

ABRAXAS PETROLEUM CORP
Form PRER14A
August 20, 2009
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934 (Amendment No. 2)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Abraxas Petroleum Corporation

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

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

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(1) Title of each class of securities to which transaction applies:
Common Stock, par value \$0.01 per share

(2) Aggregate number of securities to which transaction applies:
36,952,836

(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):
Transaction Value of \$35,474,723 calculated by multiplying \$0.96, the average of the high and low sales price of the registrant's common stock on July 9, 2009, as reported on the NASDAQ Stock Market, by 36,952,836, the maximum number of shares issuable in the transaction described in this proxy statement. In accordance with Section 14(g) of the Securities Exchange Act of 1934, as amended, the filing fee was determined by multiplying 0.0000558 by the amount determined in the preceding sentence.

(4) Proposed maximum aggregate value of transaction: \$35,474,723

(5) Total fee paid: \$1,980

x Fee paid previously with preliminary materials.

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

(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

Table of Contents

ABRAXAS PETROLEUM CORPORATION

18803 Meisner Drive

San Antonio, Texas 78258

(210) 490-4788

August [], 2009

Dear Stockholders:

You are cordially invited to attend a Special Meeting of Stockholders of Abraxas Petroleum Corporation, which we refer to as the Special Meeting, to be held on September [], 2009, at 9:00 a.m., local time, at Abraxas Petroleum's corporate office located at 18803 Meisner Drive, San Antonio, Texas 78258. We have signed an agreement to merge our business with Abraxas Energy Partners, L.P., a Delaware limited partnership, which we refer to as the Merger, the purpose of which is to merge our business with Abraxas Energy's business. We believe that a combination of the two entities will improve the combined company's ability to accelerate our capital expenditure program which should result in significant growth in our core properties and improved access to capital markets while simplifying our organizational structure and reducing costs. The principal purpose of the Special Meeting is to take the actions necessary to complete the Merger, including approving the issuance of shares of our common stock in the Merger, and approving an amendment to our 2005 Employee Long-Term Equity Incentive Plan, or LTIP, to increase the authorized number of shares of our common stock issuable under the plan in order to accommodate the restricted units, phantom units and unit options of Abraxas Energy being converted in the Merger.

If the Merger is completed, holders of Abraxas Energy's common units, other than common units held by Abraxas Petroleum and its subsidiaries, will have the right to receive shares of our common stock. The number of shares of our common stock that holders of Abraxas Energy's common units will receive will be based on an exchange ratio determined prior to the date of the Special Meeting. This exchange ratio will be determined by dividing \$6.00 by the volume weighted average closing price of our common stock on the NASDAQ during the 20 trading days ending three business days prior to the date of the Special Meeting, which we refer to as the VWAP. However, if the VWAP is \$1.412 or more, then the exchange ratio will be fixed at 4.25 shares of our common stock for each Abraxas Energy common unit, and if the VWAP is \$1.00 or less, then the exchange ratio will be fixed at 6.00 shares of our common stock for each Abraxas Energy common unit. The mid-point of the exchange ratio is 5.125, or \$1.17 per share.

In the Merger, we will issue a maximum of 36,952,836 shares of our common stock. This would represent approximately 42.6% of our outstanding shares of common stock upon the closing of the Merger. We anticipate that upon completion of the Merger, depending upon the exchange ratio, Abraxas Energy's former unitholders, other than Abraxas Petroleum and its subsidiaries, will own between 34.4% and 42.6% of the shares of our common stock then outstanding. At the mid-point of the exchange ratio, or \$1.17 per share, we would issue 31,563,881 shares of our common stock, or approximately 38.8% of the shares of our common stock then outstanding. Our stockholders will continue to own their existing Abraxas Petroleum shares, which will not be affected by the Merger.

The Abraxas Petroleum board of directors recommends that its stockholders vote FOR the proposals before them. The proxy statement describes the proposed Merger and the actions to be taken at the Special Meeting. We encourage you to read the entire proxy statement carefully, including the section entitled "Risk Factors" beginning on page 19.

Whether or not you expect to attend the Special Meeting, it is important that you vote your shares. We are offering multiple options for voting your shares. All holders may vote their shares by mail or written ballot at the Special Meeting. If you are a beneficial holder, you may also vote your shares by telephone or the Internet using the instructions on each proxy card. In order to vote your shares by mail, please mark, sign, and date the enclosed proxy card and return it promptly in the enclosed envelope. **Your vote is very important.**

Robert L.G. Watson

Chairman of the Board, President,

and Chief Executive Officer

Table of Contents

ABRAXAS PETROLEUM CORPORATION

18803 Meisner Drive

San Antonio, Texas 78258

(210) 490-4788

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

TO BE HELD SEPTEMBER [], 2009

To the Stockholders of Abraxas Petroleum Corporation:

