

In April 2003, our chairman of the board, Mr. Robert E. Davis, was contacted by a financial advisor who was representing a privately owned oil and gas company that was seeking to merge with a publicly held company, and desired to make a presentation to our board of directors. Our management reviewed summary information provided by the company and recommended to our chairman not to pursue any further discussions.

In June 2003, our chairman requested that our management re-evaluate the merger opportunity with the company. In July 2003, we executed a confidentiality agreement with the company and a presentation was made by the company to our management concerning the potential of a possible merger. The presentation did not include a formal proposal. Our management and financial advisor evaluated the information provided and concluded that the potential merger was not viable to us due to various factors, including high leverage risk, complexity of the company's ownership structure with various limited partnerships and the location of the company's asset base. At the request of the chairman, the executive management arranged for the company to make a formal presentation to the board of directors.

In August 2003, a presentation (similar to the July presentation) was made to our board of directors in our corporate office (information about the deal structure was circulated to our board in advance of the presentation). At the conclusion of the presentation, a proposal was made by the company to our board. Petro Capital Advisors, LLC was present at the presentation as our financial advisor and consulted with our board regarding the proposal. Based on the proposal, the merger would have resulted in a stock-for-stock exchange with the company which would have significantly diluted our existing stockholders. The current Beta stockholders would have owned only 15% of the outstanding shares under this proposal. Immediately following the presentation, our board considered the proposal and decided not to pursue the transaction further due to the risks associated with an increased amount of leverage to be assumed by us if a merger was consummated, the uncertainty in the ability to re-negotiate the short-term nature of such debt, the uncertainty of the company's ability to "roll-up" a significant number of partnership entities, the location of the company's asset base, concerns about working capital and future capital sources for the company's projected capital expenditure program and loss of control by our stockholders. Subsequent to the presentation, we formally declined the offer and no further discussions were held.

We continued our internal growth strategy and the Wilkins-lead team continued its methodical approach which did return us to profitability, improving our cash position, reducing leverage and abating the production declines.

In the latter part of May 2003, a representative of Mitchell Energy Advisors of Dallas, Texas initiated a discussion with Mr. Davis about the prospect of engaging in a transaction with a new entity led by Mr. Floyd C. Wilson, a former principal of 3TEC Energy Corporation. Under Mr. Wilson's leadership, 3TEC experienced significant growth and was sold to Plains Exploration & Production Company in June 2003. Mitchell Energy Advisors suggested that a group led by Mr. Wilson was considering the possibility of a sizable capital investment in Beta. On June 5, 2003, Mr. Davis met with

Mr. Wilson and a representative of Mitchell Energy Advisors. At the meeting, Mr. Wilson expressed an interest in an investment in both common stock and convertible debt of Beta, of approximately \$60 million. Mr. Davis agreed to discuss that idea with Mr. Wilkins and other members of our board of directors.

Between June 5 and June 25, 2003, Mr. Davis discussed the preliminary verbal proposal put forth by Mr. Wilson with the other directors of our board. The directors expressed an interest in considering the Wilson proposal. Mr. Wilson was perceived by our board members as a credible individual with reputable institutional backers and a successful track record in the development of small public energy companies. In our board's preliminary analysis of the proposal, the directors assessed our ability to attract necessary capital as a stand alone entity as an alternative to the type of investment proposed by Mr. Wilson.

Unrelated to the Wilson proposal, on July 9, 2003, we engaged Petro Capital Advisors, LLC as a financial advisor with respect to the possibility of implementing a stockholder rights plan and other possible defensive measures, as well as locating possible property or company candidates for acquisition by us. Petro Capital was also asked to provide advice with respect to our response to any merger or acquisition proposal. Petro Capital Advisors did assist us in our evaluation of the previously discussed merger proposal. Petro Capital Advisors also undertook to evaluate the fairness to Beta of selected transactions if requested. See "Petro Capital Fairness Opinion" below for a discussion of the reasons for our retention of Petro Capital and the terms of Petro Capital's engagement.

At the request of Mr. Davis, Mr. Wilkins and Mr. Joe Burnett, our Chief Financial Officer, met with Mr. Wilson and Mr. Steve Herod in our office on July 29, 2003. At this meeting, Mr. Wilson introduced his company, Petrohawk Energy, LLC and gave a brief history of his background and that of his management group. Mr. Wilson expressed his interest in investing in our company if the board so desired. Following this introductory meeting, Mr. Wilson and Mr. Herod joined Mr. Davis, Mr. Wilkins and Mr. Rolf Hufnagel, a Beta director, along with Ms. Mynan Feldman, an associate with Mitchell Energy Advisors for a luncheon. The discussion was very general with Mr. Wilson stating his desire to further his review for a potential sizable investment if our board of directors agreed. Subsequent to this meeting, Mr. Wilson met individually with our remaining two directors, Mr. Robert C. Stone, Jr. and Mr. David A. Melman.

A two-day board meeting was held on August 21 and August 22, 2003 during which our management presented a five-year strategic plan followed by a financial analysis of the business model described in the Plan by Petro Capital Advisors. Management's plan established an objective of a compound annual growth rate over the five-year period for both reserves and production of 15% to 20%, to be achieved through organic growth of the existing asset base and acquisitions of new oil and gas reserves with development drilling opportunities. Utilizing management's price forecast, the estimated capital expenditures over the five-year period was \$64 million, to be funded primarily through internally generated cash flow. Under the plan, we would attempt to:

Lower our debt to equity ratio to less than 40%;

Keep our finding and development costs within an acceptable range of \$.80 to \$1.75 per Mcfe (as adjusted from time to time to reflect the current product pricing and reserve category mix);

Maintain a well balanced portfolio of projects (from a risk standpoint);

Maintain a reserve ratio of at least 60% natural gas to 40% crude oil; and

Achieve acceptable annual growth rates through selected acquisition and development opportunities.

Also at this board meeting, as previously discussed, a presentation was made to our board by the private company referred to above in which they were proposing a merger with Beta. Petro Capital

Advisors also presented to the full board a financial evaluation of the merger proposal by the private company. As previously discussed, the board declined to pursue the private company's proposal. There was further board discussion as to whether we should or should not pursue a formal proposal from Petrohawk. Our outside directors of the board instructed Mr. Wilkins to contact Mr. Wilson with the intention of asking him to prepare a formal proposal for the board.

A confidentiality agreement between Petrohawk and us, dated August 26, 2003, was executed on August 29, 2003. Mr. Wilson sent us a "Potential Transaction Outline" on September 24, 2003 followed by a second outline on September 25, 2003. Mr. Wilson made a formal presentation to our board of directors on October 2, 2003. Attendees included: Mr. Davis, Mr. Stone, Mr. Melman, Mr. Hufnagel, Mr. Wilkins, Mr. Burnett, Mrs. Cheryl Rask, Assistant Corporate Secretary; Mr. Wilson, Mr. Herod; Mr. Rosser Newton and Mr. Calvin Tam of Petro Capital Advisors; Mr. Mike Mitchell and Mr. Mike Taylor of Mitchell Energy Advisors.

At the October 2, 2003 meeting, Mr. Wilson submitted a proposal for a \$60 million investment in our company consisting of purchasing \$25 million of our common stock at \$1.50 per share and a \$35 million 8% subordinated convertible note with a 5 year maturity convertible into our common stock at \$1.75 per share. The proposal also called for Petrohawk to receive, for no additional consideration, warrants to purchase an additional 7,500,000 shares of common stock at an exercise price of \$1.50 per share. This proposal would result in a change in control of our company with Petrohawk having approximately 57% of the common stock, prior to any conversion of the note.

Our board members then discussed the proposal after the Petrohawk representatives left the meeting. The board understood that implementation of the proposal would mean that Petrohawk would assume control of the ownership and management of Beta. The board discussed the credibility of the investors in Petrohawk and whether the business strategy outlined by Mr. Wilson would work to increase value for our stockholders more quickly than the internal growth program established in late 2002 and the projected growth as per management's five-year strategic plan as presented to our board in August 2003. Our board's desire to achieve a more rapid stock value appreciation for our stockholders resulted in its determination that it was in our stockholders' best interest to pursue the accelerated growth strategy presented by Petrohawk. Our board believed that Mr. Wilson's experience and past success with growing small public companies and his favorable reputation among institutional capital providers would provide added value and liquidity to our stockholders.

Our board authorized Mr. Newton of Petro Capital Advisors to meet with Mr. Mitchell of Mitchell Energy Advisors in an effort to negotiate improvements in the terms of the proposal as presented to the board.

On October 7, 2003, our board met and discussed the proposal further. The board determined that the proposal merited additional due diligence and review due to Petrohawk's substantial institutional backing and perceived credibility within the energy financial markets. At this meeting, our board discussed engaging legal counsel for the transaction and the possibility of implementing a severance plan for our management and other employees. At this meeting, Mr. Wilkins expressed his belief that the management plan presented in the August board meeting was a very solid plan and that the management team already had made substantial progress in a very short period of time. He stated that Beta then had a stable cash position and did not need to recapitalize at that time. He further indicated his concern that the potential issuance of the warrants associated with the Petrohawk proposal would have a substantial dilutive effect on our stockholders. The board discussed these points thoroughly and, at the end of the meeting, unanimously approved going forward with the discussions with Petrohawk.

Following the board meeting on October 7, 2003, we engaged Conner & Winters, P.C. of Tulsa, Oklahoma, our regular corporate counsel, and the Washington, D.C. office of Foley & Lardner, as special counsel, to represent us in connection with this proposed transaction.

On October 9, 2003, Mr. Newton updated the board on his discussions with Mitchell Energy Advisors and Petrohawk and expressed his belief that Petrohawk's initial offer could be improved. The board then instructed Mr. Newton to make a counteroffer to Petrohawk which would increase the proposed purchase price for the securities to \$1.75 per share for the common stock, a \$2.00 per share conversion price under the terms of the convertible note and an exercise price of \$1.75 per share on the common stock warrants.

Mr. Newton met with Mr. Mitchell to present the counteroffer of Beta. In response, on October 10, 2003, Petrohawk submitted a draft of a "non-binding" letter of intent which called for the purchase of 15,151,515 shares of common stock at \$1.65 per share totaling \$25 million and a senior convertible note in the amount of \$35 million which would be convertible into common stock at a price of \$2.00 per share. The draft letter of intent also called for the issuance of 10,000,000 warrants exercisable into shares of common stock at a price of \$1.65 per share. The draft letter of intent also included a "no-shop" provision which would restrict us from engaging in discussions or negotiations with any other companies for a sale of or material investment in Beta. The draft letter of intent also provided for a termination or break-up fee of \$1,000,000 if we were to enter into an agreement with any other company for a business combination. This proposal also contemplated that a portion of the amount to be invested by Petrohawk would be in the form of oil and gas properties, undeveloped leasehold acreage, seismic data, contract rights and other assets. These properties were to be valued at a mutually agreeable amount, or, if no agreement could be reached, by a qualified independent appraiser. In no event would the value of the assets exceed Petrohawk's acquisition cost or investment in the assets, which was estimated to be approximately \$5,000,000 as of September 30, 2003. This proposal also contemplated that upon closing, our board of directors would be expanded to seven persons, six of whom would be designated by Petrohawk and certain of its key investors. Mr. Wilson would become the Chairman of the Board, President and Chief Executive Officer of Beta.

On October 14, 2003 our board met to discuss the Petrohawk proposal. Our legal counsel and financial advisor were in attendance and advised our board regarding the proposal and the board's fiduciary duties in connection with the consideration and acceptance of such a proposal. Our board rejected the proposal to include properties and other assets as part of the consideration for the securities, but otherwise agreed with the financial terms of the transaction. Our board believed that it would be beneficial to eliminate the letter of intent stage and directed our management and legal counsel to begin negotiations of a definitive agreement. At the time of this acceptance, Beta stock was trading at \$1.31 per share.

Our board met on October 19, 2003 to discuss the status and terms of the definitive agreement being negotiated. The early draft of the definitive securities purchase agreement would have allowed Petrohawk to terminate the agreement at any time prior to the filing of the preliminary proxy material with the Securities and Exchange Commission if they found any matters of concern in the course of their due diligence review of us. The board determined that this sort of provision would not be acceptable and indicated that Petrohawk should complete its due diligence review before signing the definitive agreement.

This position was communicated to Petrohawk by our counsel. Petrohawk agreed to proceed with the due diligence review prior to signing the agreement, but required the signing of a revised "non-binding" letter of intent as a condition to moving forward. On October 20, 2003, we entered into a "non-binding" letter of intent with Petrohawk which was substantially in the form as the draft presented on October 10 except that it provided that the entire consideration for the securities would be cash. The board determined that it was in our best interest to sign the letter due to its short duration and because Petrohawk was expending significant resources and time in connection with the preparation of documents, due diligence and other activities in connection with the possible transaction and, accordingly, was unlikely to proceed without it. The letter of intent contained a binding "no-shop" clause that extended until November 10, 2003. Petrohawk was provided copies of our interim reserve

reports as of September 30, 2003 and our management's Five Year Strategic Plan dated as of August 21, 2003 in connection with its due diligence review and only after the signing of the letter of intent.

At a November 5, 2003 telephonic meeting of our board of directors, Petro Capital Advisors presented its analysis and rendered to our board its oral fairness opinion, subsequently confirmed in writing, that as of November 5, 2003, based on and subject to the considerations described in the opinion that, the Petrohawk transaction, taken as a whole, is fair to Beta from a financial point of view. The closing price per share of our common stock on November 4, 2003 was \$1.85 which is \$.20 more per share than the \$1.65 per share that Petrohawk will pay for our common stock at closing and upon exercise of the warrants it will receive. The board's desire to achieve more rapid appreciation for our stockholders resulted in the board's determining that it was in Beta's and our stockholders' best interest to pursue the accelerated growth strategy presented by Petrohawk. The board also believed that Petrohawk's experience and past success effecting growth in small public companies would provide added value to our stockholders. At this meeting, the board unanimously approved the definitive agreement and authorized its execution.

Petrohawk solicited and received agreements dated as of November 10, 2003 from Messrs. Davis and Hufnagel, Mr. Steve Antry, our founder and former chief executive officer, and other key Beta stockholders to vote in favor of the issuance of the shares to Petrohawk once a definitive securities purchase agreement was signed and the proposal was presented to our stockholders for approval. The shares owned by the stockholders signing these agreements represent approximately 28% of our outstanding common stock.

Petrohawk indicated that it was not ready to sign the definitive agreement before the November 10, 2003 expiration of the no-shop restriction in the letter of intent because it had not completed its due diligence review. As a result, the letter of intent was amended to extend the no-shop restriction until November 17, 2003.

On November 13, 2003, Petrohawk notified the Board that it still had some minor due diligence matters to complete. We were also advised that Mr. Wilson needed a waiver of the restrictions of a non-competition agreement that he signed when 3TEC was acquired by Plains Exploration & Production Company. In that agreement, Mr. Wilson, personally, had agreed that neither he nor any company with whom he might be associated would engage in any oil and gas operations in Louisiana south of Interstate 10 for a period of one year ending June 4, 2004. The waiver was required because we have several properties that are located within the restricted area. The waiver was expected to be received early in the following week, so the no-shop restriction in the letter of intent was again extended, this time to November 24, 2003.

The board originally intended to wait until the signing of the definitive agreement to issue a press release regarding the transaction. It was believed that a public announcement of the transaction should not be made until both Petrohawk and Beta had agreed to the final terms of the transaction. However, with the unexpected delays in the signing of the agreement and concern that rumors of the transaction might be getting into the public domain, it was determined by both parties that a press release announcing the signing of the letter of intent should be made. On November 18, 2003, we issued a press release announcing the letter of intent and outlining the terms of the proposed transaction.

Petrohawk and Plains Exploration & Production continued their negotiations for a waiver of the non-competition agreement of Mr. Wilson. In connection with the waiver, Petrohawk agreed to enter into an exploration agreement with Plains whereby it committed to engage in certain drilling and development operations with Plains. The terms and provisions of the exploration agreement and related agreements are discussed under "Information About Petrohawk Agreements with Plains Exploration & Production Company."

Before the waiver was signed by Petrohawk, our board was presented with an initial outline of the proposed terms of the waiver and the exploration agreement. Once final drafts of the documents had been prepared, they were circulated to our board members for their review and consideration. Our board expressed concern about the restrictions and commitments to which we would be subjected if the Petrohawk transaction were completed. Petrohawk made it clear that any activities contemplated by the Plains agreements which were taken after the closing would be undertaken by Beta. Our board held a telephonic board meeting on December 2, 2003 at which time the proposed Plains agreements with Petrohawk were discussed. Mr. Robert Stone, Jr. made several inquiries of other persons operating in the area covered by the agreements. He reported to our board that he had become satisfied with the terms of the agreements and with the reputation and performance of the Plains management. See "Information About Petrohawk Agreements with Plains Exploration & Production Company" below for a summary of the partial waiver of the non-competition agreement with Mr. Wilson and the exploration agreement with Petrohawk.

During its meetings held on October 21, October 27, and November 10, 2003, our board discussed a severance arrangement for all of our employees in connection with the consummation of the Petrohawk transaction. The board believed that such an arrangement was important to encourage key employees to remain until the closing of the transaction and the transition of control to Petrohawk, as well as to reward them for the recent progress made by us, including returning Beta to profitability in the second quarter of 2003, increasing working capital from a deficit at year end 2002 to a surplus at the end of the second quarter of 2003 and having production volumes on track to exceed the target for 2003. The board was provided with a suggested plan proposed by our management and Villareal & Associates, a consulting firm specializing in executive compensation. Terms of the proposed plan were presented to Petrohawk who, after suggesting several adjustments, consented to the plan. Under the arrangement which was approved, all outstanding stock options held by our employees will vest in full and the options will continue to be exercisable for up to five years from the date of closing even if the employment of the option holder is terminated. See "Interests of Certain Persons in the Petrohawk Transaction." A proposal to amend the stock options will be brought to a vote of the stockholders after closing and Petrohawk has agreed to vote in favor of the proposal, thereby assuring its approval. See "Terms of the Purchase Agreement Covenants Amendment of Stock Options."

Our board had a meeting by teleconference on December 12, 2003 to consider final approval of the definitive agreement in light of the terms of the Plains agreements and waiver. Concern was expressed that the form of waiver granted to Mr. Wilson did not include all of our properties and prospects in the area. Mr. Wilson communicated to several of the directors individually that he felt that if waivers with respect to the omitted properties could not be obtained later, the properties could be sold for a fair price. The board also considered whether it should obtain an update of the fairness opinion rendered by Petro Capital on November 5, 2003. After considerable discussion, the board concluded that the Plains agreement and the commitments and restrictions encompassed by them did not change their decision on the advisability of doing the Petrohawk transaction. They also considered that there had been very little change in the relevant facts on which the original fairness opinion from Petro Capital had been based. Consequently, an update of the fairness opinion would not be required.

The definitive securities purchase agreement was signed with Petrohawk on December 12, 2003. A press release announcing the signing was issued on the next business day, December 15, 2003. On January 14, 2004, Petrohawk reported that it had obtained an amendment of the non-competition agreement waiver from Plains which added to that waiver our properties in Louisiana that were originally omitted from it.

### Reasons for the Petrohawk Transaction and Board Recommendation

Our board of directors has determined that the Petrohawk transaction is fair to, and in the best interests of Beta and our stockholders. In making this determination, the board considered all of the risk factors described below under the sub-caption "Certain Risks Associated with the Proposed Petrohawk Transaction" and the following additional important factors:

The significant amount of new capital to be contributed by Petrohawk should allow us to accelerate our growth strategy;

The principal owners and managers of Petrohawk are experienced and have a successful track record in aggressively growing the stockholder value of energy companies;

The board's determination that an accelerated growth strategy should be pursued as soon as practicable;

The terms of the Petrohawk transaction, and the board's determination that the purchase prices for the securities were reasonable and fair to Beta;

The investment objectives of Petrohawk; and

The opinion of Petro Capital that the Petrohawk transaction, taken as a whole, is fair, from a financial point of view, to Beta.

The board did not assign relative weight to these factors or consider that any factor was of overriding importance. The board evaluated the Petrohawk transaction based upon the totality of the factors and all of the information available to it for consideration. Based upon its evaluation, the board determined that the Petrohawk transaction would be the most suitable and obtainable means to pursue our accelerated growth strategy, and that the transaction was fair to us and in the best interests of our stockholders.

**Our board of directors believes that the Petrohawk transaction is in the best interests of us and our stockholders and recommends that the stockholders vote "For" Proposal No. 1 to approve the issuance of shares of our common stock in the Petrohawk transaction.**

Upon approval and consummation of the Petrohawk transaction, the options covering 600,000 shares held by Mr. Wilkins, one of our directors who is also an employee, and the options covering 255,000 shares held by Mr. Burnett, our chief financial officer, will vest fully and will be extended for a period of up to five years following the closing. In addition, Mr. Wilkins will be entitled to receive a severance payment of \$160,000, and Mr. Burnett will be entitled to receive a severance payment of \$125,000, upon termination of their employment. The board was aware of these interests and considered them along with the other matters described herein in approving the Petrohawk transaction and determining to recommend it to our stockholders for approval. Mr. Stone, Jr., one of our directors, who will be serving on our board after the closing is expected to receive a grant of 15,000 shares of our common stock as consideration for his board service. This decision regarding our board members was not made and announced by Petrohawk until March of 2004, long after our board approved the purchase agreement. See "Proposal No. 1: The Petrohawk Transaction Interests of Certain Persons in the Petrohawk Transaction."

### Recent Developments

On February 12, 2004 we issued a press release announcing that our total proved reserve volumes at December 31, 2003 were 22.4 Bcf of natural gas and 1.3 MMBbl of oil, or 30.2 Bcfe of natural gas as compared to December 31, 2002 proved reserve volumes of 14.7 Bcf of natural gas and 0.6 MMBbl of oil, or 18.3 Bcfe of natural gas. Total proved reserves increased 11.9 Bcfe, or approximately 65%. Production volumes for the year ended December 31, 2003 were approximately 1.9 Bcf of natural gas and 127 MBbl of oil, or 2.7 Bcfe of natural gas. Average production in 2003 was approximately 7.4 MMcfe per day as compared to 8.2 MMcfe per day in 2002, a 9.7% decrease.

At December 31, 2003, the present value of our proved reserves, before income taxes, using a discount rate of 10%, was \$58.5 million, which was based on 2003 year-end prices of \$29.25 per barrel (West Texas Intermediate posted price) and \$5.97 per Mmbtu (Henry Hub spot market price). This compares to a present discounted value of \$35.9 million at December 31, 2002 using 2002 year-end prices of \$31.23 per barrel (NYMEX) and \$4.75 per Mmbtu (Henry Hub spot market price). At year end 2003, approximately 87% of our natural gas reserves and approximately 75% of our oil reserves were classified as "proved developed". Our total proved reserve mix at year-end 2003 was 74% natural gas and 26% oil. All year end 2003 reserve estimates were prepared by Netherland, Sewell & Associates, Inc., a third party independent engineering firm.

We engaged Netherland, Sewell & Associates, Inc. to be our independent engineering firm in June 2003, before meaningful negotiations between us and Petrohawk began. Our decision to change independent engineering firms was driven by our efforts to improve the communication and working relationship between us and our consulting engineers and ultimately obtain the best technical evaluation of our assets. Our President and CEO, David Wilkins, used both Ryder Scott Company and Netherland, Sewell & Associates, Inc. at previous companies and believes that both firms are competent and reputable. However, we and our board concluded that Netherland, Sewell and Associates, Inc. is better suited for a company of our size with its existing property base, particularly those assets which are located in the Mid-Continent region. There were no inducements, commitments, promises, representations or undertakings made by or solicited from Netherland, Sewell & Associates, Inc. with respect to us or any of our properties. While different engineering firms will often vary somewhat in their respective estimates of the reserves attributable to particular properties, we do not believe that our change in independent engineering firms had a material impact on the increase in our estimated proved oil and gas reserves as of December 31, 2003 when compared with the estimate we reported at the end of 2002.

The purchase agreement is binding on both parties and there are no provisions in this agreement for either party to re-negotiate the terms and conditions of the purchase agreement based on the results of the year-end reserve report.

At December 31, 2003, approximately 25.4 Bcfe of natural gas, or 84%, of our total proved reserves, were classified as "proved developed" and approximately 4.7 Bcfe, or 16%, of our total proved reserves were classified as "proved undeveloped" reserves. As of year-end 2003, the "proved undeveloped" reserves represented approximately 25% of the total proved oil reserves and approximately 12% of the total proved natural gas reserves. Approximately 30% of the increase in our total proved reserves from year-end 2002 to year-end 2003 was classified as "proved undeveloped" reserves. These additions were mostly the result of our workover and drilling programs supported by detailed technical studies in our key areas located in Central Oklahoma (WEHLU), South Central Kansas and South Louisiana. We expect to make approximately \$3.6 million in capital expenditures to develop approximately 3.7 Bcfe, or 78%, of our "proved undeveloped" reserves in 2004. We expect to make approximately \$1.3 million in capital expenditures to develop the balance of approximately 1.0 Bcfe, or 22%, of our "proved undeveloped" reserves in 2005.

#### **Petro Capital Advisors, LLC Fairness Opinion**

On July 9, 2003, we engaged Petro Capital Advisors, LLC to assist us generally with respect to locating possible property or company candidates for acquisition by us, other possible mergers and acquisitions, takeover defense and proxy contests, and the rendering, if subsequently requested by us, of its opinion with respect to the fairness, from a financial point of view, of one or more specific transactions. Pursuant to the terms of our engagement letter, Petro Capital has worked with us to analyze various possible merger and acquisition transactions (including the proposal made by a private company in August of 2003 as discussed in the section above captioned "Background of the Petrohawk Transaction"), the implementation of a possible shareholder rights plan or other possible takeover defensive measures, together with the fairness of the Petrohawk transaction. See "Background of the Petrohawk Transaction." Other than this engagement, neither Beta nor its affiliates has had any

material relationship with Petro Capital over the past two years resulting in the payment of any compensation to Petro Capital.

The board retained Petro Capital based upon Petro Capital's reputation, experience and expertise with respect to mergers and acquisitions, takeover defense and proxy contests, and the valuation of businesses and securities, particularly within the energy industry. Petro Capital is a merchant banking firm that is engaged in providing financial advisory services and rendering fairness opinions in connection with mergers and acquisitions, leveraged buyouts, business and securities valuations, recapitalizations, financial restructurings and private placements of debt and equity securities. In addition, Petro Capital, through its affiliates, sponsors principal investments in energy companies.

At the November 5, 2003 telephonic meeting of the board of directors, Petro Capital presented its analysis (as described below) and rendered to the board of directors its oral opinion (subsequently confirmed in writing on November 5, 2003) that as of November 5, 2003, based on and subject to the considerations described in the opinion, the Petrohawk transaction taken as a whole is fair to Beta from a financial point of view. For purposes of this summary, we use the term "opinion" to refer to the fairness opinion issued by Petro Capital on November 5, 2003.

The purchase agreement was signed on December 12, 2003. On February 12, 2004 we issued a press release announcing our estimated proved oil and gas reserves at the end of 2003 based on the third party engineering report issued by Netherland Sewell & Associates, Inc., which is described under "Recent Developments" above. Prior to signing the agreement in December and again after the issuance of the year-end reserve report for 2003, our board did consider whether it should obtain an updated fairness opinion. In the board's deliberations on this issue, the board discussed the issue with its financial advisor and considered all developments with respect to Beta since the issuance of the fairness opinion and whether any of those changes had, in the board's opinion, resulted in a fundamental or material change in the value of Beta or our securities. After careful consideration of all of these matters, the board decided that it would continue to recommend to the Beta stockholders that the Petrohawk transaction is in their best interests and should be approved. The board determined that it did not need an updated fairness opinion to reach this conclusion. Consequently, Petro Capital was not requested to provide an updated fairness opinion and none was delivered. Although there is no provision in the purchase agreement which would allow us to terminate the agreement with no liability if we were unable to obtain an update to the fairness opinion, the obligation of our board under that agreement to recommend the transaction to our stockholders is subject to its fiduciary duties. If the board determined that the Petrohawk transaction was no longer in the best interests of Beta and its stockholders, the board would not recommend to the Beta stockholders that the transaction be approved.

The summary of the opinion set forth below is qualified in its entirety by reference to the full text of the opinion attached as Appendix G to this proxy statement. Petro Capital provided its opinion for the information and assistance of the board of directors in connection with its consideration of the Petrohawk transaction. Petro Capital's opinion is not a recommendation or investment advice as to how any stockholder should vote at the special meeting. Stockholders are encouraged to read the opinion carefully in its entirety. No limitations were imposed by the board of directors upon Petro Capital with respect to the investigations made or procedures followed by it in rendering the opinion. The opinion speaks only as of its date. Events that could affect the fairness of the Petrohawk transaction to Beta from a financial point of view include, among others, changes in industry performance or market conditions and changes to our business, financial condition and results of operations.

In connection with rendering the opinion, Petro Capital, among other things:

1. reviewed Beta's annual reports on Form 10-K for the fiscal years ended 2000, 2001 and 2002, including Beta's audited financial statements for the three fiscal years ended December 31, 2002; reviewed Beta's quarterly reports on Form 10-Q for the quarters ended March 31, 2003 and June 30, 2003, including Beta's unaudited financial statements for such periods; and reviewed Beta's draft interim unaudited financial statements for the three months ended September 30, 2003, as provided to Petro Capital by Beta's management;

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2. reviewed certain financial projections of Beta prepared by Beta's management and furnished to Petro Capital by us, including, but not limited to, projections of reserves, production, realized pricing and capital spending;
3. visited Beta's principal business office;
4. reviewed the letter of intent between Petrohawk and Beta dated as of October 20, 2003;
5. held discussions with certain members of the senior management of Beta and with certain members of Beta's board of directors to discuss the Petrohawk transaction and Beta's operations, financial condition and performance, and prospects for future growth;
6. reviewed an independent reserve report relating to Beta's oil and gas reserves prepared by Ryder Scott Company, dated December 31, 2002, which we call the "Ryder Scott report";
7. reviewed a reserve roll forward relating to our oil and gas reserves prepared by Beta, dated September 30, 2003, which we call the "Beta reserve report";
8. reviewed Beta's Five Year Strategic Plan dated as of August 21, 2003 prepared by Beta's management;
9. reviewed the historical market prices and trading volume for our common stock;
10. reviewed certain other publicly available financial data for certain companies that Petro Capital deemed comparable to Beta, and reviewed terms of other investments, including, but not limited to, prices, financial terms and premiums paid, that it considered similar to the financial components of the Petrohawk transaction;
11. reviewed copies of the following agreements and documents that were delivered to Petro Capital prior to the meeting of Beta's board of directors to approve the Petrohawk transaction, which documents it assumed with our permission to be accurate:
  - The Securities Purchase Agreement;
  - The Convertible Promissory Note;
  - The Warrant Certificate;
  - The Registration Rights Agreement;
  - The Stockholders Agreement; and
  - Certain additional transaction documents; and
12. conducted such other studies, analyses and inquiries and considered such other information and financial, economic and market criteria as it deemed appropriate in arriving at the opinion.

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In rendering the opinion, Petro Capital assumed, with our consent, and relied upon, without independent verification, the accuracy and completeness of all financial and other information and data publicly available or furnished to or otherwise reviewed by or discussed with Petro Capital. With respect to the Beta reserve report and the financial and production forecasts and projections provided to Petro Capital by us or otherwise reviewed by or discussed with Petro Capital, Petro Capital relied upon representations of our management that such report, forecasts and projections were reasonably prepared on bases reflecting the best currently available estimates and judgments of Beta and our management as to our future financial results and condition, and that there had been no material change in our assets, financial condition, business or prospects since the date of the most recent financial statements made available to Petro Capital. With respect to the Ryder Scott report, Petro Capital was advised, and assumed, that the Ryder Scott report was reasonably prepared on bases reflecting the best currently available estimates and judgments of Ryder Scott as to the oil and gas reserves of Beta. Petro Capital assumed that the Petrohawk transaction would be consummated in accordance with the terms and conditions contained in the transaction documents reviewed by it

without waiver, amendment or modification of any material term or condition thereof. Petro Capital further assumed that all material governmental, regulatory or other consents and approvals necessary for the consummation of the Petrohawk transaction would be obtained without any adverse effect on Beta or on the contemplated benefits of the Petrohawk transaction.

Petro Capital did not independently verify the accuracy and completeness of the information supplied to it with respect to us and our reserves and production, including, without limitation, the Beta reserve report and the Ryder Scott report, and does not assume any responsibility with respect thereto. Petro Capital did not make any physical inspection or independent appraisal of our assets or liabilities, nor was it furnished with any such appraisals, other than the Ryder Scott report. Additionally, the opinion is necessarily based on business, economic, market and other conditions as they existed and could be evaluated by Petro Capital at the date of the opinion. Although developments following the date of the opinion may affect the opinion, Petro Capital has assumed no obligation to update, revise or reaffirm the opinion. It should be understood that subsequent developments might affect the conclusion expressed by Petro Capital in the opinion.

The foregoing is a summary of the assumptions made, matters considered and limitations on the review undertaken by Petro Capital in connection with rendering the opinion.

In arriving at the conclusions expressed in the opinion, Petro Capital did, among other things, the following:

Comparable Company Trading Analysis

Comparable Acquisition Analysis

Discounted Cash Flow Analysis

Break-Up Asset Valuation

Premiums Paid Analysis

Comparable Financings (Private Investment in Public Equities (PIPE) Study)

### ***Financial Analyses Summary***

In accordance with customary investment banking practice, Petro Capital employed generally accepted valuation methods in reaching its opinion. The following represents a brief summary of the material financial analyses performed by Petro Capital in connection with providing its opinion to our board of directors. The financial analyses that Petro Capital performed, and that are summarized below, were those that in the exercise of Petro Capital's professional judgment were most relevant to determining the fairness of the Petrohawk transaction, taken as a whole, to Beta from a financial point of view. The opinion is based upon Petro Capital's consideration of the collective results of all such analyses. While Petro Capital did not assign specific weights to any of the analyses performed by it, Petro Capital believes that each of the analyses performed by it supported its opinion as to the fairness of the Petrohawk transaction, taken as a whole, to Beta from a financial point of view.

Set forth below are descriptions of the six analyses performed by Petro Capital, including the results of such analyses.

*Comparable Company Trading Analysis.* Petro Capital compared the valuations of public exploration and production companies that it believed were comparable to Beta with the levels of earnings before interest, taxes, depreciation and amortization ("EBITDA") of those companies for the last twelve months ("LTM") and the estimated levels of EBITDA for the fiscal years ending 2003 and 2004 and latest proved reserves.

For purposes of this analysis, Petro Capital determined in its professional judgment that the following companies in the exploration and production sector were most comparable to Beta:

Callon Petroleum Company



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Equity Oil Company

Edge Petroleum Corporation

Energy Partners, Ltd.

Goodrich Petroleum Corporation

Mission Resources Corporation

PrimeEnergy Corporation

In conducting its comparable company trading analysis, Petro Capital reviewed applicable valuations of each of the seven comparable companies listed above based on LTM EBITDA, estimated levels of EBITDA for the fiscal years ending 2003 and 2004 and latest proved reserves, and determined the following implied ranges of multiples for such valuations. For four of the comparable companies listed above (Equity Oil, Goodrich Petroleum, Mission Resources and PrimeEnergy), estimated levels of EBITDA were not publicly available and therefore were not included by Petro Capital as a part of this analysis.

Indication	High	Low	Median
<b>EBITDA</b>			
LTM	13.3x	3.8x	6.2x
2003E	6.4x	3.5x	5.3x
2004E	4.5x	2.6x	3.6x
Proved Reserves	\$1.77/Mcfe	\$0.78/Mcfe	\$1.55/Mcfe

Based upon its analysis of the comparable company valuations indications, Petro Capital selected the following ranges of multiples:

Indication	Selected Ranges of Multiples
<b>EBITDA</b>	
LTM	5.5x - 8.0x
2003E	4.5x - 6.0x
2004E	2.5x - 4.0x
Proved Reserves	\$1.25/Mcfe - \$1.75/Mcfe

Petro Capital then calculated a range of enterprise values for Beta based on the ranges of multiples selected from analyzing the comparable valuations. In order to calculate the range of equity value per share from the range of enterprise values, Petro Capital made the following adjustments:

added Beta's existing cash balance of approximately \$1.9 million at September 30, 2003;

deducted Beta's existing debt of approximately \$13.4 million at September 30, 2003;

deducted the liquidation value of Beta's existing preferred stock of approximately \$5.7 million at September 30, 2003; and

divided by approximately 12.6 million shares outstanding.

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After consideration of these adjustments, Petro Capital derived equity values for Beta, without giving effect to any of the transactions contemplated in this proxy statement, of \$1.00 to \$1.90 per share.