NOTICE IS HEREBY GIVEN that a Special Meeting of Stockholders of Abraxas Petroleum Corporation will be held at Abraxas Petroleum's corporate office located at 18803 Meisner Drive, San Antonio, Texas 78258, on September [], 2009, at 9:00 a.m., local time, for the following purposes:

- (1) To approve the issuance of shares of Abraxas Petroleum common stock in connection with the transactions contemplated by the Amended and Restated Agreement and Plan of Merger dated as of July 17, 2009 by and among Abraxas Petroleum Corporation (Abraxas Petroleum), Abraxas Energy Partners, L.P. (Abraxas Energy) and Abraxas Merger Sub, LLC (Merger Sub), as such agreement may be amended from time to time;
- (2) If Proposal 1 is approved, to approve an amendment to the Abraxas Petroleum Corporation 2005 Employee Long-Term Equity Incentive Plan (the LTIP) to increase the number of shares of Abraxas Petroleum common stock reserved for issuance under the LTIP; and
- (3) To approve the adjournment of the Special Meeting, if necessary or appropriate, to solicit additional proxies in the event that there are not sufficient votes at the time of the Special Meeting to approve the foregoing proposals.

Our Board recommends that you vote FOR all of the proposals.

Any action may be taken on the foregoing proposals at the Special Meeting on the date specified above or on any date or dates to which the Special Meeting may be postponed or adjourned.

We cordially invite you to attend the Special Meeting in person. Whether or not you expect to attend the Special Meeting, we urge you to mark, sign, date and return the enclosed proxy card as soon as possible in the enclosed envelope. If you are a beneficial holder, you may also vote your shares by telephone or the Internet using the instructions on each proxy card. You may revoke your proxy at any time prior to the Special Meeting, and, if you attend the Special Meeting, you may vote your shares of Abraxas Petroleum common stock in person.

The Board of Directors has fixed the close of business on [], 2009 as the record date for the determination of the stockholders entitled to notice of and to vote at the Special Meeting and any adjournment thereof.

By Order of the Board of Directors

Stephen T. Wendel

SECRETARY

San Antonio, Texas

August [], 2009

Table of Contents

TABLE OF CONTENTS

	Page
<u>QUESTIONS AND ANSWERS ABOUT THE ABRAXAS PETROLEUM SPECIAL MEETING</u>	1
<u>SUMMARY</u>	4
<u>SELECTED HISTORICAL AND PRO FORMA COMBINED FINANCIAL DATA</u>	13
<u>RISK FACTORS</u>	19
<u>Risks Related to the Merger</u>	19
<u>Risks Related to Our Business</u>	21
<u>Risks Related to Our Industry</u>	26
<u>THE SPECIAL MEETING OF STOCKHOLDERS</u>	32
<u>PROPOSAL 1 APPROVAL OF STOCK ISSUANCE</u>	34
<u>PROPOSAL 2 AMENDMENT OF LTIP</u>	72
<u>PROPOSAL 3 ADJOURNMENT OF SPECIAL MEETING</u>	77
<u>INFORMATION ABOUT ABRAXAS PETROLEUM</u>	78
<u>INFORMATION ABOUT ABRAXAS ENERGY</u>	123
<u>MANAGEMENT</u>	152
<u>DIRECTOR AND EXECUTIVE OFFICER COMPENSATION</u>	156
<u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS</u>	175
<u>DESCRIPTION OF CAPITAL STOCK</u>	179
<u>UNAUDITED PRO FORMA COMBINED FINANCIAL INFORMATION</u>	183
<u>MARKET PRICE AND DIVIDEND INFORMATION; RELATED SHAREHOLDER MATTERS</u>	193
<u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT</u>	195
<u>WHERE YOU CAN FIND MORE INFORMATION</u>	202
<u>STOCKHOLDER PROPOSALS FOR 2010 ABRAXAS PETROLEUM ANNUAL MEETING</u>	202
<u>OTHER MATTERS</u>	205
<u>INDEX TO FINANCIAL STATEMENTS</u>	F-1
<u>ANNEX A AMENDED AND RESTATED AGREEMENT AND PLAN OF MERGER</u>	A-1
<u>ANNEX B VOTING, REGISTRATION RIGHTS & LOCK-UP AGREEMENT</u>	B-1
<u>ANNEX C AMENDMENT NO. 1 TO VOTING, REGISTRATION RIGHTS & LOCK-UP AGREEMENT</u>	C-1
<u>ANNEX D OPINION OF STEPHENS INC. TO THE ABRAXAS PETROLEUM SPECIAL COMMITTEE</u>	D-1
<u>ANNEX E ABRAXAS PETROLEUM CORPORATION 2005 LONG-TERM EQUITY INCENTIVE PLAN</u>	E-1
<u>ANNEX F COMPANIES INCLUDED IN THE MERCER SURVEY</u>	F-1

Table of Contents

QUESTIONS AND ANSWERS ABOUT THE ABRAXAS PETROLEUM SPECIAL MEETING

Q: When and where is the Abraxas Petroleum Special Meeting?