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*Comparable Acquisition Analysis.* Petro Capital also reviewed the following transactions proposed or completed from January 1, 2002 until November 4, 2003:

Target Company	Acquiring Company
Contour Energy Company	Samson Investment Co.
CanScot Resources Ltd.	APF Energy Trust
Private Investors	Hilcorp Energy
Oxley Petroleum Company	Chesapeake Energy Corp.
GREKA Energy Corp.	Private Investors
National Energy Group, Inc.	American Real Estate Partners
Matador Petroleum Corp.	Tom Brown, Inc.
Carbon Energy Corporation	Evergreen Resources, Inc.
EXCO Resources Inc.	Ares Management/Cerberus Capital
Ocean Energy, Inc.	Devon Energy Corp.
Le Norman Partners, LLC	Patina Oil & Gas Corporation
3TEC Energy Corp.	Plains Exploration & Production Co.
Elysium Energy, LLC	Patina Oil & Gas Corporation
Bravo Natural Resources	Patina Oil & Gas Corporation
Le Norman Energy	Patina Oil & Gas Corporation
Mallon Resources Corp.	Black Hills Corp.
Howell Corp.	Anadarko Petroleum Corp.
Athanor Resources, Inc.	Nuevo Energy Company
Pure Resources Inc.	Unocal Corp.
Ricks Exploration, Inc.	Concho Oil & Gas
EnCana Corp.	Chesapeake Energy Corp.
Summit Resources Ltd.	Paramount Resources Ltd.
Maynard Oil Company	Plantation Petroleum Holdings LLC
Canaan Energy Corp.	Chesapeake Energy Corp.
Alberta Energy Co. Ltd.	EnCana Corp.

Petro Capital compared the prices paid or proposed to be paid in these transactions with the LTM EBITDA and proved reserves of the target companies and determined the following implied ranges of multiples of each of the listed measures. For purposes of its analysis and the multiples presented below, Petro Capital reviewed LTM EBITDA for 13 of the companies listed above (such information was not publicly available for the other 12 companies) and proved reserves data for all of the foregoing companies other than Ricks Exploration, Inc., for which such information was not publicly available.

Indication	High	Low	Median
LTM EBITDA	18.0x	2.9x	8.7x
Proved Reserves	\$1.45/Mcfe	\$0.52/Mcfe	\$1.05/Mcfe

Based on its analysis of the comparable transaction indications, Petro Capital selected the following ranges of multiples:

Indication	Selected Range of Multiples
LTM EBITDA	7.0x - 9.0x
Proved Reserves	\$1.00/Mcfe - \$1.45/Mcfe

Petro Capital then calculated a range of enterprise values for Beta based on the ranges of multiples selected from analyzing the comparable transactions. In order to calculate the range of equity value per share from the range of enterprise values, Petro Capital made the following adjustments:

added Beta's existing cash balance of approximately \$1.9 million at September 30, 2003;

deducted Beta's existing debt of approximately \$13.4 million at September 30, 2003;

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deducted the liquidation value of Beta's existing preferred stock of approximately \$5.7 million at September 30, 2003; and

divided by approximately 12.6 million shares outstanding.

After consideration of these adjustments, Petro Capital derived equity values for Beta, without giving effect to any of the transactions contemplated in this proxy statement, of \$1.00 to \$1.95 per share.

*Discounted Cash Flow Analysis.* Petro Capital used certain financial projections prepared by Beta's management with respect to the years 2003 through 2008 to determine a range of enterprise values from operations for Beta. Using these projections, Petro Capital determined the enterprise value of Beta by first deriving free cash flow for Beta during the projection period. Beta's net cash flow consisted of free cash flow generated from Beta's business operations less the outlays needed to support Beta's business operations. The net cash flow was discounted to the present using a discount rate that gave consideration to the inherent riskiness of the net cash flows and prevailing market interest rates. Petro Capital used a discount rate range of between 11.9% and 15.9% in connection with the analysis.

To determine the portion of the enterprise value from operations attributable to periods beyond 2008, Petro Capital determined a terminal value of Beta using two approaches: (i) by applying a multiple range of 4.0x to 6.5x to Beta's projected EBITDA for fiscal year 2008 and (ii) by applying an annual growth rate range of 2.0% to 4.0% to Beta's cash flow starting in 2008. Petro Capital then discounted this terminal value to the present at a discount rate range between 11.9% and 15.9%.

Petro Capital selected a discount rate range of between 11.9% and 15.9% based on Beta's weighted average cost of capital ("WACC"). Petro Capital calculated an estimated WACC of 13.9% based on Beta's peers, Beta's current capital structure and current risk free rates of return. The following companies were included in Beta's peer group: Callon Petroleum Company, Equity Oil Company, Edge Petroleum Corporation, Energy Partners Ltd., Goodrich Petroleum Corporation, Mission Resources Corporation and PrimeEnergy Corporation.

In order to calculate the range of equity value per share from the range of enterprise values, Petro Capital made the following adjustments:

added Beta's existing cash balance of approximately \$1.9 million at September 30, 2003;

deducted Beta's existing debt of approximately \$13.4 million at September 30, 2003;

deducted the liquidation value of Beta's existing preferred stock of approximately \$5.7 million at September 30, 2003; and

divided by approximately 12.6 million shares outstanding.

Based on the discounted cash flow methodology described above, Petro Capital derived equity values for Beta, without giving effect to any of the transactions contemplated in this proxy statement, of \$1.30 to \$2.50 per share.

*Break-Up Asset Valuation.* Petro Capital analyzed the value of Beta's assets based on book value and market value. The implied enterprise value of Beta includes the value of the proved reserves, the undeveloped acreage, the pipeline and Beta's working capital. Assuming the break-up of Beta's assets as of September 30, 2003, Petro Capital determined a range of enterprise values for Beta based on these assumptions.

In order to calculate the range of equity value per share from the range of enterprise values, Petro Capital made the following adjustments:

added Beta's existing cash balance of approximately \$1.9 million at September 30, 2003;

deducted Beta's existing debt of approximately \$13.4 million at September 30, 2003;

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deducted the liquidation value of Beta's existing preferred stock of approximately \$5.7 million at September 30, 2003; and

divided by approximately 12.6 million shares outstanding.

Based on the break-up asset methodology described above, and after the consideration of the adjustments discussed above, Petro Capital derived equity values for Beta, without giving effect to any of the transactions contemplated in this proxy statement, of \$1.00 to \$1.75 per share.

*Premiums Paid Analysis.* Petro Capital analyzed the premiums paid for all companies, and specifically for oil and gas companies in which more than 50% of the post-transaction equity of the target was acquired. The data reviewed for all companies only included those companies with a market capitalization, pre-transaction of less than \$100 million. Both analyses reviewed transactions that occurred in the last twelve months and the last three years. Petro Capital analyzed the premiums paid for these companies based on their value one day, one week and four weeks prior to the investment trading prices.

Based upon its analysis of the premiums paid valuations indications, Petro Capital determined the following ranges of premiums for the indicated time periods:

Indication	High	Low	Average
<b>Oil and Gas Companies (LTM)</b>			
1 Day	96.7%	(10.3%)	29.3%
1 Week	82.1%	(12.1%)	27.3%
4 Weeks	77.5%	(13.3%)	26.6%
<b>All Companies (LTM)</b>			
1 Day	NM	NM	35.5%
1 Week	NM	NM	38.8%
4 Weeks	NM	NM	47.4%
<b>Oil and Gas Companies (Last 3 Years)</b>			
1 Day	96.7%	(26.7%)	18.3%
1 Week	85.2%	(17.8%)	23.4%
4 Weeks	83.1%	(13.3%)	25.7%
<b>All Companies (Last 3 Years)</b>			
1 Day	NM	NM	26.6%
1 Week	NM	NM	29.9%
4 Weeks	NM	NM	33.6%
<b>Relevant Range</b>			
1 Day		15% - 25%	
1 Week		20% - 30%	
4 Weeks		25% - 35%	

Petro Capital analyzed the premiums paid for both oil and gas companies and all companies over the last twelve months and the last three years based upon data provided by Securities Data Corporation. The highest premium paid for all companies over the last twelve months and the last three years was approximately 1650% one day, one week and four weeks prior to the investment. The lowest premium paid for all companies over the last twelve months and the last three years was approximately -98.5% to -99.9% one day, one week and four weeks prior to the investment. Petro Capital believed that these data points were not meaningful, or "NM," with respect to the Petrohawk transaction and therefore were not considered by Petro Capital in determining the "relevant range" of premiums.

Petro Capital applied the relevant range of premiums paid to Beta's trading price for each of the indicated time periods as if the investment occurred on the date of the opinion. Based on the ranges of premiums set forth above, Petro Capital derived equity values for Beta, without giving effect to any of the transactions contemplated in this proxy statement, of \$1.55 to \$2.10 per share.

*Private Investment in Public Equities (PIPE) Study.* In addition to the valuations described above, Petro Capital analyzed 50 PIPE transactions closed from September 8, 2003 until October 17, 2003. Of these transactions:

43 involved issuances of common stock; and

7 involved issuances of convertible debt.

Petro Capital also analyzed 38 PIPE transactions by only exploration and production companies closed from March 8, 2001 until October 17, 2003. Of these transactions:

32 involved issuances of common stock; and

6 involved issuances of convertible debt.

Empirical data observed in this analysis of all PIPE transactions indicate that 55% of the companies that issued common stock or convertible debt in PIPE transactions issued warrants in connection with the common stock or convertible debt. (Petro Capital was unable to obtain this comparable information in three of the 50 PIPE transactions that it reviewed.) The ratios of the prices at which the common stock transactions analyzed in all companies were consummated compared to the pre-transaction market value of the underlying securities indicated a range of price to market value from a 66.8% discount to a 4.7% premium. (Petro Capital was unable to obtain this comparable information in six of the 50 PIPE transactions that it reviewed.) The ratios of the prices at which the common stock transactions analyzed in exploration and production companies were consummated compared to the pre-transaction market value of the underlying securities indicated a range of price to market value from a 64.3% discount to a 2.0% discount (Petro Capital was unable to obtain this comparable information in 25 of the 50 PIPE transactions that it reviewed.) The \$1.65 per share price in the Petrohawk transaction (ignoring, for this purpose, any value attributable to the warrants) represents an approximately 8.6% premium to the average closing price of Beta's common stock for the last 30 trading days ending on November 4, 2003. The \$2.00 conversion price of the convertible notes in the Petrohawk transaction represents an approximately 31.6% premium to the average closing price of Beta's common stock for the last 30 trading days ending on November 4, 2003.

The empirical data observed in the PIPE transactions study indicate that the terms of the sale of the common stock, warrants and convertible note, including the purchase price discount or premium to market price and warrant coverage, were within the ranges observed for other recent comparable financings.

*Conclusion*

Based on the analyses described above, Petro Capital determined that, as of the date of the opinion, the Petrohawk transaction, taken as a whole, is fair to Beta from a financial point of view.

Petro Capital was not asked to opine and did not express any opinion as to: (i) the tax or legal consequences of the Petrohawk transaction or the transaction documents; (ii) the realizable value of Beta's common stock or the prices at which our common stock may trade; or (iii) the fairness of any specific term of the Petrohawk transaction or any other aspect of the Petrohawk transaction not expressly addressed in the opinion.

The opinion does not address the underlying business decision of Beta to effect the Petrohawk transaction or to enter into the transaction documents; nor does it constitute a recommendation or investment advice to any stockholder as to whether the stockholder should vote in favor of the portions of the Petrohawk transaction that are subject to stockholder approval.

Petro Capital was not requested to, and it did not, solicit third party indications of interest in acquiring all or any part of Beta. Other than assisting us with negotiating the purchase price of the Petrohawk transaction with Petrohawk's financial advisor, Petro Capital did not assist us in negotiating any terms of the Petrohawk transaction or the transaction documents and did not advise us with respect to any alternatives to the Petrohawk transaction.

The summary set forth above describes the material points of the financial analyses performed by Petro Capital in arriving at the opinion. The preparation of a fairness opinion is a complex analytical process involving various determinations as to the most appropriate and relevant methods of financial analyses and application of those methods to the particular circumstances and is, therefore, not readily susceptible to summary description. In arriving at the opinion, Petro Capital did not attribute any particular weight to any analysis or factor considered by it, but rather made qualitative judgments as to the significance and relevance of each analysis and factor. Accordingly, Petro Capital believes that its analyses and the summary set forth herein must be considered as a whole and that selecting portions of its analyses or portions of this summary, without considering all analyses and factors, or all portions of this summary, could create an incomplete and/or inaccurate view of the processes underlying the analyses performed in connection with rendering the opinion. In its analyses, Petro Capital made numerous assumptions, many of which involve facts or actions which are beyond our control, with respect to Beta, the Petrohawk transaction, the consummation of the Petrohawk transaction in accordance with the transaction documents, industry performance, general business, economic, market and financial conditions and other matters, and the accuracy and completeness of the information provided to it by Beta's management (including without limitation, Beta's financial forecasts and projections). The estimates contained in such analyses are not necessarily indicative of actual values or predictive of future results or values, which may be more or less favorable than suggested by such analyses. Additionally, analyses relating to the value of our business or securities are not appraisals. Accordingly, such analyses and estimates are inherently subject to substantial uncertainty.

Under our engagement letter with Petro Capital, we have agreed to pay Petro Capital fees totaling \$600,000 in connection with the Petrohawk transaction, including a fee of \$100,000 for the fairness opinion. The balance of this fee is contingent on the consummation of the Petrohawk transaction. In addition, we have paid Petro Capital a monthly retainer of \$6,250 (which is expected to continue through the closing) and a fee of \$35,000 to work with us to analyze a possible shareholder rights plan. We have also agreed, among other things, to reimburse Petro Capital for certain of its reasonable out-of-pocket expenses incurred in connection with the services provided by Petro Capital, and to indemnify and hold harmless Petro Capital and other related parties from and against various liabilities and expenses, which may include liabilities under the federal securities laws, in connection with its engagement.

### **Interests of Certain Persons in the Petrohawk Transaction**

In considering the recommendation of the board with respect to the Petrohawk transaction, stockholders should be aware that David A. Wilkins, our president, chief executive officer and a director, Robert C. Stone, Jr., a director, and Joseph L. Burnett, our chief financial officer, have interests in the Petrohawk transaction that are in addition to the interests of stockholders in general. The board was aware of these interests of Mr. Wilkins and Mr. Burnett and considered them along with the other matters described herein in approving the Petrohawk transaction and determining to recommend the Petrohawk transaction to the stockholders for approval. The interest of Mr. Stone did not arise until long after the Board approved the purchase agreement and decided to recommend the Petrohawk transaction to the Beta stockholders.

Our board of directors approved a severance arrangement for all of our employees in connection with the consummation of the Petrohawk transaction. Under this arrangement, all outstanding employee stock options will vest in full and the options will continue to be exercisable for a period of five years from the date of closing or until they would have otherwise expired absent termination of employment, whichever is shorter, even if the employment of the option holder is terminated. Under the current option provisions, only a portion of the options are currently exercisable (the remaining options vest over time) and would terminate at the end of 90 days following termination of the employment of the option holder. In addition, under certain conditions each employee will receive a severance payment equal to a stated multiple of his or her monthly salary. Messrs. Wilkins and Burnett hold options or warrants covering 600,000 shares and 255,000, shares respectively, and will be eligible to receive severance payments of \$160,000 and \$125,000 respectively, which equal one year's salary, upon termination of their employment.

In March of 2004, Petrohawk announced to us its intention to propose that each of the non-employee directors of Beta serving after the closing receive grants of 15,000 shares of our common stock as consideration for their service on the board. Mr. Stone is the only current board member who will continue on the board after the closing of the transaction and, thus, is expected to receive 15,000 shares of our common stock, assuming that the transaction is closed and the newly constituted board approves these grants.

### **Information About Petrohawk**

Petrohawk Energy, LLC, a Delaware limited liability company was formed in 2003. Petrohawk is a privately held company and is engaged in the acquisition, development, production and exploration of oil and natural gas. As a result of the Petrohawk transaction, Petrohawk will own approximately 55% of the Company but our stockholders will acquire no interest in Petrohawk or its other assets or operations except to the extent they are subsequently sold to us. Even though we will continue to be publicly held, we will be, in effect, the majority-owned operating subsidiary for Petrohawk's oil and gas exploration, development and production operations. A vote or consent of the members of Petrohawk in connection with the transactions contemplated under this proxy statement is not required pursuant to Petrohawk's Limited Liability Company Agreement or pursuant to the Delaware Limited Liability Company Act. In accordance with Petrohawk's limited liability company agreement, the transactions contemplated under this proxy statement have been approved by unanimous written consent of the Petrohawk board of directors. Factual information about Petrohawk in this section has been provided by Petrohawk.

***Properties and Operations.*** Since its formation, Petrohawk has acquired undeveloped acreage, seismic data, producing properties with associated production facilities and participated in the drilling of wells. Petrohawk presently owns one producing well (State Lease 8191 #4) with associated production facilities located offshore Louisiana in the Breton Sound 11 field with current net production of approximately 0.1 Mmcfe per day. The State Lease 8191 #4 well produces from the

7,500' sand. Since completion in 1998, the well has produced approximately 1.1 Bcf and 5 MBO. Petrohawk acquired this property in the fourth quarter of 2003 and is the operator with 51.53% working interest.

In addition, Petrohawk owns one shut-in well (State Lease 16273 #1) in the Breton Sound 23 field, offshore Louisiana, which is in the process of being hooked up for production. The State Lease 16273 #1 well was drilled and completed in the 3,500' sand by another operator in 2001 but was not placed on production due to lack of an economically feasible gas market. Petrohawk acquired the property in the fourth quarter of 2003 and is in the process of laying a flowline to connect the well for sales at the Breton Sound 11 production facility. The well was placed on production in April 2004.

Additionally, Petrohawk owns one undeveloped lease and associated seismic data in the Main Pass/Breton Sound area, offshore Louisiana. The undeveloped lease is State Lease #18003 in Main Pass Block 5. It was acquired in January 2004 for approximately \$82,000, net to Petrohawk's 25% working interest. The lease covers 781 acres and has a five year term with yearly delay rentals of \$183 per acre.

Finally, in its ongoing business activities, Petrohawk is continuously reviewing other opportunities to acquire, develop and operate attractive properties, and upon any consummation of an interest that would be appropriate to the business of Beta, Petrohawk intends to offer the opportunity to Beta, following appropriate procedures, including those outlined in the following paragraph.