A: The Special Meeting will take place on September [], 2009 at Abraxas Petroleum's corporate office located at 18803 Meisner Drive, San Antonio, Texas 78258 at 9:00 a.m., local time. This proxy statement and the accompanying proxy card are first being mailed to Abraxas Petroleum stockholders on or about August [], 2009.

Q: What is Abraxas Petroleum proposing?

A: Abraxas Petroleum is proposing to issue shares of Abraxas Petroleum common stock in connection with the merger, which we sometimes refer to as the Merger, of Abraxas Energy into Abraxas Merger Sub, LLC, a wholly-owned subsidiary of Abraxas Petroleum, which we sometimes refer to as Merger Sub. If the Merger is completed, Merger Sub will survive as a wholly-owned subsidiary of Abraxas Petroleum and the common units of Abraxas Energy not owned by Abraxas Petroleum and its wholly-owned subsidiary, Abraxas Energy Investments, LLC, or Investments, will be converted into the right to receive between 4.25 and 6.00 shares of Abraxas Petroleum common stock, which we sometimes refer to as the Merger Consideration, for each Abraxas Energy common unit not owned by Abraxas Petroleum or Investments. The final number of shares of Abraxas Petroleum common stock to be issued in the Merger will be determined by dividing \$6.00 by the average volume weighted average closing price of Abraxas Petroleum common stock on the NASDAQ during the 20 trading days ending three business days prior to the date of the Special Meeting, or the VWAP. For example, if the VWAP is \$1.00 or less, holders of Abraxas Energy common units would receive 6.00 shares of Abraxas Petroleum common stock for each of their common units and if the VWAP is \$1.412 or more, holders of Abraxas Energy common units would receive 4.25 shares of Abraxas Petroleum common stock for each of their common units. If the VWAP is at the mid-point of the exchange ratio, or \$1.17 per share, holders of Abraxas Energy common units would receive 5.125 shares of Abraxas Petroleum common stock for each of their common units. Abraxas Petroleum and Investments currently own approximately 46.7% of Abraxas Energy's common units. In addition, certain directors and executive officers of Abraxas Petroleum beneficially own approximately 1.3% of Abraxas Energy's common units. The common units of Abraxas Energy owned by Investments will be cancelled at the effective time of the Merger. In addition, the general partner units held by Abraxas General Partner, LLC, the general partner of Abraxas Energy, which we refer to as the GP, will be cancelled at the effective time of the Merger. Abraxas Petroleum is also proposing an amendment to the Abraxas Petroleum Corporation 2005 Employee Long-Term Equity Incentive Plan, or LTIP, in order to increase the number of shares of Abraxas Petroleum common stock reserved thereunder. The increase is necessary in order to accommodate the restricted units, phantom units and unit options of Abraxas Energy to be converted in the Merger.

Q: Why is Abraxas Petroleum proposing the merger?

A: Abraxas Petroleum and Abraxas Energy both believe that a combination of the two entities will improve the combined company's ability to accelerate its capital expenditure program which should result in significant growth in its core properties and improved access to capital markets while simplifying the organizational structure and reducing costs.

Q: Why am I receiving this proxy statement?

A: In order to complete the Merger, Abraxas Petroleum stockholders must vote to approve (i) the issuance of Abraxas Petroleum common stock in the Merger and (ii) an amendment to our LTIP to increase the number of shares of Abraxas Petroleum common stock reserved thereunder.

We are sending this proxy statement and the enclosed proxy card to Abraxas Petroleum stockholders to solicit their vote on these proposals at the Special Meeting. This proxy statement contains important information about the Merger and the proposals to be voted upon.

Q: Has the Abraxas Petroleum Board of Directors made a recommendation on how I should vote?

A: Yes. Our Board of Directors appointed a committee of independent directors, who have no interest in Abraxas Energy, to review the terms of the Merger. We refer to this committee in this proxy statement as

Table of Contents

the Special Committee. **Based on the Special Committee's recommendation, our Board of Directors has recommended that you vote FOR the issuance of shares of Abraxas Petroleum common stock in the Merger and the amendment to the LTIP.** The reasons for our Board's recommendations are discussed in detail in Proposal 1 Approval of Stock Issuance Abraxas Petroleum's Reasons for the Merger; Recommendation of the Abraxas Petroleum Special Committee and the Abraxas Petroleum Board and Proposal 2 Amendment of LTIP Reasons for the Amendment of the LTIP.

Q: Have any holders of Abraxas Energy Common Units agreed to vote for the Merger?