***Proposed Sale of Petrohawk's Properties to Beta.*** Petrohawk has stated that after closing, it intends to offer to us for sale all of its oil and gas properties and that it intends to offer to us any other opportunities it has developed prior to closing. The post-closing board of directors of Beta will form a committee of disinterested directors with no financial interest in Petrohawk to evaluate and consider approval of these proposals. It is expected that Robert C. Stone, Jr. will be the sole member of this committee. It is expected that the disinterested director committee will engage a third party oil and gas property appraiser to prepare a fair market value report of the Petrohawk properties. It is also anticipated that if the disinterested director committee, after reviewing the fair market value report and other information related to the transaction, concludes that the purchase price offered by Petrohawk for its properties is fair to Beta, then the transaction will close. If the disinterested director committee concludes that the transaction is not fair to Beta, then it is anticipated that the disinterested director committee will attempt to renegotiate the purchase price or the transaction will not close and Petrohawk will continue to own the properties.

***Agreements with Plains Exploration & Production Company.*** In connection with the acquisition of 3TEC Energy Corporation by Plains Exploration & Production Company, Mr. Wilson entered into a noncompetition agreement with Plains in which he agreed not to compete with Plains in certain areas of south Louisiana until June 4, 2004. Mr. Wilson has also agreed not to become a director or an employee of any company that competes with Plains in that same area for that same period. We have properties in the areas covered by the noncompetition agreement. Plains and Mr. Wilson entered into a partial waiver of noncompetition agreement dated December 11, 2003 in which Plains waived its rights to enforce the terms of the noncompetition agreement with respect to activities covered by the Exploration Agreement described below and also waived its rights to enforce the terms of the noncompetition agreement with respect to 12 specific wells, 10 of which are owned by us and two of which are owned by Petrohawk. Additionally, on January 14, 2004, Plains and Mr. Wilson entered into an amendment to and ratification of partial waiver of noncompetition agreement whereby Plains waived its rights to enforce the terms of the noncompetition agreement with respect to three additional wells which are owned by us.

In connection with obtaining the partial waiver of the noncompetition agreement, Petrohawk entered into an exploration agreement with Plains. Under this agreement, Petrohawk and Plains have mutually agreed to conduct joint activities in a certain area of offshore Louisiana covering

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approximately 82,500 acres. The agreement was entered into on December 11, 2003, and is for a five year term.

Under the agreement, Petrohawk has agreed to purchase a one-quarter interest in the leases associated with the first 10 prospect areas proposed by Plains. On the first well on the first five prospects, Petrohawk has agreed to pay for one-third of all drilling costs even though it is receiving a one-quarter interest. In addition, Petrohawk has agreed to pay to Plains a prospect fee of \$75,000 for each exploratory well in which Petrohawk participates.

If Petrohawk does not participate in at least five exploratory prospects during the term of the agreement and at least five exploratory prospects have been proposed by Plains and Plains has commenced drilling on at least five exploratory prospects that were proposed, Petrohawk is required to pay Plains \$300,000 multiplied by the difference between five and the number of wells participated in by Petrohawk. In addition, if Petrohawk elects not to participate in an exploratory well on a prospect proposed by Plains, Petrohawk will forfeit all of its interest in the leases in that prospect that it has acquired.

Petrohawk intends to assign its rights and commitments under these agreements to Beta after the closing of the Petrohawk transaction. If this occurs, we will become subject to the commitments and entitled to the benefits of, the exploration agreement.

### Transaction Documents

Stockholders should consider the following summary of the terms of the Petrohawk transaction before voting on the Petrohawk transaction. This summary is qualified in its entirety by reference to the following documents:

the Securities Purchase Agreement, a copy of which is attached to this proxy statement as *Appendix A*;

the Convertible Promissory Note, a form of which is attached to this proxy statement as *Appendix B*;

the Warrant Certificate, a form of which is attached to this proxy statement as *Appendix C*;

the Registration Rights Agreement, a form of which is attached to this proxy statement as *Appendix D*;

the Stockholders Agreement, a form of which is attached to this proxy statement as *Appendix E*;

(collectively, with all other documents issued or executed in connection with or ancillary to the Petrohawk transaction, the "Petrohawk transaction documents").

### Terms of the Purchase Agreement

Pursuant to the terms of the purchase agreement, and subject to the conditions contained therein, we have agreed to issue to Petrohawk for an aggregate of \$60,000,000 in cash:

15,151,515 shares of our common stock;

five year warrants entitling the holder to purchase up to 10,000,000 shares of common stock for an exercise price of \$1.65 per share; and

a convertible promissory note in the original principal amount of \$35,000,000 which is convertible after two years into common stock at a conversion price of \$2.00 per share.

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The exercise price of the warrants and the conversion price of the convertible note are subject to adjustment in the event of the issuance of stock dividends, stock splits and similar events. See "Terms of the Convertible Note" and "Terms of the Warrants" below.

The closing is subject to the satisfaction of certain conditions precedent, as discussed more fully below. The closing will occur on a date promptly following the satisfaction of the conditions to closing described below in " Conditions to Purchase" and " Conditions to Sale," or on such other date as we and Petrohawk mutually agree. The purchase agreement provides that if the closing has not occurred on or before May 31, 2004, either party can terminate the agreement.

### *Conditions to Purchase*

The obligation of Petrohawk to purchase the securities under the purchase agreement is subject to the satisfaction of the following conditions:

We must have received a consent from our senior lender.

The parties will have entered into the registration rights agreement.

Petrohawk shall have received customary closing certificates from one of our authorized officers certifying as to certain of the closing conditions.

Petrohawk shall have received an opinion from our counsel, Conner & Winters, P.C., with respect to corporate organization, authority, valid execution of the purchase agreement, validity, nonassessability and enforceability of the securities to be issued, conflicts, consents and other matters Petrohawk may reasonably request.

Petrohawk shall have received all resolutions, certificates and documents it may request relating to organization, good standing, corporate authority, enforceability of the purchase agreement, stock ownership, documents necessary to increase our outstanding capital and other related matters.

The common stock and the shares of stock issuable upon exercise of the warrants and conversion of the convertible note shall have been approved for listing on The Nadsaq National Market, subject to official notice of issuance.

Resignations shall have been received from all of our officers and all of our directors except Robert C. Stone, Jr. (who is the only member of our board who will continue as a director following the closing) and the actions necessary to appoint the new board of directors effective as of the closing shall have been taken.

No default in the convertible note shall have occurred which is continuing.

Our representations and warranties in the purchase agreement and other transaction documents shall be true and correct in all material respects.

No event shall have occurred or a condition exist which is a material adverse effect on our or our subsidiaries' financial condition, business, assets, properties, prospects or results of operations.

We shall have paid or made arrangements to pay all Petrohawk's expenses in connection with the Petrohawk transaction.

Stockholder approval of Proposal No. 1 shall have been obtained.

***Conditions to Sale***

Our obligation to sell the securities is subject to the satisfaction of the following conditions precedent on or before the closing date:

The parties will have entered into the registration rights agreement.

We shall have received from Petrohawk customary closing certificates from one of its authorized officers certifying as to certain of the closing conditions.

We shall have received an opinion from Petrohawk's counsel, Hinkle Elkouri Law Firm L.L.C., with respect to corporate organization, authority, valid execution of the purchase agreement, conflicts, consents and other matters we may reasonably request.

We shall have received copies of all resolutions, certificates and documents we may request relating to organization, good standing, authority, enforceability of the purchase agreement, and other related matters.

Petrohawk's representations and warranties in the purchase agreement and other transaction documents shall be true and correct in all material respects.

Stockholder approval of Proposal No. 1 shall have been obtained.

***Representations and Warranties***

The purchase agreement contains numerous representations and warranties we have made with respect to matters related to us and in certain instances, our subsidiaries. In certain cases, these representations are subject to specified exceptions and qualifications. The matters covered by the representations and warranties include:

corporate organization and existence and similar corporate matters;

corporate and governmental authorization to enter into the transaction documents;

validity and binding effect of the transaction documents;

our capitalization;

due authorization, valid issuance and full payment of securities to be issued pursuant to the transaction documents;

the preparation of our financial statements and their fair presentation of our financial condition;

no material adverse effect on us since September 30, 2003;

no defaults or waivers of rights under material agreements;

debt documents regarding our senior credit agreement;

investments;

outstanding debt;

transactions with affiliates;

employment matters;

litigation or claims involving us or our subsidiaries or our respective officers, directors or employees or our business, assets or properties;

employee benefits plans;

payment of taxes and filing of tax returns;

title to assets;

possession of licenses and permits;

rights to intellectual property and other intellectual property matters;

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compliance with applicable laws;

environmental matters and compliance with environmental laws;

our fiscal year;

no events that would be defaults under the terms of the convertible note;

insurance policies;

government regulation regarding the incurrence of debt;

compliance with securities laws;

brokers;

our filings with the SEC;

no inquiries by the SEC;

compliance with oil and gas laws, leases and practices;

obligations to plug and abandon wells;

royalty shares in oil and gas leases;

oil and gas leases;

timeliness of receipt of proceeds from oil and gas interests;

take or pay arrangements;

imbalances of production;

financial and commodity hedging;

books and records;

information provided for the proved reserves report;

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nature of our assets;

Sarbanes-Oxley Act of 2002 compliance;

Nasdaq Marketplace Rules compliance;

dissenters' rights;

application of Nevada control shares statute;

no untrue statements.

The purchase agreement also contains representations and warranties of Petrohawk that are, in certain cases, subject to specified exceptions and qualifications. The matters covered by Petrohawk's representations and warranties include:

limited liability company organization and existence and similar limited liability company matters;

limited liability company and governmental authorization to enter into the transaction documents;

validity and binding effect of the transaction documents;

brokers;

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payment of taxes and filing of tax returns;

legal proceedings;

financing;

contracts and commitments to which we may become subject after the closing;

no untrue statements.

### **Covenants**

The purchase agreement contains the following covenants and agreements.

*Insurance.* We are required to maintain the amounts and types of insurance as are currently in effect.

*Payment of Taxes and Claims.* At all times prior to closing, we are required to pay all taxes and all material claims for sums which have become due and payable.

*Compliance with Laws and Documents.* We are required to comply in all material respects with the provisions of all laws, charter documents and every material agreement to which we or our subsidiaries are a party.

*Operation of Properties and Equipment.* We are required to maintain, preserve and keep all operating equipment in proper repair, working order and condition in a manner and to the extent consistent with past practice.

*Additional Documents.* At or prior to closing, we are required to cure promptly any defects in the creation and issuance of the common stock, the convertible note and the warrants, and the delivery of the purchase agreement and other transaction documents and, upon reasonable request, deliver all documents as may be reasonably necessary in connection with the covenants in the Petrohawk transaction documents.

*Maintenance of Books and Records.* We are required to maintain proper books and records in conformity with generally accepted accounting principles ("GAAP").

*Environmental Matters.* We are required to comply in all material respects with all environmental laws and laws applicable to our properties and operations. We are also required to notify Petrohawk of any hazardous discharge or the receipt of any environmental complaint relating to the property or assets owned by us or our subsidiaries.

*Access to Information.* At all times prior to closing, we are required to afford Petrohawk and its representatives access to our books and records, properties and personnel as Petrohawk may reasonably request and to provide Petrohawk with financial and operating data.

*Conduct of Business of the Company Pending Closing.* Except as contemplated by the purchase agreement or as Petrohawk shall agree in writing, during the period from the date of the purchase agreement to the closing, we are required to conduct our operations in the ordinary course of business consistent with past practice and to use all reasonable efforts to preserve intact our and our subsidiaries' business organizations, assets, prospects and advantageous business relationships, to keep available the services of our officers and key employees and to maintain relationships with our licensors, licensees, suppliers, contractors, distributors, customers and others having business relationships with us. We will not, without the

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written consent of Petrohawk:

amend or propose to change our or our subsidiaries' charter documents;

split, combine or reclassify any shares of our capital stock;

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declare, pay or set aside for payment any dividend or other distribution in respect of our capital stock other than regular dividends under the preferred stock;

redeem, purchase or otherwise acquire any shares of our capital stock or other securities;

except as permitted by the purchase agreement or as required by outstanding stock options, warrants and convertible stock, authorize for issuance, issue, sell or deliver, or agree or commit to issue, sell or deliver any of our capital stock or any securities convertible into shares of our capital stock;

except as permitted by the purchase agreement, enter into any amendment of any term of any outstanding security;

except as permitted by the purchase agreement, incur any indebtedness except trade debt in the ordinary course of business and debt pursuant to existing credit facilities;

except as permitted by the purchase agreement, fail to make any contribution to any pension plans;

except as permitted by the purchase agreement, increase compensation or grant bonuses or other benefits payable, or modify or amend any employment or severance agreements;

except as permitted by the purchase agreement, settle any pending litigation other than in the ordinary course of business;

incur any material liability or obligation other than in the ordinary course of business;

issue any debt securities;

assume the obligation or be responsible for the obligations of any other person;

change any assumption underlying, or methods of calculating any bad debt;

enter into, adopt or amend any employment agreement or pension plan;

grant or become obligated to grant any increase in compensation to officers, directors or employees;

acquire any corporation, partnership or other business organization or make any investment in any person;

pay, discharge or satisfy any material claims, liabilities or obligations other than in the ordinary course of business of liabilities reflected or reserved against on our financial statements or subsequently incurred in the ordinary course of business or disclosed pursuant to the purchase agreement;

acquire any material assets or properties or dispose of, mortgage or encumber any material assets or properties other than in the ordinary course of business;

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waive, release, grant or transfer any material rights or modify in any material respect any existing material license, lease contract or other document other than in the ordinary course of business and consistent with past practice;

sell, lease, license or otherwise surrender or dispose of any assets or properties with an aggregate fair market value exceeding \$50,000;

settle a material audit, make or change any material tax election or file any material amended tax return;

change any method of accounting or accounting practice except as required by GAAP;

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take any action that would give rise to a claim under the WARN Act or any similar law because of a plant closing or mass layoff;

except as disclosed to Petrohawk, become bound or obligated to participate in any operation, or consent to participate in any operation, with respect to oil and gas interests that will individually cost in excess of \$50,000 unless the operation is a currently existing obligation or necessary to maintain an oil and gas interest;

fail to timely meet any royalty payment obligations under our oil and gas leases;

enter into any futures, hedge, swap, collar, put, call, floor, cap, option or other contracts intended to benefit from or reduce or eliminate the risk of fluctuations in the price of commodities with a duration of more than three months;

enter into any fixed price commodity sales agreement with a duration of more than three months;

adopt, amend or assume an obligation to contribute to any employee benefit plan or arrangement or collective bargaining agreement;

enter into any employment, severance or similar contract with any person or amend any such existing contracts to increase amounts payable or benefits;

engage in any transaction in connection with which we could be subjected to either a civil penalty or a tax under employee benefits laws;

terminate any pension plan in a manner or take any action with respect to any pension plan that could result in our liability to any person;

take any action that could adversely affect the qualification of any pension plan or its compliance with employee benefits laws;

fail to make payment under the provisions of any pension plan, agreement relating thereto or applicable law;

fail to file all reports and forms required by federal regulations with respect to any pension plan;

approve the grant of stock options or restricted stock for employees or terminate any employee entitled to any severance payment upon termination;

organize or acquire any person that could become a subsidiary;

enter into any commitment or agreement to license or purchase seismic data that will cost in excess of \$50,000 other than pursuant to an agreement or commitment existing on the date of the purchase agreement; or

take any action or agree to take any of the foregoing actions or any action which would make any representation or warranty in the purchase agreement untrue or incorrect.

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*Special Meeting.* We will take all action necessary in accordance with law and our organizational documents to call and hold a special meeting of stockholders as promptly as practicable to vote upon the items included in this proxy statement. The board of directors shall, subject to its fiduciary duties:

recommend to the stockholders that they adopt and approve the Petrohawk transaction, the amendment of the articles of incorporation and other matters included in this proxy statement,

use its reasonable best efforts to solicit proxies in favor of such adoption and approval, and

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take all other action reasonable necessary to secure a vote in favor of such adoption and approval.

*Continuation of Indemnification.* After the closing, for a period of at least five years, Beta and Petrohawk will use all reasonable efforts to cause us to continue to indemnify, defend and hold harmless the officers, directors and employees of us and our subsidiaries who were officers, directors or employees prior to the closing from and against all losses or liabilities which are due to such positions or arising out of the Petrohawk transaction. After the closing, Beta will and Petrohawk will use all reasonable efforts to cause our officers and directors liability insurance to remain in effect.

### *No Shop Covenant.*

Until the termination of the purchase agreement, we have committed that we shall not, and shall cause our officers, directors, employees or other agents not to:

take any action to solicit, initiate or encourage any "company acquisition proposal" (as defined below), or

engage in discussions or negotiations with, or disclose any nonpublic information or afford access to our books and records to any person who may be considering making, or has made a company acquisition proposal.

However, this does not prohibit us or our board of directors from:

in response to a third party inquiry, stating that we are precluded from discussion or negotiations;

taking and disclosing a position with respect to a tender offer; or

prior to obtaining stockholder approval, furnishing information, including nonpublic information to, or entering into negotiations with, a person that had indicated its willingness to make an unsolicited bona fide company acquisition proposal if:

such unsolicited bona fide proposal is made by a third party that our board of directors determines in good faith has the good faith intent to proceed with negotiations to consider, and the financial and legal capacity to consummate, such company acquisition proposal,

the board of directors determines in good faith after consultation with its legal counsel and financial advisor that such company acquisition proposal is a "superior proposal" (as defined below),

we enter into a confidentiality agreement with such person,

we provide written notice to Petrohawk that we are furnishing information to, or entering into discussions or negotiations with, such person;

the agreement relating to such company acquisition proposal does not provide that it is subject to any financing contingencies, and

we are required to use all reasonable efforts to keep Petrohawk informed of the status and terms of such negotiations or discussions and provide Petrohawk copies of such written proposals, provided that Petrohawk agrees to execute a confidentiality agreement with respect to the information delivered to it in relation to such company acquisition proposal.

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If we intend to terminate the purchase agreement to accept a superior proposal, we must provide Petrohawk five business days prior written notice of our intent to so terminate the

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purchase agreement. During the five day period, we must negotiate in good faith with Petrohawk to adjust the terms and conditions of the purchase agreement as would result in a revised Petrohawk proposal that is reasonably capable of being completed, and if consummated, may reasonably be expected to result in a transaction that is at least as favorable from a financial point of view to the holders of our common stock. If after such negotiations, we still choose to terminate the purchase agreement, we must pay Petrohawk \$1,000,000 upon consummation of the superior proposal.

The term "company acquisition proposal" means any offer or proposal for, or indication of interest in, a merger, acquisition, consolidation or other business combination involving us and/or our subsidiaries or the acquisition of a substantial equity interest, or a substantial portion of the assets of, us or our subsidiaries other than the Petrohawk transaction.

The term "superior proposal" means an unsolicited company acquisition proposal that our board of directors in good faith determines, after consultation with its financial advisors and outside legal counsel, is reasonably likely to be consummated, and the board of directors determines would, if consummated, result in a transaction that is more favorable from a financial point of view to our holders of common stock than the Petrohawk transaction.

### *Post Closing Covenants*

The parties to the purchase agreement have made the following commitments and covenants regarding actions that are to be taken following the closing of the Petrohawk transaction:

*Increase in Authorized Capital.* In the event that Proposal No. 2 is not approved by our stockholders at the special meeting, the parties have agreed to present another proposal to amend the articles of incorporation to increase the number of authorized shares of common stock to 100,000,000 following the closing. Since Petrohawk will then own approximately 55% of our outstanding common stock and 54% of the outstanding voting power, it is expected that this proposal would be approved at that time. Petrohawk also agrees not to exercise any of the warrants or its conversion rights under the convertible note if there will not be enough authorized but unissued shares of common stock available for employees and former employees to exercise of all of the then outstanding options to purchase shares of common stock.

*Amendment of Stock Options.* The parties agree to present to our stockholders a proposal to approve amendments to employee stock options to extend the expiration dates to five years from the date of closing or until they would have otherwise expired absent termination of employment, whichever is earlier, even in the event of termination of employment. See "Interests of Certain Persons in the Petrohawk Transaction." Petrohawk agrees that it will vote for approval of such amendments. Since Petrohawk will then own approximately 55% of our outstanding common stock and 54% of the outstanding voting power, it is expected that this proposal would be approved at that time.

*Registration Statement.* If not filed prior to closing, the parties have agreed that a registration statement on Form S-8 covering the offer and sale of the common stock to be issued to holders of employee and directors stock options which are held at the time of closing will be filed after the closing. The registration statement is to remain effective until all such stock options have been exercised or have expired.

***Termination of the Purchase Agreement***

The purchase agreement may be terminated before or after stockholder approval:

by mutual written consent of Petrohawk and us;

by either Petrohawk or us if the closing has not occurred on or before May 31, 2004, provided that the party seeking to terminate the purchase agreement shall not have breached in any material respect its obligations under the purchase agreement in any manner that shall have proximately contributed to the failure to close the Petrohawk transaction;

by Petrohawk if there has been a material breach by us of any representation, warranty, covenant or agreement in the purchase agreement which has not been cured within 20 business days following receipt by us of notice of such breach;

by us if there has been a material breach by Petrohawk of any representation, warranty, covenant or agreement in the purchase agreement which has not been cured within 20 business days following receipt by Petrohawk of notice of such breach;

by either us or Petrohawk, if any applicable law, rule or regulation makes consummation of the Petrohawk transaction illegal or if any judgment, injunction, order or decree of a court or other governmental authority restrains or prohibits the consummation of the Petrohawk transaction, and such judgment, injunction, order or decree becomes final and nonappealable;

by either us or Petrohawk if stockholder approval of the Petrohawk transaction is not obtained at the special meeting;

by us if we accept a superior proposal, and have negotiated with Petrohawk to revise the purchase agreement to one that is reasonably capable of being completed, and if consummated, may reasonably be expected to result in a transaction that is at least as favorable from a financial point of view to the holders of our common stock, and pay Petrohawk \$1,000,000, all as more fully described under "No Shop Covenant" above; or

by Petrohawk if we accept a superior proposal, provided that we shall promptly pay Petrohawk \$1,000,000.

***Effect of Termination***

If:

the purchase agreement is terminated by us because there has been a material breach by Petrohawk of its representations, warranties, covenants or agreements in the purchase agreement and the breach is not cured within 20 days, then Petrohawk shall promptly pay us a termination fee of \$1,000,000;

the purchase agreement is terminated by Petrohawk because there has been a material breach by us of our representations, warranties, covenants or agreements in the purchase agreement and the breach is not cured within 20 days, then we shall promptly pay Petrohawk a termination fee of \$1,000,000; or

if:

a company acquisition proposal has been made or another person has made publicly known an intention to make a company acquisition proposal, and

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the purchase agreement is terminated because stockholder approval of the Petrohawk transaction is not obtained or the closing has not occurred by May 31, 2004,

and

within 12 months of the termination of the purchase agreement,

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a transaction is consummated which if offered or proposed prior to the termination of the purchase agreement would have constituted a company acquisition proposal, or

a person acquires beneficial ownership or the right to beneficial ownership of outstanding shares of our capital stock representing 50% or more of the power to vote for the election of directors and the board of directors has taken action to facilitate the acquisition of such beneficial ownership,

then we shall pay to Petrohawk a termination fee of \$1,000,000.

Additionally, if we accept a superior proposal under the conditions described above in "No Shop Covenant" and "Termination of the Purchase Agreement," then we shall pay Petrohawk a termination fee of \$1,000,000.

### ***Indemnification***

We have agreed to indemnify, defend and hold harmless Petrohawk for losses it may incur as a result of knowing breaches of our representations and warranties. There are several limitations on our indemnity obligations which include:

we are not liable to Petrohawk until the losses for which indemnification would otherwise apply exceeds \$1,000,000 and we are liable only for amounts in excess of the \$1,000,000 threshold;

our indemnification obligations are limited to \$5,000,000; and

all claims for indemnification must be submitted within one year from the date of closing.

We are not obligated to make any cash payments to Petrohawk in respect of our indemnification obligations. Any indemnification obligation we have shall be satisfied by crediting the amount of the indemnifiable loss to the amounts otherwise payable by Petrohawk upon exercise of the warrants. If the amount of the indemnified loss exceeds the aggregate amount of the warrant exercise price of all warrants held by Petrohawk at the time of the determination of the indemnified loss, we will have no obligation to pay or credit Petrohawk an amount in excess of such aggregate warrant exercise price.

### **Description of Our Common Stock**

#### *Authorized Capital*

Our authorized capital stock consists of 50,000,000 shares of common stock, par value \$.001 per share, and 5,000,000 shares of preferred stock, par value \$.001 per share. On March 1, 2004, there were 12,429,307 shares of our common stock outstanding, and 604,271 shares of our 8% Cumulative Convertible Preferred Stock, our only series of preferred stock, outstanding.

#### *Common Stock*

The holders of our common stock are entitled to one vote per share on all matters voted on by stockholders, except in the case of cumulative voting for directors. All of our holders of common stock have cumulative voting rights when voting for directors if written notice of a desire for cumulative voting is properly given by one or more stockholders in advance of the meeting. Cumulative voting means holders of common stock are entitled to as many votes as equals the number of shares held on the record date multiplied by the number of directors to be elected. Holders may cast all votes for a single director or distribute their votes among any two or more of the candidates. Each outstanding share of our common stock and 8% Cumulative Convertible Preferred Stock is entitled to one vote.

Holders of our common stock are entitled to such distributions as may be declared from time to time by our board of directors from funds available for distributions, subject to the preferential rights of our preferred stockholders. Upon liquidation, holders of our common stock are entitled to receive

pro rata all of our assets available for distribution to our stockholders, subject to any preferential rights of our preferred stockholders. All shares of our common stock issued in the acquisition will be fully paid and nonassessable and the holders of that stock will not have preemptive rights to purchase additional shares.

### **Terms of the Convertible Note**

We will issue to Petrohawk a convertible promissory note in the original principal amount of \$35,000,000. Below is a summary of the terms of the note.

#### ***Maturity***

The convertible note is unsecured and will mature on the fifth anniversary of the closing date, at which time all of the outstanding principal and accrued but unpaid interest will be due and payable. No installments of principal are due prior to maturity absent a default.

#### ***Interest***

Interest on the convertible note is payable at a rate of 8% per annum payable quarterly. The interest rate will increase to 15% if we default on any payment obligation under the convertible note.

#### ***Prepayment***

We may prepay the principal on the convertible note with 30 days notice to the noteholder at any time after two years after the closing.

#### ***Subordination to Bank Debt***

The rights of the holder of the convertible note, including its rights to payment of principal and interest, will be subordinated to the rights of Bank of Oklahoma, National Association under our current credit agreement with that bank. As of December 31, 2003, there was approximately \$13,284,652 outstanding pursuant to the Bank of Oklahoma credit agreement. However, if we issue any new debt other than trade debt or replacement bank debt, it must be subordinate to the debt represented by the convertible note or else it will be a default under the terms of the convertible note. We plan to retire our bank debt with a portion of the proceeds we receive from Petrohawk. As a result of the issuance of the convertible promissory note, our long-term debt will increase by approximately \$21.7 million, which is the original principal amount of the note minus the amount of our existing debt of \$13.3 million at December 31, 2003.

#### ***Conversion***

At any time beginning two years after the closing or upon a change in control, a holder of the convertible note may convert all or any portion of the outstanding principal and accrued interest into common stock at a conversion price of \$2.00 per share, subject to adjustment for stock dividends, stock splits and similar events.

#### ***Events of Default***

An event of default will occur under the convertible note upon the happening of any of the following events:

any failure to pay principal or interest when due;

any representation, warranty, certification or statement made pursuant to the purchase agreement or the Petrohawk transaction documents is proven to have been incorrect in any

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material respect when made, at closing and when a holder of the convertible note proposes to declare an event of default as a result of such incorrect representation, warranty, certification or statement;

a default under the terms of any of our debt with a principal balance in excess of \$250,000, including under the Bank of Oklahoma credit agreement;

we or a subsidiary commence a proceeding with respect to liquidation, reorganization or other relief under any bankruptcy, insolvency or other similar law or upon the appointment of a trustee, receiver, liquidator, custodian or similar official of us or any substantial part of our property or we consent to such relief or to the appointment of or taking possession by such official in an involuntary proceeding;

we make a general assignment for the benefit of creditors;

we generally fail to pay our debts as they become due;

an involuntary case or proceeding is commenced against us or a subsidiary seeking liquidation, reorganization or other relief under any bankruptcy, insolvency or other similar law, or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official, our subsidiary or any substantial part of our or a subsidiary's property, and such involuntary case or other proceeding remains undismissed and unstayed for a period of 60 days;

an order for relief is entered against us under the federal bankruptcy laws;

one or more judgments or orders in excess of \$250,000 are rendered against us or any of our subsidiaries and continue unsatisfied and unstayed for 30 days, or are not fully paid at least ten days prior to the date on which any of our assets may be lawfully sold to satisfy such judgment or order;

any change of control other than as caused by any sales of the common stock shares converted under the convertible note or warrant shares by the noteholder or any of its affiliates; or

we, without the written consent of the noteholder, issue any debt (except the debt under the Bank of Oklahoma credit agreement, any replacement for the Bank of Oklahoma debt or trade payables) which is not subordinate to the convertible note.

Upon an event of default, the holder may declare the entire unpaid indebtedness under the convertible note due and payable and may exercise any other remedy permitted by the purchase agreement, the Petrohawk transaction documents and law.

### **Terms of the Warrants**

The warrants expire on the fifth anniversary of the closing date. The warrants are exercisable at any time after closing to purchase up to 10,000,000 shares of common stock at an exercise price of \$1.65 per share of common stock, subject to adjustment for stock splits, stock dividends and similar events. The warrant exercise price may be paid in cash, by delivering to the Company warrants or common stock having a fair market value equal to the warrant exercise price, by offsetting the principal balance of the convertible note, or a combination of the foregoing.

### **Terms of the Registration Rights Agreement**

*General.* The registration rights agreement will be executed and delivered at the closing by Petrohawk and us. The shares that are the subject of the registration rights agreement include the common stock to be issued at closing as well as the common stock issuable upon conversion of the convertible note, and upon exercise of the warrants. These shares of common stock are referred to as registrable securities.



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*Registration.* Under the registration rights agreement, Petrohawk and any of its affiliates who own registrable securities have the right to require us to use our best efforts to cause registration and sale in a public offering of all or a portion of the registrable securities. We have also granted Petrohawk piggyback registration rights under the registration rights agreement. Under these piggyback registration rights, if we decide to file a registration statement on our own behalf, holders of the registrable securities have the right to require us to include shares they own in the registration, subject to an underwriter's judgment that inclusion of these shares would exceed the number of shares that can be sold within the price range acceptable to us. We have the right to require Petrohawk to refrain from offering or selling any shares of common stock that it owns which are not included in any such registration statement for a reasonable time period, not to exceed 90 days, by any managing underwriter of the offering to which such registration statement relates.

We will pay the registration expenses of Petrohawk's registrable securities that are included in any registration.

### **Terms of the Stockholders Agreement**

Petrohawk, Beta and certain of our principal stockholders, including two of our directors, Rolf N. Hufnagel and Robert E. Davis, Jr., who together own approximately 28% of our voting stock, have entered into a stockholders agreement pursuant to which these stockholders agree to vote, or cause to be voted, all of our securities they own or over which they have voting control in favor of the proposal to issue the common stock pursuant to the purchase agreement, in favor of the proposal to amend the articles of incorporation to increase the number of authorized shares, and, if proposed, a reincorporation merger of, or other action by us to change our domicile to Delaware and an amendment of the outstanding stock options to extend their maturity dates. The stockholders agreement terminates upon the earliest of:

termination of the purchase agreement,

the closing of the Petrohawk transaction, and

90 days after the date of our stockholders' meeting at which the issuance of the securities pursuant to the purchase agreement is approved.

Under the stockholders agreement, Petrohawk agrees that during a period of one year from the date of closing, Petrohawk and its affiliates will not, without the approval of a majority of our independent directors:

commence any tender offer or exchange offer for shares of our common stock;

propose or take any action to merge us with any affiliate of Petrohawk; or

take any other action which would have a reasonable likelihood or purpose of producing the effect of causing our common stock to be no longer publicly traded.

**Unaudited Pro Forma Consolidated Financial Information**

The following presents our unaudited pro forma financial information for the years ended December 31, 2002 and 2003. The pro forma statements of operations for the years ended December 31, 2002 and 2003 give effect to the issuance of 15,151,515 shares of the Company's common stock and 10,000,000 warrants for \$25,000,000 and the issuance of a convertible unsecured \$35,000,000 note as if each had occurred at January 1, 2002. The net proceeds are to be used for payment of our outstanding long-term debt, future drilling, development and acquisition of oil and gas properties, as described in "Use of Proceeds". The unaudited pro forma balance sheet as of December 31, 2003 has been prepared as if the issuance of the common stock, warrants and note in this transaction had occurred on that date. The pro forma adjustments are based upon available information and certain assumptions that we believe are reasonable.

The unaudited pro forma financial information is for informational purposes only and does not purport to present what our results would actually have been had these transactions actually occurred on the dates presented or to project our results of operations or financial position for any future period. You should read the information set forth below together with (i) the Beta Oil & Gas, Inc. consolidated financial statements as of December 31, 2003 and 2002 and for each of the years in the three-year period ended December 31, 2003, including the notes thereto, included in the Beta Oil & Gas, Inc. Amended Annual Report on Form 10-K/A for the fiscal year ended December 31, 2003, which is incorporated by reference in this proxy statement. You should not rely on the unaudited pro forma financial statements or information as an indication of the results of operations or financial position that would have been achieved if the transaction had taken place earlier or of the results of operations or financial position of Beta after the completion of the transaction. The pro forma financial information is presented for illustrative purposes only as prepared under guidelines of the Securities and Exchange Commission and is not intended to be indicative of the operating results that would have occurred if the transaction had been consummated in accordance with the assumptions set forth below, nor is it intended to be a forecast of future operating results or financial position.

**Beta Oil & Gas, Inc.**  
**Unaudited Pro Forma Balance Sheet**  
**December 31, 2003**

	<u>Historical</u>	<u>Pro Forma Adjustments</u>	<u>Pro Forma</u>
<b>Assets:</b>			
Cash and cash equivalents	\$ 2,109,681	\$ 25,000,000 (1)	\$ 48,825,029
		35,000,000 (2)	
		(13,284,652)(3)	
Accounts receivable	2,012,275		2,012,275
Prepaid expenses and other	272,662		272,662
<b>Total Current Assets</b>	<b>4,394,618</b>	<b>46,715,348</b>	<b>51,109,966</b>
Oil and gas properties, net of amortization (full cost method)	40,271,476		40,271,476
Other operating properties and equipment, net of depreciation	1,156,831		1,156,831
Other	292,318		292,318
<b>Total Assets</b>	<b>\$ 46,115,243</b>	<b>\$ 46,715,348</b>	<b>\$ 92,830,591</b>
<b>Liabilities and Stockholders' Equity</b>			
<b>Current Liabilities:</b>			
Note payable	\$ 67,570		\$ 67,570
Accounts payable, trade	1,578,989		1,578,989
Dividends payable	112,707		112,707
Asset retirement obligation - current portion	171,860		171,860
Other accrued liabilities	566,990	1,775,000 (4)	2,341,990
<b>Total Current Liabilities</b>	<b>2,498,116</b>	<b>1,775,000</b>	<b>4,273,116</b>
Long-term debt	13,284,652	35,000,000 (2)	35,000,000
		(13,284,652)(3)	
Asset retirement obligation	1,062,860		1,062,860
<b>Total Liabilities</b>	<b>16,845,628</b>	<b>23,490,348</b>	<b>40,335,976</b>
Stockholders' Equity	29,269,615	25,000,000 (1)	52,494,615
		(1,775,000)(4)	
		(985,000)(5)	
		985,000 (5)	
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 46,115,243</b>	<b>\$ 46,715,348</b>	<b>\$ 92,830,591</b>
<b>Total Debt</b>	<b>\$ 13,284,652</b>	<b>\$ 21,715,348</b>	<b>\$ 35,000,000</b>

Notes to Unaudited Pro Forma Balance Sheet as of December 31, 2003

- (1) The adjustment reflects the issuance of 15,151,515 of our common stock and 10,000,000 warrants for \$25,000,000.
- (2)

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The adjustment reflects the issuance of a new unsecured 8% convertible note payable at face value for \$35,000,000, which also represents its fair value.

(3)

The adjustment reflects the paydown of \$13,284,652 of long-term debt at December 31, 2003.

(4)

The adjustment reflects costs of approximately \$1,775,000 related to this transaction that would be incurred at, or prior to, closing of the transaction.