A: Yes. In addition to Investments, which owns 46.7% of Abraxas Energy's common units, the holders of 50.9% of Abraxas Energy's outstanding common units have voted their common units in favor of the Merger, for a total of 97.6%. It is anticipated that certain officers and directors of Abraxas Petroleum who beneficially own 1.3% of Abraxas Energy's common units will also vote in favor of the Merger.

Q: Are there risks I should consider in deciding whether to vote to approve the issuance of Abraxas Petroleum common stock in the Merger?

A: Yes. In evaluating the Merger and the issuance of Abraxas Petroleum common stock in the Merger, you should carefully consider the information discussed in this proxy statement, including the section entitled Risk Factors.

Q: What percentage of Abraxas Petroleum common stock will Abraxas Energy common unitholders own after the Merger?

A: Abraxas Energy's former unitholders, other than Abraxas Petroleum and its subsidiaries, will own between 34.4% and 42.6% of the shares of our common stock then outstanding. At the mid-point of the exchange ratio, or \$1.17 per share, former Abraxas Energy common unitholders will own approximately 38.8% of the shares of our common stock then outstanding.

Q: Do I have appraisal rights?

A: No. Nevada law does not provide dissenters' rights or rights of appraisal for Abraxas Petroleum stockholders in connection with the Merger.

Q: What will happen to my shares of Abraxas Petroleum common stock?

A: You will continue to own the same number of shares of Abraxas Petroleum common stock that you owned immediately before the Merger but the percentage of Abraxas Petroleum represented by your shares will be reduced.

Q: Should I send in my share certificates of Abraxas Petroleum common stock?

A: No. Your share certificates of Abraxas Petroleum common stock will not be exchanged in the Merger.

Q: What vote is required from Abraxas Petroleum stockholders to complete the issuance of shares in the Merger and the amendment to the LTIP?

A: The issuance of shares of Abraxas Petroleum common stock in the Merger and the amendment to the LTIP require the approval of the holders of a majority of the shares of Abraxas Petroleum common stock present and voting at the Special Meeting, assuming a quorum.

Q: When do you expect the Merger to be completed?

A: Abraxas Petroleum and Abraxas Energy are working to complete the Merger in the third quarter of 2009. However, the Merger is subject to various conditions set forth in the Merger Agreement and it is possible that factors outside the control of Abraxas Petroleum and Abraxas Energy could result in the Merger being completed at a later time, or not at all.

Table of Contents

Q: As an Abraxas Petroleum stockholder, what do I need to do now?

A: If you are an Abraxas Petroleum stockholder, you should read this proxy statement and indicate on your proxy card how you want to vote with respect to each proposal, and sign and mail your proxy card in the enclosed return envelope as soon as possible, so that your shares may be represented at the Special Meeting. If you sign and send in your proxy and do not indicate how you want to vote, your proxy will be counted as a vote in favor of the issuance of Abraxas Petroleum common stock and the other proposals to be considered at the Special Meeting, as the case may be. If you are a beneficial holder, you may also vote your shares by telephone or the Internet using the instructions on each proxy card. If you are an Abraxas Petroleum stockholder, you may also choose to attend the Special Meeting and vote your shares in person.

Q: What do Abraxas Petroleum stockholders do to change or revoke their vote?

A: Abraxas Petroleum stockholders may change their vote by submitting a later-dated signed proxy by mail, telephone or the Internet, or by attending the Special Meeting in person and voting. You may also revoke your proxy by sending a notice of revocation to Abraxas Petroleum's Secretary at 18803 Meisner Drive, San Antonio, Texas 78258 before the Special Meeting.

Q: If my shares of Abraxas Petroleum common stock are held in street name by my broker, will my broker vote my shares for me?

A: If you are an Abraxas Petroleum stockholder, your broker will vote your shares only if you provide instructions on how to vote. Without instructions, your shares of Abraxas Petroleum common stock will not be voted. You should instruct your broker to vote your shares, following the directions provided by your broker.

Q: Where can I find more information about Abraxas Petroleum and Abraxas Energy?

A: You can find more information about Abraxas Petroleum and Abraxas Energy from various sources described under **Where You Can Find More Information** on page 202 as well as in this proxy statement under the headings **Information about Abraxas Petroleum** and **Information about Abraxas Energy**.

Q: Who can I call with questions about the Merger or the Special Meeting?

A: For questions about the Merger, the Special Meeting and for any other matters, including directions to attend the Special Meeting in person, Abraxas Petroleum stockholders may call Abraxas Petroleum at (210) 490-4788 and ask for Investor Relations.

Q: How can I find out the results of the voting at the Special Meeting?

A: Preliminary voting results will be announced at the Special Meeting. Final voting results will be published in our public filings with the SEC after the date of the Special Meeting.