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The costs include the following:

Description	Amount
<b>Company expenses:</b>	
Financial advisory fees to Petro Capital Advisors	\$ 600,000
Legal fees	200,000
Accounting, engineering and other costs	50,000
<b>Reimbursement of Petrohawk expenses incurred due to transactions:</b>	
Financial advisory fees to Mitchell Energy Advisors	600,000
Legal fees	275,000
Engineering and other costs related to due diligence	50,000
<b>Total costs</b>	<b>\$ 1,775,000</b>

(5)

The adjustment reflects the estimated non-cash charge to income, and related offsetting credit to paid-in-capital, associated with the vesting of the stock options as related to the approved severance arrangement for all of our employees in connection with the consummation of the transaction. Under this arrangement, all outstanding stock options will vest in full and the options will continue to be exercisable for a period of five years from the date of closing or until they would have expired absent termination of employment, whichever is shorter, even if the employment of the option holder is terminated. Under the current option provisions, only a portion of the options are currently exercisable (the remaining options vest over time) and would terminate at the end of 90 days following termination of the employment of the option holder. The amount was calculated using the Black-Scholes model and for this presentation assumes a December 31, 2003 vesting date and market price of our stock of \$1.97 per share.

**MATERIAL NONRECURRING ITEMS THAT RESULT DIRECTLY FROM THE TRANSACTION AND WILL BE INCLUDED IN OUR INCOME WITHIN TWELVE MONTHS FOLLOWING THIS TRANSACTION AND ARE NOT INCLUDED IN THE ABOVE PRO FORMA STATEMENT ARE AS FOLLOWS:**

As a part of the approved severance arrangement for all of our employees, under certain conditions each employee will receive a severance payment equal to a stated multiple of his or her monthly salary. The estimated costs associated with the employees severance payment is \$818,000.

**Unaudited Pro Forma Statement of Operations  
for the Twelve Months Ended December 31, 2002**

	Historical	Pro Forma Adjustments	Pro Forma
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Revenues:</b>			
Oil and gas sales	\$ 9,244,530		\$ 9,244,530
Field services	403,311		403,311
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Total revenue</b>	9,647,841		9,647,841
<b>Cost and expenses:</b>			
Lease operating expense	3,304,921		3,304,921
Field services	195,430		195,430
General and administrative	2,209,887		2,209,887
Full cost ceiling impairment	5,163,689		5,163,689
Depreciation and amortization expense	5,120,572		5,120,572
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Total cost and expenses</b>	15,994,499		15,994,499
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Income (loss) from operations</b>	(6,346,658)		(6,346,658)
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Other income (expense):</b>			
Interest expense	(558,297)	(2,800,000)(1)	(2,812,998)
		545,299 (2)	
Interest income and other	23,343		23,343
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Total other income (expense)</b>	(534,954)	(2,254,701)	(2,789,655)
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Income (loss) before income tax</b>	(6,881,612)	(2,254,701)	(9,136,313)
Income tax (provision) benefit			
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Net income (loss)</b>	\$ (6,881,612)	\$ (2,254,701)	\$ (9,136,313)
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Net income per common share:</b>			
Basic	\$ (0.55)		\$ (0.335)
Diluted	\$ (0.55)		\$ (0.335)
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Weighted average shares outstanding:</b>			
Basic	12,417,957	15,151,515(3)	27,569,472
Diluted	12,417,957	15,151,515(3)	27,569,472
	<u>                    </u>	<u>                    </u>	<u>                    </u>

Notes to Unaudited Pro Forma Statement of Operations for the 12 Months Ended December 31, 2002

- (1) The adjustment reflects the interest on the new unsecured convertible \$35,000,000 note payable, using an effective annual interest rate of 8.0%.
- (2) The adjustment reflects the reduction of interest expense associated with the payoff of \$13,284,652 in long-term debt.

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(3)

The adjustment reflects the issuance of 15,151,515 shares of the Company's common stock at January 1, 2002.

MATERIAL NONRECURRING ITEMS THAT RESULT DIRECTLY FROM THE TRANSACTION AND WILL BE INCLUDED IN OUR INCOME WITHIN TWELVE MONTHS FOLLOWING THIS TRANSACTION AND **ARE NOT** INCLUDED IN THE ABOVE PRO FORMA STATEMENT ARE AS FOLLOWS:

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Total costs associated with this transaction are estimated to be approximately \$1,775,000 and would be incurred at, or prior to, the close of the transaction.

The costs include the following:

<b>Description</b>	<b>Amount</b>
<b>Company expenses:</b>	
Financial advisory fees to Petro Capital Advisors, LLC	\$ 600,000
Legal fees	200,000
Accounting, engineering and other costs	50,000
<b>Reimbursement of Petrohawk expenses incurred due to transactions:</b>	
Financial advisory fees to Mitchell Energy Advisors	600,000
Legal fees	275,000
Engineering and other costs related to due diligence	50,000
<b>Total costs</b>	<b>\$ 1,775,000</b>

Our board of directors approved a severance arrangement for all of our employees in connection with the consummation of the Petrohawk transaction. Under this arrangement, all outstanding stock options will vest in full and the options will continue to be exercisable for a period of five years from the date of closing or until they would have otherwise expired absent a termination of employment, whichever is shorter, even if the employment of the option holder is terminated. Under the current option provisions, only a portion of the options are currently exercisable (the remaining options vest over time) and would terminate at the end of 90 days following termination of the employment of the option holder. The estimated non-cash charge to income associated with the vesting of the stock options is approximately \$985,000. The amount was calculated using the Black-Scholes model and for this presentation assumes a December 31, 2003 vesting date and market price of our stock of \$1.97 per share.

Additionally under the severance arrangement, under certain conditions each employee will receive a severance payment equal to a stated multiple of his or her monthly salary. The estimated costs associated with the employees severance payment is \$818,000.

**Unaudited Pro Forma Statement of Operations  
for the Twelve Months Ended December 31, 2003**

	<u>Historical</u>	<u>Pro Forma Adjustments</u>	<u>Pro Forma</u>
<b>Revenues:</b>			
Oil and gas sales	\$ 12,276,495		\$ 12,276,495
Field services	648,194		648,194
<b>Total revenue</b>	<b>12,924,684</b>		<b>12,924,689</b>
<b>Cost and expenses:</b>			
Lease operating expense	3,173,985		3,173,985
Field services	185,254		185,254
General and administrative	3,082,605		3,082,605
Full cost ceiling impairment	129,279		129,279
Depreciation and amortization expense	4,857,597		4,857,597
<b>Total cost and expenses</b>	<b>11,428,720</b>		<b>11,428,720</b>
<b>Income from operations</b>	<b>1,495,969</b>		<b>1,495,969</b>
<b>Other income (expense):</b>			
Interest expense	(476,078)	(2,800,000)(1)	(2,806,527)
		469,551 (2)	
Interest income and other	(30,034)		(30,034)
<b>Total other income (expense)</b>	<b>(506,112)</b>	<b>(2,330,449)</b>	<b>(2,836,561)</b>
<b>Income (loss) before income tax</b>	<b>989,857</b>	<b>(2,330,449)</b>	<b>(1,340,592)</b>
Income tax provision	(24,000)	24,000	
<b>Income (loss) before cumulative effect of accounting change</b>	<b>\$ 965,857</b>	<b>\$ (2,306,449)</b>	<b>\$ (1,340,592)</b>
Cumulative effect of change in accounting principle	1,640		1,640
<b>Net income (loss)</b>	<b>\$ 967,497</b>	<b>\$ (2,306,449)</b>	<b>\$ (1,338,952)</b>
<b>Net income per common share:</b>			
Basic	\$ 0.08		\$ (0.05)
Diluted	\$ 0.08		\$ (0.05)
<b>Weighted average shares outstanding:</b>			
Basic	12,431,530	15,151,515 (3)	27,583,045
Diluted	12,506,835	15,151,515 (3)	27,658,350

Notes to Unaudited Pro Forma Statement of Operations for the Twelve Months Ended December 31, 2003

- (1) The adjustment reflects the interest on the new unsecured convertible \$35,000,000 note payable with an effective annual interest rate of 8.0%.
- (2) The adjustment reflects the reduction of interest expense associated with the paydown of \$13,284,652 in long-term debt at January 1, 2002.
- (3) The adjustment reflects the issuance of 15,151,515 shares of our common stock.

**Tax Consequences**

Petrohawk's purchase of our common stock will constitute an "ownership change" under section 382 of the Internal Revenue Code because it will own more than 50% of our outstanding voting shares after the transaction is closed. As a consequence, we will be limited in our ability to use the net

operating losses we have accrued before Petrohawk's purchase ("pre-change losses") as a deduction against our taxable income we realize after the purchase. At December 31, 2003, we had available, to reduce future taxable income, an estimated Federal net operating loss carryforward of approximately \$24 million, which expires in the years 2018 through 2023. Our pre-change losses will also include a portion of any losses we accrue for the year in which the Petrohawk stock purchase takes place.

The rules under section 382 provide generally that the maximum amount of our pre-change losses that we can use against our post-change income is equal to our value before Petrohawk's purchase multiplied times a benchmark interest rate published monthly by the Federal government. If the transaction were consummated as of April 1, 2004, our value would be \$39,152,317 and the interest rate multiplier would be 4.31%, so that the maximum amount of our pre-change losses that we could use in any post-change year would be \$1,687,465. That amount may be increased by our unrealized "built-in gains" and reduced by our unrealized "built-in losses" that we recognize during the five years following the Petrohawk stock purchase. Built-in gains and built-in losses are the amounts by which the values of our assets as of the date of Petrohawk's stock purchase exceed or are exceeded by those assets' tax bases. We will make an appraisal of our assets prior to the Petrohawk stock purchase to determine the amounts of our unrealized built-in gains and built-in losses.

### **Stockholder Approval**

We are seeking stockholder approval for Proposal No. 1 in accordance with the Marketplace Rules of The Nasdaq Stock Market. The requirements set forth in the Marketplace Rules are applicable to us because our common stock is traded on The Nasdaq National Market.

Marketplace Rule 4350(i)(1)(B) requires stockholder approval of certain transactions involving the issuance or potential issuance by Nasdaq companies of securities which result in a change of control of the company.

Immediately following the closing, Petrohawk will be issued 15,151,515 shares of common stock, the warrants to purchase 10,000,000 shares of common stock and the convertible note, under which the \$35,000,000 principal amount plus any accrued but unpaid interest will be convertible into shares of common stock at a conversion price of \$2.00 per share, subject to possible adjustments for stock dividends, stock splits and similar events. The common stock represents approximately 55% of our outstanding capital stock based on 12,429,307 shares of common stock and 604,271 shares of preferred stock outstanding as of March 1, 2004, which results in a change of control of us and thus requires stockholder approval of the Petrohawk transaction under Marketplace Rule 4350(i)(1)(B). Upon exercise of the warrants and conversion of the convertible note, Petrohawk will hold approximately 77% of our capital stock.

### **Director and Executive Officer Information**

#### *Directors*

Pursuant to the requirements of the purchase agreement, upon the closing, each of Robert E. Davis, Jr., David A. Wilkins, Rolf N. Hufnagel and David A. Melman will resign as directors. Robert C. Stone, Jr., as the sole remaining director, will establish seven as the number of members of the board of directors and will appoint Larry L. Helm, Tucker Bridwell, and James L. Irish III as the designees of Petrohawk, David B. Miller and D. Martin Phillips as the designees of EnCap Investments, L.P., and Floyd C. Wilson to fill the vacancies. These persons will all serve until the next annual meeting of our stockholders. Also in accordance with the terms of the purchase agreement, Floyd C. Wilson will be elected by the board as President, Chief Executive Officer and Chairman of the Board of Beta. The following is information regarding these persons.

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**Floyd C. Wilson**, 57, is an owner, President and Chief Executive Officer of Petrohawk which he founded in June, 2003. Mr. Wilson was the Chairman and Chief Executive Officer of 3TEC Energy Corporation from August 1999 to its merger with Plains Exploration & Production Company in June of 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. Mr. Wilson began his career in the energy business in Houston in 1970 as a completion engineer. He moved to Wichita in 1976 to start an oil and gas operating company, one of several private energy ventures which preceded the formation of W/E. 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.

**David B. Miller**, 53, is a Senior Managing Director of EnCap Investments L.P., an investment management and merchant banking firm focused on the upstream and midstream sectors of the oil and gas industry that was founded in 1988. From 1988 to 1996, Mr. Miller also served as President of PMC Reserve Acquisition Company, a partnership jointly owned by EnCap and Pitts Energy Group. Prior to the establishment of EnCap, Mr. Miller served as Co-Chief Executive Officer of MAZE Exploration Inc., a Denver, Colorado, based oil and gas company he co-founded in 1981. Mr. Miller was a director of 3TEC Energy Corporation from 1999 until June 2003. Mr. Miller is also a director of Denbury Resources Inc.

**D. Martin Phillips**, 50, is a Senior Managing Director of EnCap Investments L.P., an investment management and merchant banking firm focused on the upstream and midstream sectors of the oil and gas industry that was founded in 1988. Prior to joining EnCap in 1989, from 1978 to 1989, Mr. Phillips served in various management capacities with NCNB Texas National Bank, including as Senior Vice President in the Energy Banking Group. Mr. Phillips is also a director of Plains Resources, Inc. Mr. Phillips was a director of 3TEC Energy Corporation from 1999 until June 2003.

**Larry L. Helm**, 56, has 30 years of experience in commercial banking. Mr. Helm is currently not employed. He 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 August 1999 to October 2001, he was Chairman of Southern Region Commercial Banking and from April 1998 to August 1999, he served as Executive Vice President of the Energy and Utilities Banking. He served as director of 3TEC Energy Corporation from 2000 to June, 2003.

**Tucker Bridwell**, 52, has been the President of Mansefeldt Investment Co. since September 1997 and is in charge of the overall supervision and management of more than \$100 million in investments. 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.

**James L. Irish III**, 59, served as a director of 3TEC Energy Corporation from 2002 until June, 2003. Mr. Irish is currently of counsel with Thompson & Knight, L.L.P., a Texas based law firm. Mr. Irish has been an attorney with Thomson & Knight, L.L.P. serving in various capacities, including Managing Partner, since 1969.

### **The one continuing Beta director will be:**

**Robert C. Stone, Jr.**, 55, 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.

### *Executive Officers*

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. The following information is provided about our current executive officers:

**David A. Wilkins, 43, President and Chief Executive Officer, Director** has served in these capacities since October 2002. He has 21 years experience in the oil and gas industry. Previously, he served as Vintage Petroleum Inc.'s General Manager of Latin America and as President and General Manager of Vintage Oil Argentina, Inc. from 1997 to 2002. Prior to Mr. Wilkins' assignment in Latin America, he served in various engineering positions and ultimately served as Domestic Operations Manager for Vintage from 1993 to 1997. He additionally served as Vice President of Operations for Esco Exploration, Inc. from 1988 to 1992. Mr. Wilkins began his career with Pioneer Production Corporation in 1982. He holds a Bachelor of Science Degree in Petroleum Engineering from Texas Tech University and is a Registered Engineer in the state of Oklahoma.

**Joseph L. Burnett, 51, Chief Financial Officer**, joined Beta in June 2000. He came to Beta with 26 years of oil and gas accounting experience. Most recently, he served American Central Gas Technologies, Inc. as Controller from 1994 to 2000. Prior to working at American Central, Mr. Burnett served at Esco Energy, Inc. for approximately seven years as Vice President/Controller. He served as Treasurer and Director for Trans Atlantic Resources, Inc. from 1982 to 1987. He started his oil and gas career in 1974 at Skelly Oil (later Getty Oil) in its management trainee program. Mr. Burnett received his Bachelor of Science in Business Administration from Oklahoma State University in 1974 and is a Certified Public Accountant.

**It is currently anticipated that, in addition to Floyd C. Wilson, the following persons will become executive officers of Beta after closing:**

**Stephen W. Herod, 45**, is currently employed by Petrohawk which he joined in June 2003. 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. Mr. Herod served as President and a director of Shore Oil Company ("Shore") from April 1992 until the merger of Shore with 3TEC on June 30, 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.

**Shane M. Bayless, 36**, is currently employed by Petrohawk which he joined in June 2003. 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 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.

**Richard K. Stoneburner, 50**, is currently employed by Petrohawk which he joined in July 2003. 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.

#### ***Board Meetings and Committees***

During 2003, 18 meetings of the board of directors were held. All directors attended all meetings. The directors also took action by unanimous written consent on two occasions. The board has an executive committee, an audit committee, a compensation committee and a nominating committee.

#### **Executive Committee**

The board of directors established an executive committee whose purpose is to formulate and implement recommendations, strategies and actions, which are intended to support and protect stockholder value. The executive committee is comprised of three voting members: Robert E. Davis, Jr., Robert C. Stone, Jr. and David A. Wilkins. The board of directors created this committee to enhance the decision-making processes in all aspects of our business. This committee did not meet during 2003.

#### **Audit Committee**

The board of directors established an audit committee whose purpose is to oversee our financial reporting and controls and to recommend to the board each year the appointment of an independent auditor. Until June 20, 2003, the audit committee was comprised of two voting members: Robert C. Stone, Jr., Chairman and Robert E. Davis, Jr., both independent directors. On June 20, 2003, David A. Melman, an independent director, was appointed to the audit committee. This committee met on five occasions during 2003. The board of directors has adopted a written charter for the audit committee.

#### **Compensation Committee**

Our board of directors established a compensation committee of the board of directors. The compensation committee is responsible for formulating and recommending to the full board of directors the compensation paid to our executive officers. The compensation committee also administers the Amended and Restated 1999 Incentive and Nonstatutory Stock Option Plan. The committee presently consists of Robert C. Stone, Jr., Robert E. Davis, Jr. and Rolf N. Hufnagel, who replaced David A. Wilkins in June 2003. The compensation committee is discussed in more detail in the section entitled "Executive Compensation." This committee met three times during 2003.

### **Nominating Committee Information**

Our board of directors established a nominating committee of the board of directors in October of 2002. The nominating committee is generally responsible for considering and recommending to the board of directors possible nominees for director positions. The committee presently consists of Robert C. Stone, Jr., Robert E. Davis, Jr. and David Melman, who replaced David A. Wilkins in June 2003. The nominating committee does not have a written charter nor has it developed a policy with regard to the consideration of any director candidates recommended by stockholders or the qualifications the nominees for directors should possess. In light of the anticipated restructuring of the board after the closing of the Petrohawk transaction, our current board has elected to defer developing and implementing any policies and procedures until after the closing of the Petrohawk transaction or the termination of the securities purchase agreement if Proposal No. 1 is not approved or the Petrohawk transaction fails to close for any other reason. This committee met one time during 2003.