Table of Contents

SUMMARY

The following is a summary of the principal features of this proxy statement and should be read together with the more detailed information and financial data and statements contained elsewhere in this proxy statement. To better understand and for a more complete description of the Merger, you should carefully read this entire proxy statement, the financial data and statements contained elsewhere in this proxy statement and the documents to which Abraxas Petroleum has referred you under the heading "Where You Can Find More Information" beginning on page 202. References in this proxy statement to "we", "us" or "our" refer to Abraxas Petroleum and all of its subsidiaries, including Abraxas Energy and its wholly-owned subsidiary, Abraxas Operating, LLC, or Abraxas Operating. Unless otherwise indicated, all data and results of Abraxas Petroleum are consolidated with those of Abraxas Energy and Abraxas Operating and references to "on a stand alone basis" means that the data and results are of Abraxas Petroleum and its subsidiaries other than Abraxas Energy and Abraxas Operating. Gas equivalents are determined using the ratio of six Mcf of gas to one barrel of oil and oil equivalents are determined using the ratio of one barrel of oil to six Mcf of gas.

Abraxas Petroleum, Abraxas Energy and Merger Sub

Abraxas Petroleum Corporation

18803 Meisner Drive

San Antonio, Texas 78258

(210) 490-4788

Abraxas Petroleum is an independent energy company primarily engaged in the development and production of oil and gas. Historically, we have grown through the acquisition and subsequent development and exploration of producing properties, principally through the redevelopment of old fields utilizing new technologies such as modern log analysis and reservoir modeling techniques as well as 3-D seismic surveys, horizontal drilling and modern completion techniques. As a result of these activities, we believe that we have a number of development opportunities on our properties. In addition, we intend to expand upon our development activities with complementary exploration projects in our core areas of operation. Success in our development and exploration activities is critical in the maintenance and growth of our current production levels and associated reserves.

At December 31, 2008, Abraxas Petroleum (on a stand-alone basis) had 6,736 MMBoe of estimated net proved reserves, of which 38% were oil, with a standardized measure of \$33.4 million. Abraxas Petroleum's net proved reserves (on a stand-alone basis) as of December 31, 2008 were 35% proved developed and 65% proved undeveloped. At December 31, 2008, Abraxas Petroleum (on a stand-alone basis) owned an average working interest of 79% in 172 gross (135.9 net) producing wells that produced 237 net MBoe during 2008. Abraxas Petroleum has identified numerous drilling locations, of which 29 were classified as proved undeveloped as of December 31, 2008, which Abraxas Petroleum believes provides it with a multi-year inventory of drilling opportunities.

A wholly-owned subsidiary of Abraxas Petroleum, Abraxas General Partner, LLC, which we refer to as the GP or the General Partner, is the general partner of Abraxas Energy and the owner of 227,232 general partner units of Abraxas Energy, and Investments, a wholly-owned subsidiary of Abraxas Petroleum, is the owner of 5,350,598 common units of Abraxas Energy, representing approximately 46.7% of the outstanding common units of Abraxas Energy. In addition, certain officers and directors of Abraxas Petroleum own a total of 145,128 common units of Abraxas Energy, representing approximately 1.3% of the outstanding common units of Abraxas Energy.

Table of Contents

Abraxas Energy Partners, L.P.

18803 Meisner Drive

San Antonio, Texas 78258

(210) 490-4788

Abraxas Energy is a Delaware limited partnership formed by Abraxas Petroleum in May 2007 to exploit, develop, produce and acquire oil and gas properties. Abraxas Energy's assets consist primarily of producing and non-producing properties located in the Rocky Mountain, Mid-Continent, Permian Basin and Gulf Coast regions of the United States.

At December 31, 2008, Abraxas Energy had 110.3 Bcfe of estimated net proved reserves, of which 76% were gas, with a standardized measure of \$118.6 million. Abraxas Energy's net proved reserves as of December 31, 2008 were 61% proved developed and 39% proved undeveloped. At December 31, 2008, Abraxas Energy owned an average working interest of 18% in 1,639 gross (293 net) producing wells that produced 8.2 net Bcfe during 2008. Abraxas Energy has identified 226 drilling locations, of which 129 were classified as proved undeveloped as of December 31, 2008, which Abraxas Energy believes provides it with a multi-year inventory of drilling opportunities.

Abraxas Merger Sub, LLC

18803 Meisner Drive

San Antonio, Texas 78258

(210) 490-4788

Merger Sub, a direct wholly-owned subsidiary of Abraxas Petroleum, was formed solely for the purpose of consummating the Merger. Merger Sub has not carried on any activities to date, except for activities incidental to its formation and activities undertaken in connection with the transactions contemplated by the Merger Agreement, including the Merger.