### **Stockholder Communication with the Board of Directors**

The board of directors has not previously developed a formal process for security holders to communicate with the board of directors. In light of the anticipated restructuring of the board after the closing of the Petrohawk transaction, our current board has elected to defer developing and implementing any policies and procedures until after the closing of the Petrohawk transaction or the termination of the securities purchase agreement if Proposal No. 1 is not approved or the Petrohawk transaction fails to close for any other reason.

Historically, we have held board meetings at the time of our annual meetings of stockholders and have informally encouraged our directors to attend. However, we have had no formal policy in this regard. All of our directors attended our last annual meeting of stockholders which was held on June 20, 2003.

### ***Compensation of Directors***

Employee directors receive no additional compensation for service on the board of directors or any committee thereof. Our bylaws state that our non-employee directors shall not receive any stated salary for their services, but, by resolution of the board of directors, a fixed sum and expense of attendance, if any, may be allowed for attendance at each regular and special meeting of the board of directors. All our directors receive actual expense reimbursements, and we currently pay \$1,500 in fees to each of our outside directors per board and committee meeting, including meetings held by teleconference. In 2003, the aggregate of the directors' fees to all outside directors was \$141,500.

Prior to July 1, 2003, non-employee directors received options to purchase 50,000 shares of our common stock for their initial year of service and 25,000 each year thereafter, if re-elected, on their anniversary dates, provided that options granted to each of these directors could not cover more than 100,000 shares in the aggregate. This policy changed so that effective July 1, 2003, directors receive only annual option grants covering 10,000 shares on the date of the annual meeting but with no cap on the number of shares which may be covered by these options. Prior to July 1, 2003, the option granted to the chairman of the board of directors each year covered an additional 25,000 shares, but effective July 1, 2003, this was reduced to 15,000 additional shares each year. Prior to July 1, 2003, the chairman of the audit committee received an additional 25,000 shares covered by his option each year but this was reduced to 15,000 shares effective July 1, 2003. The exercise price of these options is equal to 110% of the fair market value of the common stock on the date of grant. We maintain directors and officers liability insurance. In addition, in 2003 Robert E. Davis, Jr. was granted options to purchase 14,583 shares of our company stock on April 22, 2003. In April 2003 an option to purchase 50,000 shares of our common stock with an exercise price of \$1.00 per share, was issued to Mr. Stone for past and present services provided as chairman of our audit committee for the service period of 2001-2003.

Additionally, Mr. Stone returned fully vested options covering 50,000 shares with an exercise price of \$10.00 per share and 25,000 shares with an exercise price of \$5.22 per share. In exchange for these returned options, Mr. Stone received three stock options covering a total of 75,000 shares of common stock which were granted in 25,000 increments at June 30, 2003, September 30, 2003 and December 31, 2003 at exercise prices equal to or greater than 110% of the closing price of the common stock on The Nasdaq Stock Market, or \$1.00 per share, whichever was greater on the respective dates of grant. The options vested immediately on the grant dates and have a ten-year life. The exercise prices of the grants ranged from \$1.46 to \$2.17 per share.

### *Executive Compensation*

#### *Summary Compensation Table*

The following table sets forth certain information with respect to the compensation of David A. Wilkins, our current Chief Executive Officer, and Joseph L. Burnett, our Chief Financial Officer and Secretary, for services in all capacities to us during the fiscal years ended December 31, 2003, 2002 and 2001. Mr. Wilkins joined Beta on October 21, 2002. None of our other executive officers had an annual salary and bonus in excess of \$100,000 paid by us during any such year. No information is given as to any person for any fiscal year during which such person was not an executive officer of us.

<b>Name and Principal Position</b>	<b>Year</b>	<b>Salary</b>	<b>Bonus</b>	<b>Securities Underlying Options</b>	<b>All Other Compensation</b>	<b>Matching Contributions to Simple IRA Retirement Plan</b>
David A. Wilkins(1) Chief Executive Officer, President and Director	2003	\$ 160,000	\$ 400,000	100,000(2)\$	4,054(4)\$	8,000
	2002	\$ 32,205	\$ 50,000	500,000(3)\$	1,062(4)\$	966
Joseph L. Burnett Chief Financial Officer and Secretary	2003	\$ 125,000	\$ 10,417	100,000(5)\$	4,619(4)\$	4,060
	2002	\$ 95,000			\$ 3,044(4)\$	2,850
	2001	\$ 95,000		25,000(6)\$	2,708(4)\$	2,850

- (1) Effective October 21, 2002, Mr. Wilkins was appointed as our President and Chief Executive Officer and joined our board of directors. Mr. Wilkins' compensation includes an annual base salary of \$160,000.
- (2) 100,000 shares of common stock underlying stock options granted on December 31, 2003 are exercisable at \$1.90 per share and expire on December 31, 2013.
- (3) As partial consideration for the forfeiture of Mr. Wilkins' incentive common stock options (vested and unvested) with his former employer, he was granted an option to purchase 500,000 shares of our stock at an exercise price of \$1.30 per share.
- (4) Represents compensation for use of company-owned or leased vehicle.
- (5) 100,000 shares of common stock underlying stock options granted on April 22, 2003 are exercisable at \$1.00 per share and expire on April 22, 2009. These options were issued under our Amended 1999 Incentive and Nonstatutory Stock Option Plan.
- (6) 25,000 shares of common stock underlying stock options granted on December 24, 2001 are exercisable at \$4.00 per share and expire on December 24, 2006. These options were issued under our Amended 1999 Incentive and Nonstatutory Stock Option Plan.

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### Stock Options

We use stock options as part of the overall compensation of directors, officers and employees. In the following table, we show certain information with respect to stock options granted in 2003 to the named executive officers.

#### Option Grants in 2003

Name	Number of securities underlying Options#	Percent of total options granted to employees in 2003(1)	Exercise or base price (\$/Sh)	Expiration date	Potential realizable value at assumed annual rates of stock price appreciation for option term		
					0% (\$)	5% (\$)(2)	10% (\$)(2)
David A. Wilkins	100,000(3)	25%	\$ 1.90	12/31/2013	\$ 7,000	\$ 119,491	\$ 302,803
Joseph L. Burnett	100,000(4)	25%	\$ 1.00	04/22/2009	\$	34,010	\$ 77,160

(1) Based on a total of 405,500 shares underlying options being granted to certain employees during fiscal 2003.

(2) Caution is recommended in interpreting the financial significance of these figures. The figures are calculated by multiplying the number of options granted times the difference between a future hypothetical stock price and the option exercise price and are shown pursuant to rules of the SEC. These amounts are calculated based on the indicated annual rates of appreciation and annual compounding from the date of grant to the end of the option term. Actual gains, if any, on stock option exercises are dependent on the future performance of the common stock and overall stock market conditions. There is no assurance that the amounts reflected in this table will be achieved.

(3) All options were granted on December 31, 2003 at an exercise price equal to the fair market value of the common stock on the preceding day to date of grant. The closing price of the stock on the date of grant was \$1.97 per share. The options have a term of ten years and vest over a three-year period from the date of grant with one third becoming exercisable on the first anniversary of the grant, one third becoming exercisable on the second anniversary of the grant and the remaining one third becoming exercisable on the third anniversary of the grant. Subject to closing of the Petrohawk transaction and subsequent stockholder approval, the option agreements with Mr. Wilkins will be amended to provide that they will be exercisable in full immediately and they will continue to be exercisable through the fifth anniversary of the closing of the Petrohawk transaction even if Mr. Wilkins' employment should be terminated. See "Terms of the Purchase Agreement Covenants Post-Closing Covenants Amendment of Stock Options."

(4) All options were granted on April 22, 2003 at an exercise price equal to the greater of fair market value of the common stock on that date or \$1.00. The options have a term of six years and vest over a three-year period from the date of grant with one-third becoming exercisable on the first anniversary of the grant, one third becoming exercisable on the second anniversary of the grant and the remaining one third becoming exercisable on the third anniversary of the grant. Subject to closing of the Petrohawk transaction and subsequent stockholder approval, the option agreements with Mr. Burnett will be amended to provide that they will be exercisable in full immediately and they will continue to be exercisable through the fifth anniversary of the closing of the Petrohawk transaction even if Mr. Burnett's employment should be terminated. See "Terms of the Purchase Agreement Covenants Post-Closing Covenants Amendment of Stock Options."

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The following table shows certain information with respect to stock options exercised in 2003 by Mr. Wilkins and Mr. Burnett and the value of their unexercised stock options at December 31, 2003.

### *Aggregated Option Exercises in 2003 and Fiscal Year End Option Values*

Name	Shares acquired on exercise	Value Realized	Number of securities underlying unexercised options at fiscal year end (#) Exercisable/Unexercisable	Value of unexercised in-the-money options at the fiscal year end \$(1) Exercisable/Unexercisable
David A. Wilkins(2)	None	None	166,667/433,333	\$111,667/\$230,333.11
Joseph L. Burnett(3)	None	None	155,000/100,000	\$0/\$97,000

(1) The value of in-the-money options is equal to the fair market value of a share of common stock at fiscal year end, based on the last sale price of our common stock (\$1.97 per share), less the exercise price.

(2) As more fully described in the Summary Compensation Table and in the table under "Option Grants in 2003", Mr. Wilkins was granted options covering 100,000 shares of common stock during 2003. In 2002, he was granted options covering 500,000 shares of common stock as discussed below under "Employment Agreements, Termination of Employment and Change of Control Agreements."

(3) Mr. Burnett was granted options covering 100,000 shares of common stock during 2003. In 2001, he was granted options covering 25,000 shares of common stock and in 2000, he was granted options covering 30,000 shares of common stock. He was granted 100,000 stock purchase warrants in 2000 as an inducement to accept employment with us.

### *Employment Agreements, Termination of Employment and Change of Control Arrangements*

Effective October 21, 2002, David A. Wilkins was appointed as our President and Chief Executive Officer and joined our board of directors. Mr. Wilkins' compensation includes an annual base salary of \$160,000 and eligibility for 2003 incentive compensation equal to, and not less than, \$64,000, which is 40% of his annual salary, payable on February 1, 2004 if he is still employed on that date. In consideration for the forfeiture of his incentive common stock options (vested and unvested) with his former employer, he received a \$50,000 bonus paid upon his commencement of employment and a \$250,000 bonus paid on January 2, 2003, a \$150,000 bonus paid on July 1, 2003, and a \$150,000 bonus payable on January 2, 2004 provided Mr. Wilkins is still employed by us on that date. Upon commencement of his employment, Mr. Wilkins was granted options to purchase 500,000 shares of our stock at an exercise price of \$1.30 per share and on December 31, 2003 was granted an option to purchase 100,000 shares at a price equal to \$1.90 per share, our common stock closing price on Nasdaq for the preceding day. These options have a term of ten years and vest over a three-year period from the date of grant, with one third becoming exercisable on the first anniversary of the grant, one third becoming exercisable on the second anniversary of the grant and the remaining one third becoming exercisable on the third anniversary of the grant. Subject to closing of the Petrohawk transaction and subsequent stockholder approval, the option agreements with Mr. Wilkins will be amended to provide that they will be exercisable in full immediately and they will continue to be exercisable through the fifth anniversary of the closing of the Petrohawk transaction even if Mr. Wilkins' employment should be terminated. Under the terms of the purchase agreement, Petrohawk has agreed to present to our stockholders following the closing a proposal that the amendment of these options and all of the other options held by our employees be approved and to vote its shares in favor of the proposal. See "Terms of the Purchase Agreement Covenants Post-Closing Covenants Amendment of Stock Options."

Joseph L. Burnett, our Chief Financial Officer and Secretary, has options and warrants to purchase 255,000 shares of our stock. Mr. Burnett was issued 100,000 warrants in 2000 as an inducement for his employment with us. These warrants are currently exercisable at a price of \$8.38 per share and expire May 31, 2005. Also in 2000, Mr. Burnett was granted options to purchase 30,000 shares of our stock at an exercise price of \$7.70. These options have a term of five years and vested upon grant. In 2001, Mr. Burnett was granted options to purchase 25,000 shares of our stock at an exercise price of \$4.00. These options also have a term of five years and vested upon grant. In 2003, Mr. Burnett was granted options to purchase 100,000 shares of our stock at an exercise price of \$1.00. These options have a term of six years and vest over a three-year period from the date of grant, with one third becoming exercisable on the first anniversary of the grant, one third becoming exercisable on the second anniversary of the grant and the remaining one third becoming exercisable on the third anniversary of the grant. Subject to closing of the Petrohawk transaction and subsequent stockholder approval, the option agreements with Mr. Burnett will be amended to provide that they will be exercisable in full immediately and they will continue to be exercisable through the fifth anniversary of the closing of the Petrohawk transaction or until they would have otherwise expired absent termination of employment, whichever is earlier, even if Mr. Burnett's employment should be terminated. Under the terms of the purchase agreement, Petrohawk has agreed to present to our stockholders following the closing a proposal that the amendment of these options and all of the other options held by our employees be approved and to vote its shares in favor of the proposal. See "Terms of the Purchase Agreement Covenants Post-Closing Covenants Amendment of Stock Options."

***Compensation Committee Report on Executive Compensation***

During 2003, the members of the compensation committee were Robert C. Stone, Jr., Robert E. Davis, Jr., outside directors of Beta, and from October 21, 2002 until June 20, 2003, David A. Wilkins, President and Chief Executive Officer. On June 20, 2003, Rolf N. Hufnagel replaced Mr. Wilkins and the compensation committee now consists of all outside directors.

*Report of the Compensation Committee*

As the compensation committee of the board of directors, we are responsible for formulating and recommending to the full board of directors the compensation paid to Beta's executive officers, including Mr. Wilkins, the President and Chief Executive Officer. We generally review executive compensation on an annual basis. In reviewing the overall compensation of our executive officers, we consider the following components of executive compensation:

base salaries;

stock option grants;

cash bonuses;

insurance plans; and

contributions by Beta to the retirement plan.

In establishing the compensation paid to our executives, we emphasize providing compensation that will

motivate and retain the executives and reward performance,

encourage the long term success of Beta, and

encourage the application of prudent decision making processes in an industry marked by volatility and high risk.

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Historically, we have evaluated compensation paid to our executive officers based upon the following factors:

the growth in Beta's oil and gas reserves;

the market value of Beta's common stock;

cash flow;

the extent to which the executive officers have been successful in finding and creating opportunities for Beta to participate in drilling or acquisition ventures having quality prospects;

the ability of our executives to formulate and maintain sound budgets for drilling ventures and other business activities;

the overall financial condition of Beta;

the extent to which proposed business plans are met; and

by comparing the compensation packages of our executive officers with the compensation packages of executive officers of other companies similar to Beta.

We do not assign relative weights or rankings to these factors. Instead, we make subjective determinations based upon a consideration of all of these factors.

In establishing base salaries for the executive officers, we have not relied on independent consultants to analyze or prepare formal surveys for us. However, we do make informal comparisons of our executives' compensation with the compensation paid to executives of other publicly and privately held companies similar to Beta. We also rely on our general knowledge and experience in the oil and gas industry, focusing on a subjective analysis of each of our executives' contributions to Beta's overall performance. In addition, we take into account the fact that we do not provide significant perquisites to our executive officers. While specific performance levels or "benchmarks" are not used to establish salaries or grant stock options, we do take into account historic comparisons of Beta's performance. With respect to awards of stock options, we attempt to provide the executives with an incentive compensation vehicle that could result in future additional compensation to the executives, but only if the value of our common stock increases for all stockholders. All stock options are granted with exercise prices equal to or greater than the fair market value of the common stock on the date of grant. When awarding stock options, we consider the number of options granted on prior occasions and the length of time between option grants.

As partial consideration for the forfeiture of Mr. Wilkins' incentive common stock options (vested and unvested) with his former employer, Mr. Wilkins was granted an option to purchase 500,000 shares of Beta's stock at an exercise price of \$1.30 per share. We also granted Mr. Wilkins an option to purchase 100,000 shares on December 31, 2003 at an exercise price of \$1.90 per share. All of these options have a term of ten years and vest over a three-year period from the date of grant, with one third becoming exercisable on the first anniversary of the grant, one third becoming exercisable on the second anniversary of the grant and the remaining one third becoming exercisable on the third anniversary of the grant. We also awarded a \$50,000 cash signing bonus to Mr. Wilkins in October 2002 with additional deferred signing bonuses of \$250,000 on January 2, 2003, \$150,000 on July 1, 2003 and \$150,000 on January 2, 2004.

In reviewing the overall compensation offered to Mr. Wilkins for his employment with Beta, we considered Beta's overall financial condition as well as the individual contributions made by Mr. Wilkins. We feel that the stock option awards to our executive officers, including Mr. Wilkins, act as a catalyst to advancing the financial interests of stockholders along with those of management. It is our conclusion that the amount and types of compensation currently being paid to our executive

officers are sufficient to motivate them and encourage their efforts to increase the value of Beta for all stockholders.

Provisions of the Internal Revenue Code that restrict the deductibility of certain compensation over one million dollars per year has not been a factor in our considerations or recommendations.

On October 15, 2003, the compensation committee approved and recommended to our board of directors a severance arrangement for all of our employees in connection with the consummation of the Petrohawk transaction. Under this arrangement, all outstanding stock options will vest in full and the options will continue to be exercisable for a five-year period from the date of closing or until they would have otherwise expired absent termination of employment, whichever is shorter, even if the employment of the option holder is terminated. Under the current option provisions, only a portion of the options are currently exercisable (which amounts increase over time with Beta) and would terminate at the end of 90 days following termination of the employment of the option holder. In addition to the amendment of the employee stock options, each employee will receive a severance payment equal to a stated multiple of his or her monthly salary. Mr. Wilkins and Joseph L. Burnett, our Chief Financial Officer hold options covering 600,000 shares and 155,000 shares respectively, and will receive severance payments of \$160,000 and \$125,000 respectively, which equal one year's salary.

Respectfully Submitted,  
Robert C. Stone, Jr.  
Robert E. Davis, Jr.  
Rolf N. Hufnagel

#### ***Compensation Committee Interlocks and Insider Participation in Compensation Decisions***

From October 21, 2002 when David A. Wilkins, was appointed as a director and President and Chief Executive Officer, until June 20, 2003, he was a member of the compensation committee and participated in deliberations concerning executive officer compensation, including his own. On June 20, Rolf N. Hufnagel, an outside director of Beta, replaced Mr. Wilkins on the compensation committee. The other members of the committee during 2002 and 2003, Robert C. Stone, Jr. and Robert E. Davis, Jr., are outside directors of Beta.