The Merger Agreement (see page 58)

On June 30, 2009, Abraxas Petroleum and Abraxas Energy signed an Agreement and Plan of Merger, which we refer to as the Original Merger Agreement, pursuant to which Abraxas Energy agreed to merge with and into Abraxas Petroleum with Abraxas Petroleum surviving and on July 17, 2009, Abraxas Petroleum and Abraxas Energy signed an Amended and Restated Agreement and Plan of Merger, which we refer to as the Merger Agreement, pursuant to which Abraxas Energy agreed to merge with and into Merger Sub with Merger Sub surviving the merger as a wholly-owned subsidiary of Abraxas Petroleum. We refer to this merger as the Merger. Under the terms of the Merger Agreement, at the effective time of the Merger, which we refer to as the Effective Time, the common units of Abraxas Energy not owned by Abraxas Petroleum and Investments will be converted into the right to receive between 4.25 and 6.00 shares of Abraxas Petroleum common stock for each Abraxas Energy common unit not owned by Abraxas Petroleum or Investments. The final number of shares of Abraxas Petroleum common stock to be issued in the Merger will be determined by dividing \$6.00 by the average volume weighted average closing price of Abraxas Petroleum common stock on the NASDAQ during the 20 trading days ending three business days prior to the date of the Special Meeting, or the VWAP. For example, if the VWAP is \$1.00 or less, holders of Abraxas Energy common units would receive 6.00 shares of Abraxas Petroleum common stock for each of their common units and if the VWAP is \$1.412 or more, holders of Abraxas Energy common units would receive 4.25 shares of Abraxas Petroleum common stock for each of their common units. At the mid-point of the exchange ratio, \$1.17 per share, holders of Abraxas Energy common units would receive 5.125 shares of Abraxas Petroleum common stock for each of their common units. The common units of Abraxas Energy owned by Investments will be cancelled at the Effective Time. In addition, the general partner units held by the GP will be cancelled at the Effective Time.

Table of Contents

In the Merger, we will issue a maximum of 36,952,836 shares of our common stock. This would represent approximately 42.6% of our outstanding shares of common stock upon the closing of the Merger. We anticipate that upon completion of the Merger, depending upon the exchange ratio, Abraxas Energy's former unitholders will own between 34.4% and 42.6% of the shares of our common stock then outstanding. At the mid-point of the exchange ratio, or \$1.17 per share, we would issue 31,563,881 shares of our common stock, or approximately 38.8% of the shares of our common stock then outstanding. Our stockholders will continue to own their existing Abraxas Petroleum shares, which will not be affected by the Merger.

All of the shares of Abraxas Petroleum common stock to be issued in the Merger will be listed on the NASDAQ. The shares of Abraxas Petroleum common stock to be issued to the unitholders of Abraxas Energy, other than to unitholders who hold restricted units and phantom units issued under the Abraxas Energy Long-Term Incentive Plan, which we sometimes refer to as the Partnership LTIP Units, will be issued pursuant to the exemption from the registration requirements of the Securities Act of 1933, as amended, provided in Section 4(2) and Regulation D of that Act. The shares of Abraxas Petroleum common stock to be issued in reliance on this exemption will be issued to 25 investors, each of whom has represented to us that it is an accredited investor and/or qualified institutional buyer and that such investor was not solicited by means of a general solicitation. Under the terms of the Voting, Registration Rights & Lock-Up Agreement among Abraxas Petroleum, Abraxas Energy and the holders of 96% of Abraxas Energy's common units not owned by Investments, which we refer to as the Voting, Registration Rights & Lock-Up Agreement or the Voting Agreement, Abraxas Petroleum has agreed to file a registration statement relating to the resale of the shares of Abraxas Petroleum common stock issued in the Merger. The Abraxas Energy unitholders, whom we refer to as the unitholders, may sell or dispose of their Abraxas Petroleum common stock pursuant to (A) a registration statement covering Abraxas Petroleum common stock, (B) any section of Rule 144 (or any similar provision then in force under applicable securities laws), (C) private sales in compliance with applicable securities laws to accredited investors or a qualified institutional buyers or (D) pursuant to an underwritten offering requested by the unitholders with reasonable fees and expenses (excluding underwriting discounts and commissions) being paid by Abraxas Petroleum in which the gross proceeds of the underwritten offering shall not be less than \$10.0 million.

The shares of Abraxas Petroleum common stock to be issued in exchange for the outstanding Partnership LTIP Units will be registered on a Form S-8 to be filed by Abraxas Petroleum upon consummation of the Merger. For more information on Abraxas Energy's outstanding units, see Proposal 1 Approval of Stock Issuance General.

Under the rules of the NASDAQ, Abraxas Petroleum must receive the approval of the holders of a majority of its common stock present and voting at the Special Meeting in order to approve the issuance of a number of shares of its common stock which is greater than 20% of the amount outstanding prior to the issuance. As of June 30, 2009, Abraxas Petroleum had 49,804,894 shares of common stock outstanding.

The Voting, Registration Rights & Lock-Up Agreement (see page 63)

On June 30, 2009, Abraxas Petroleum, Abraxas Energy and the holders of 51% of the common units of Abraxas Energy (or 96% of the common units not owned by Investments) entered into the Voting, Registration Rights & Lock-Up Agreement, which was amended on July 17, 2009 to reflect the change in the structure of the Merger from a merger of Abraxas Energy with and into Abraxas Petroleum with Abraxas Petroleum surviving to a merger of Abraxas Energy with and into Merger Sub with Merger Sub surviving as a wholly-owned subsidiary of Abraxas Petroleum. Pursuant to the terms of the Voting, Registration Rights & Lock-Up Agreement, as amended, among other things, each of the unitholders agreed:

to vote their common units of Abraxas Energy in favor of the Merger; and

not to offer for sale, sell, pledge, or otherwise dispose of the Abraxas Petroleum common stock received in the Merger for the 90-day period immediately following the Effective Time, which we refer

Table of Contents

to as the Lock-Up Period. Upon the expiration of the Lock-Up Period, one-third of the Abraxas Petroleum common stock held by the former Abraxas Energy unitholders will be unrestricted and freely-tradable, subject to applicable securities laws. From and after the date which is 12 months after the end of the Lock-Up Period, an additional, one-third (or a total of two-thirds) of the Abraxas Petroleum common stock held by the former Abraxas Energy unitholders would become unrestricted and freely-tradable and after the expiration of a total of 24 months following the end of the Lock-Up Period, all remaining shares of the Abraxas Petroleum common stock held by the former Abraxas Energy unitholders would become unrestricted and freely-tradable.

Abraxas Petroleum agreed:

within 120 days of the Effective Time, to file a registration statement relating to the resale of the shares of Abraxas Petroleum common stock to be issued in the Merger, which we refer to as the Registration Statement, pursuant to the Securities Act of 1933, as amended, and to use commercially reasonable efforts to cause the Registration Statement to become effective and to keep the Registration Statement effective until the earlier of (A) the date that is 24 months after the end of the Lock-Up Period and (B) the date that all shares of Abraxas Petroleum common stock received in the Merger have been sold;

that in the event the former Abraxas Energy unitholders propose to sell their shares of Abraxas Petroleum common stock received in the Merger in an underwritten public offering, to use commercially reasonable efforts to retain underwriters and effect such sale through an underwritten offering and take all commercially reasonable actions as are reasonably requested by the managing underwriter or underwriters to expedite or facilitate the disposition of such shares of Abraxas Petroleum common stock, including the entering into an underwriting agreement, and participation by Abraxas Petroleum's management in a road show or similar marketing effort; *provided, however*, that Abraxas Petroleum would not be required to cause its management to participate in a road show or similar marketing effort on behalf of any unitholder if (A) the managing underwriter or underwriters of any such proposed underwritten offering advise Abraxas Petroleum that the gross proceeds of the underwritten offering are not expected to exceed \$10.0 million and (B) a bought deal or overnight transaction is contemplated; and

that in the event Abraxas Petroleum proposes, during the period from and after the end of the Lock-Up Period to the date that is 24 months after the end of the Lock-Up Period, to issue and sell shares of Abraxas Petroleum common stock pursuant to a registration statement other than a shelf registration statement or pursuant to a supplement to a shelf registration statement in an underwritten offering for its own account, then as soon as practicable but not less than 10 business days prior to the filing of (A) any preliminary prospectus supplement to a prospectus that includes Abraxas Petroleum common stock, relating to such underwritten offering pursuant to Rule 424(b), (B) the prospectus supplement to a prospectus that includes Abraxas Petroleum common stock, relating to such underwritten offering pursuant to Rule 424(b) (if no preliminary prospectus supplement is used) or (C) such registration statement, as the case may be, Abraxas Petroleum shall give notice of such proposed underwritten offering to the unitholders and such notice shall offer the former Abraxas Energy unitholders the opportunity to include in such underwritten offering such number of shares of Abraxas Petroleum common stock as each such unitholders may request in writing subject to a customary underwriter's cut back.

The New Credit Facility (see page 66)

We have received a non-binding term sheet for a new \$300.0 million senior secured revolving credit facility and a \$10.0 million senior secured term loan from Société Générale, as administrative agent and issuing lender, which we refer to as the new credit facility. The initial availability under the new credit facility is expected to be approximately \$155.0 million.

Table of Contents

We expect to borrow approximately \$140.9 million under the new credit facility, of which \$130.9 million will be borrowed under the revolving portion of the new credit facility and \$10.0 million will be borrowed under the term loan portion of the new credit facility, and repay all of Abraxas Petroleum's and Abraxas Energy's indebtedness currently outstanding under their existing credit facilities.

For more information about the new credit facility, please see Proposal 1 Approval of Stock Issuance New Credit Facility.