Directors Robert E. Davis, Jr. and Rolf N. Hufnagel have overriding royalty interests in certain of our oil and gas properties. See "Certain Relationships and Related Transactions" below.

#### ***Common Stock Performance Graph***

The following common stock performance graph shows the performance of Beta's stock up to December 31, 2003. As required by applicable rules of the SEC, the performance graph shown below was prepared based on the following assumptions:

1. A \$100 investment was made in our common stock and each index on 7/9/99.
2. The indices are weighted daily, using the market capitalization on the previous trading day.
3. If the quarterly interval, based on the fiscal year end, is not a trading day, the preceding trading day is used.
4. All dividends are reinvested on the ex-dividend date.

The indices in the performance graph compare the annual cumulative total stockholder return on our common stock with the cumulative total return of The Nasdaq Stock Market (U.S.) Index and a peer group index comprised of five U.S. companies engaged in crude oil and natural gas operations whose stocks were traded on Nasdaq during the period from July 9, 1999 through December 31, 2003. July 9, 1999 is the date on which we commenced trading on Nasdaq. The companies that comprise the

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peer group are Brigham Exploration Co. (BEXP), Carrizo Oil & Co., Inc. (CRZO), Cheniere Energy, Inc. (CXY), Edge Petroleum Corp. (EPEX) and Parallel Petroleum Corp. (PLLL). The following information has been provided by Research Data Group.

<b>Total Return Analysis</b>	<b>7/9/99</b>	<b>9/99</b>	<b>12/99</b>	<b>3/00</b>	<b>6/00</b>	<b>9/00</b>	<b>12/00</b>	<b>3/01</b>	<b>6/01</b>	<b>9/01</b>	<b>12/01</b>	<b>12/02</b>	<b>12/03</b>
Beta	100.00	106.25	123.97	164.58	181.25	154.17	124.73	117.18	133.33	82.50	81.17	14.33	32.83
NASDAQ	100.00	98.42	145.46	163.30	141.99	130.66	87.49	65.31	76.98	53.40	69.42	47.99	99.61
Peer Group	100.00	102.04	65.25	84.10	107.32	181.88	175.26	160.19	131.50	99.52	103.89	113.84	247.69

[GRAPH]

### *Section 16(a) Beneficial Ownership Reporting Compliance*

Section 16(a) of the Securities Exchange Act of 1934 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. We believe that during the fiscal year ended December 31, 2003, our directors and executive officers complied with all these filing requirements, based solely on a review of copies of reports filed under Section 16(a) furnished to us and on the written representations of our directors and executive officers except for one delinquent Form 4 filing by Rolf N. Hufnagel pertaining to one transaction for a stock option grant and one delinquent Form 4 filing by David A. Melman pertaining to one transaction for a stock option grant.

*Certain Relationships and Related Transactions*

Director Robert E. Davis, Jr. has overriding royalty interests in certain of our oil and gas properties that were acquired from Red River Energy, LLC in September 2000. Mr. Davis, former Executive Vice President and Chief Financial Officer of Red River, received the overriding royalty interests as part of his compensation while employed at Red River. Mr. Davis received approximately \$49,800 in royalty income from Beta properties during 2003.

Director Rolf N. Hufnagel, director since June 20, 2003, and his wife have overriding royalty interests in certain of our oil and gas properties that were acquired from Red River in September 2000. Mr. Hufnagel received the overriding royalty interests as part of his compensation while employed at Red River. Mr. Hufnagel and his wife, collectively, received approximately \$136,300 in royalty income from Beta properties during 2003.

**PROPOSAL NO. 2:**

**INCREASE IN AUTHORIZED CAPITAL STOCK**

Our authorized capital stock consists of 55,000,000 shares, of which 50,000,000 are common stock and 5,000,000 preferred stock. At the special meeting, our board of directors will ask stockholders to approve an amendment to our articles of incorporation to increase the number of authorized shares of our capital stock from 55,000,000 to 105,000,000 shares, of which 100,000,000 will be common stock and 5,000,000 will be preferred stock. The text of this proposed amendment is included in the Certificate of Amendment attached as *Appendix F* to this proxy statement.

**Overview**

Under Nevada corporate law, we are required to obtain approval from our stockholders to amend our articles of incorporation to increase the number of shares of capital stock authorized for issuance. After taking into consideration our current outstanding equity obligations, together with, if approved by our stockholders, our obligations under the Petrohawk transaction as described in Proposal No. 1, the board of directors has determined that it is necessary to increase the number of shares of capital stock authorized for issuance to 105,000,000, of which 100,000,000 will be common stock and 5,000,000 will be preferred stock.

If approved by our stockholders and subject to the approval of Proposal No. 1, the change in authorized shares would become effective as soon as reasonably practicable after the special meeting by filing the Certificate of Amendment with the Nevada Secretary of State. See "Summary of Proxy Statement Stockholder Approval," above.

**Reasons for Proposal**

Our articles of incorporation currently authorize the issuance of up to 55,000,000 shares of capital stock, consisting of 50,000,000 shares of common stock and 5,000,000 shares of preferred stock.

As of March 1, 2004, we had 33,591,693 shares of common stock available for future issuances in excess of the outstanding common stock, our future obligations to issue common stock, and other shares of common stock that have been reserved under existing stock option plans. If our stockholders approve Proposal No. 1 and the Petrohawk transaction contemplated by Proposal No. 1 is consummated, there would be, based upon shares, warrants and stock options outstanding as of March 1, 2004, as adjusted to give effect to the issuance of securities under the Petrohawk transaction and without any increase in our authorized capital stock, an aggregate deficit of 9,059,822 shares of common stock and none available for future issuance in excess of the outstanding common stock, future obligations to issue common stock, and other shares of common stock reserved under existing stock plans, and 4,395,729 shares of preferred stock available for future issuances.

The board of directors believes that it is very important to have available for issuance a number of authorized shares of common stock and preferred stock that will be adequate to provide for future stock issuances to meet our obligations described above and for future corporate needs. The additional authorized shares would be available for issuance from time to time at the discretion of the board of directors without further stockholder action except as may be required for a particular transaction by law, the policies of Nasdaq or other agreements and restrictions, including restrictions pursuant to the terms of the preferred stock. The shares would be issuable for any proper corporate purpose, including future acquisitions, capital raising transactions consisting of either equity or convertible debt, stock splits or issuances under current and future stock plans. The board of directors believes that that these additional shares will provide us with needed flexibility to issue shares in the future without potential expense and delay incident to obtaining stockholder approval for a particular issuance. Except for our existing obligations on the date of this proxy statement and the Petrohawk transaction and other matters described herein, we do not currently have any plans, understandings or agreements for the issuance or use of the additional shares of common stock or preferred stock to be approved under this Proposal No. 2.

### **Principal Effects on Outstanding Common Stock**

Holders of our common stock are entitled to one vote per share on all matters submitted to a vote of stockholders and to receive ratably dividends, if any, as may be declared from time to time by the board of directors from funds legally available therefore, subject to the payment of any outstanding preferential dividends declared with respect to any preferred stock that from time to time may be outstanding, including the 8% Cumulative Convertible Preferred Stock. Upon our liquidation, dissolution or winding up, holders of common stock are entitled to share ratably in any assets available for distribution to stockholders after payment of all of our obligations, subject to the rights to receive preferential distributions of the holders of any preferred stock then outstanding. Under Nevada law, once authorized, the common stock may be issued without further approval by our stockholders, subject to applicable restrictions and agreements, including restrictions pursuant to the terms of the 8% Cumulative Convertible Preferred Stock. Holders of common stock do not have any preemptive rights to subscribe for the purchase of any shares of common stock, which means that current holders of common stock do not have a prior right to purchase any new issue of common stock in order to maintain their proportionate ownership.

The proposal to increase the authorized capital stock will affect the rights of existing holders of common stock to the extent that future issuances of common stock will reduce each existing stockholder's proportionate ownership.

Although not a factor in the decision by the board of directors to increase our authorized capital stock, one of the effects of such increase may be to enable the board of directors to render more difficult or to discourage an attempt to obtain control of Beta by means of a merger, tender offer, proxy contest, or otherwise, and thereby protect the continuity of then present management. The board of directors would have additional shares of common stock available to effect, unless prohibited by the regulations of Nasdaq, applicable law or other agreements or restrictions (including restrictions pursuant to the terms of the 8% Cumulative Convertible Preferred Stock), a sale of shares (either in public or private transactions), merger, consolidation or similar transaction in which the number of our outstanding shares would be increased and would thereby dilute the interest of a party attempting to obtain control of us.

### **Board Recommendation**

**The board of directors recommends that the stockholders vote "FOR" Proposal No. 2 to increase the number of shares of common stock authorized for issuance under our articles of incorporation.**

**PROPOSAL NO. 3:**

**ADJOURNMENTS OF SPECIAL MEETING**

If at our special meeting of stockholders, the holders of shares of Beta stock present, in person or by proxy, do not constitute a quorum, or the number of shares voting in favor of Proposal No. 1 or Proposal No. 2 is insufficient for approval of that proposal, there may be a proposal presented to adjourn the special meeting in order to enable the Beta board of directors to continue to solicit additional proxies in favor of either or both of the proposals.

We are asking you to authorize the holder of any proxy solicited on behalf of the Beta board of directors to vote in favor of the proposed adjournment of the special meeting, and any later adjournments, if necessary, to a date or dates not later than July 24, 2004. If the Beta stockholders approve the adjournment proposal, we could adjourn and reconvene the special meeting, and any adjourned session of the special meeting, to a date not later than July 24, 2004 and use the additional time to solicit additional proxies in favor of either or both proposals, including the solicitation of proxies from Beta stockholders that previously voted against the proposal.

Under our bylaws, the adjournment proposal requires the approval of the holders of a majority of the votes represented in person or by proxy at the special meeting. Accordingly, broker non-votes and abstentions will have the effect of a vote against this proposal.

**Board Recommendation**

**The board of directors recommends that the stockholders vote "FOR" Proposal No. 3 to approve any proposal to adjourn the Special Meeting of Stockholders at a later date but not later than July 24, 2004.**

**STOCKHOLDER PROPOSALS**

Stockholders who desired to submit proposals for inclusion in our proxy statement for the 2004 Annual Meeting of Stockholders must have submitted proposals to us at our principal executive office on or before December 31, 2003. If any stockholder proposes to present any matter for consideration at the 2004 Annual Meeting without having it included in our proxy statement for that meeting, we must have received notice of that matter on or prior to March 31, 2004 or the persons holding proxies will have discretionary authority to vote the shares subject to those proxies in their discretion.

Proposals and other notices should be sent to:

Secretary of Beta Oil & Gas, Inc.  
6120 South Yale Avenue  
Suite 813  
Tulsa, Oklahoma 74136

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

**MATERIALS INCORPORATED BY REFERENCE**

Our Amended Annual Report on Form 10-K/A for the fiscal year ended December 31, 2003, filed with the SEC on April 20, 2004 is incorporated into this proxy statement by reference. A copy of the report is being mailed to stockholders of record along with this proxy statement. Stockholders may

obtain, without charge, a copy of this report as filed with the SEC, by calling (918) 495-1011 or by writing to:

Secretary of Beta Oil & Gas, Inc.  
6120 South Yale Avenue  
Suite 813  
Tulsa, Oklahoma 74136

**OTHER MATTERS**

The board knows of no other business matters to be acted upon at the special meeting other than those referred to in this proxy statement. If any other matters properly come before the special meeting, it is the intention of the persons named in the enclosed proxy to vote the shares they represent as the board may recommend.

**SECURITIES PURCHASE AGREEMENT**

**BETWEEN**

**PETROHAWK ENERGY, LLC**

**AND**

**BETA OIL & GAS, INC.**

**December 12, 2003**

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### *Exhibits*

Exhibit A	Convertible Promissory Note
Exhibit B	Registration Rights Agreement
Exhibit C	Stockholders Agreement
Exhibit D	Warrant Certificate
Exhibit E	Major Stockholders

**SECURITIES PURCHASE AGREEMENT**

THIS SECURITIES PURCHASE AGREEMENT is entered into effective this 12th day of December, 2003, by and between Petrohawk Energy, LLC, a Delaware limited liability company ("Petrohawk") and Beta Oil & Gas, Inc., a Nevada corporation (the "Company").

*WITNESSETH:*

WHEREAS, the Company has authorized and desires to issue and sell to Petrohawk (a) certain shares of the Company's common stock, (b) a senior convertible note, and (c) certain warrants to purchase shares of the Company's common stock, all on the terms and conditions set forth herein;

WHEREAS, Petrohawk desires to purchase such securities from the Company on the terms and conditions set forth herein; and

WHEREAS, the Company, Petrohawk and the Major Stockholders have entered into the Stockholders Agreement in the form of *Exhibit C* attached hereto.

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, and intending to be legally bound hereby, the parties hereto agree as follows:

**ARTICLE I**

**TERMS DEFINED**

SECTION 1.1. *Definitions.* The following terms, as used herein, have the following meanings:

"Affiliate" means, as to any Person, any Subsidiary of such Person, or any other Person which, directly or indirectly, controls, is controlled by, or is under common control with, such Person and, with respect to the Company, any director or executive officer of the Company or any Subsidiary or any Person who holds ten percent (10%) or more of the voting stock of the Company, and with respect to Petrohawk, any member of Petrohawk, and to the extent applicable, the members of any such member. For the purposes of this definition, "control" (including, with correlative meanings, the terms "controlled by" and "under common control with"), as used with respect to any Person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities or partnership interests, or by contract or otherwise. Petrohawk shall not be considered an Affiliate of the Company for purposes of this Agreement or the other Transaction Documents.

"Agreement" means this Securities Purchase Agreement.

"Audit" means any audit, assessment of Taxes, other examination by any Tax Authority, proceeding or appeal of such proceeding relating to Taxes.

"Authorized Officer" means, as to any Person, its chairman (except that the chairman of the Company is not an Authorized Officer of the Company), its chief executive officer, its president, its chief operating officer, its Financial Officer and any vice president.

"Benefit Plan" means any employee benefit plan or welfare benefit plan within the meaning of section 3(2) of ERISA maintained by the Company, any of its Subsidiaries or any ERISA Affiliate that is or was previously covered by Title IV of ERISA or subject to the minimum funding standards under section 412 of the IRC, including a "multiemployer plan" as such term is defined in section 3(37) of ERISA, under which the Company or any of its Subsidiaries has any current or future obligation or liability and under which any present or former employee of the Company or any of its Subsidiaries, or such present or former employee's dependents or beneficiaries, has any current or future right to benefits.

"BOK" means Bank of Oklahoma, National Association.

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"BOK Senior Credit Agreement" means that certain First Amended and Restated Revolving Credit Agreement dated as of March 30, 1999, by and among the Company, Beta Operating Company, L.L.C., as Borrower, and BOK, as Lender as amended on February 1, 2000, June 15, 2000, March 19, 2001, March 15, 2002 and June 30, 2003.

"BOK Senior Debt" means all Debt of the Company outstanding under the BOK Senior Credit Agreement, including all renewals and extensions thereof.

"BOK Senior Debt Documents" means the BOK Senior Credit Agreement and all promissory notes, security agreements, mortgages, deeds of trust, assignments, guarantees and other documents, instruments and agreements executed and delivered pursuant to the BOK Senior Credit Agreement evidencing, securing, guaranteeing or otherwise pertaining to the BOK Senior Debt and other obligations arising under the BOK Senior Credit Agreement, as the foregoing may be amended, renewed, extended, supplemented, increased or otherwise modified from time to time to the extent permitted hereunder.

"Business Day" means any day except a Saturday, Sunday or other day on which banking institutions in Tulsa, Oklahoma are authorized by law to close.

"Capital Lease" means, for any Person, as of any date, any lease of property, real or personal, which would be capitalized on a balance sheet of the lessee of such lease prepared as of such date in accordance with GAAP.

"Change of Control" means the occurrence of any of the following: (a) the sale, lease, transfer or other disposition, in one transaction or a series of related transactions, of more than fifty percent (50%) of the value of the Oil and Gas Interests as set forth in the most current reserve report of the Company and any of its Subsidiaries (on the date hereof, the Reserve Report is the most recent reserve report), or (b) any sale, transfer, merger, consolidation, disposition or other transaction which results in any Person or Persons individually or together with their Affiliates owning more than fifty percent (50%) of the Common Stock on a Fully Diluted Basis. The issuance of the Securities pursuant to this Agreement and the other Transaction Documents shall not constitute a Change of Control as contemplated hereby or by the other Transaction Documents.

"Charter Documents" means, with respect to any Person, its certificate of incorporation, articles of incorporation, certificate of formation, articles of organization, bylaws, partnership agreement, regulations, limited liability company agreement, operating agreement and all other comparable charter documents.

"Closing" has the meaning given such term in *Section 2.2* hereof.

"Closing Date" means no later than the first Business Day after the date of the Company's Stockholders' meeting whereby the Company Stockholder Approval is obtained.

"Closing Transactions" means the transactions which will occur on the Closing Date pursuant to the Transaction Documents.

"COBRA" has the meaning given such term in *Section 7.14* hereof.

"Commission" means the Securities and Exchange Commission or any entity succeeding to any or all of its functions under the Securities Act or the Exchange Act.

"Common Stock" means the Company's common stock, par value \$0.001 per share.

"Common Stock Shares" means the 15,151,515 shares of Common Stock to be purchased by Petrohawk pursuant to this Agreement.

"Common Stock Shares and Warrant Purchase Price" has the meaning given such term in *Section 2.1* hereof.

"Company" has the meaning given such term in the preamble hereto.

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"Company Acquisition Proposal" has the meaning given such term in *Section 9.12* hereof.

"Company Financial Statements" means the audited and unaudited consolidated financial statements of the Company and its Subsidiaries (including the related notes) included (or incorporated by reference) in the Company's Annual Report on Form 10-K for each of the four fiscal years ended December 31, 2000, 2001, 2002, and the Company's Quarterly Report on Form 10-Q for its fiscal quarters ended March 31, June 30, 2003 and September 30, 2003, filed with the Commission.

"Company Material Adverse Effect" means any event, circumstance, condition, development or occurrence causing, resulting in or having (or with the passage of time likely to cause, result in or have) a material adverse effect on the financial condition, business, assets, properties, prospects or results of operations of the Company or any of its Subsidiaries. Company Material Adverse Effect shall not include any event, circumstance, condition, development or occurrence resulting from (x) any changes in general United State