Abraxas Petroleum's Reasons for the Merger (see page 43)

In determining that the Merger Agreement and the transactions contemplated thereby, including the stock issuance and amendment to the LTIP, are advisable and in the best interests of Abraxas Petroleum and its stockholders, and in reaching its decision to approve the Merger Agreement and the transactions contemplated thereby, including the stock issuance and amendment to the LTIP, the Abraxas Petroleum Board considered a variety of factors that it believed weighted favorably toward the Merger, including the following:

the acceleration of drilling activity;

the reduction of consolidated debt resulting in a stronger balance sheet;

a simplified organizational structure;

synergies;

greater liquidity; and

improved access to capital markets.

Conditions to the Completion of the Merger (see page 62)

The completion of the Merger depends upon the satisfaction of a number of conditions, unless waived, including:

the receipt of the approval of the holders of a majority of the issued and outstanding shares of Abraxas Petroleum common stock present and voting at the Special Meeting of the issuance of shares of Abraxas Petroleum common stock in the Merger and the amendment to the LTIP;

the receipt by Abraxas Petroleum of financing sufficient to repay all of the outstanding indebtedness under Abraxas Energy's existing credit facilities; and

the approval for listing of the shares of Abraxas Petroleum common stock issuable in the Merger on the NASDAQ, subject to official notice of issuance.

Termination (see page 62)

The Merger Agreement may be terminated by mutual agreement of the parties at any time prior to closing. The Merger Agreement may also be terminated in the following situations:

if the Merger has not been consummated by October 28, 2009;

if the Abraxas Petroleum stockholders fail to approve the issuance of shares of Abraxas Petroleum common stock in the Merger and the amendment to the LTIP;

if a governmental entity permanently restrains or otherwise prohibits the consummation of the Merger;

if there is an uncured breach of or inaccuracy in a representation, warranty, covenant or agreement by one of the parties;

by Abraxas Petroleum, if there is a change in the recommendation regarding the Merger of the Abraxas Energy Board; or

by Abraxas Energy, if there is a change in the recommendation regarding the Merger of the Abraxas Petroleum Board.

Table of Contents

Director Designees (see page 61)

Abraxas Petroleum has agreed to appoint Brian L. Melton and Edward P. Russell, whom we refer to as the New Directors, to the Abraxas Petroleum Board. Subject to the fulfillment of its fiduciary duties, and provided that such New Directors remain independent as defined in the rules and regulations of the SEC and the securities exchange on which Abraxas Petroleum common stock is then traded, the Abraxas Petroleum Board will nominate and recommend approval of both of the New Directors at its annual meeting in 2010 for a full three-year term. On the date which is 24 months after the Effective Time, one of the New Directors will offer to resign from the Abraxas Petroleum Board and on the date which is 36 months after the Effective Time, the remaining New Director will offer to resign from the Abraxas Petroleum Board. If at any time either of the New Directors creates a vacancy on the Abraxas Petroleum Board (by means of death, resignation, retirement, disqualification, removal from office or otherwise), the Abraxas Petroleum Board shall fill such vacancy with a person designated by the former Abraxas Energy unitholders and the Abraxas Petroleum Board shall continue to nominate and recommend approval of such person in any stockholder election.

Dissenters' Rights (see page 57)

Abraxas Petroleum stockholders and Abraxas Energy unitholders do not have any right to an appraisal of the value of their shares or common units in connection with the Merger.

Interests of Certain Persons in the Merger (see page 57)

Some of Abraxas Petroleum's directors and officers have interests in the Merger and the proposal to amend the LTIP that may differ from or be in addition to, the interests of Abraxas Petroleum stockholders. These interests include:

Robert L.G. Watson, Chairman of the Board, President and Chief Executive Officer of Abraxas Petroleum and Chairman of the Board and Chief Executive Officer of the GP, owns 34,714 Abraxas Energy common units, 6,000 restricted units, 7,493 phantom units and has the right to receive options to purchase 63,000 common units. As a result of the Merger, Mr. Watson will receive, assuming the mid-point of the exchange ratio of 5.125, or \$1.17 per share, 177,909 shares of Abraxas Petroleum common stock, 69,152 shares of Abraxas Petroleum restricted stock and options to purchase 322,875 shares of Abraxas Petroleum common stock at an exercise price equal to the closing price of Abraxas Petroleum common stock on the date the Merger is consummated;

Barbara M. Stuckey, Vice President - Corporate Finance of Abraxas Petroleum and President of the GP, owns 14,986 Abraxas Energy common units, 4,000 restricted units, 6,582 phantom units and has the right to receive options to purchase 42,000 common units. As a result of the Merger, Ms. Stuckey will receive, assuming the mid-point of the exchange ratio of 5.125, or \$1.17 per share, 76,803 shares of Abraxas Petroleum common stock, 54,233 shares of Abraxas Petroleum restricted stock and options to purchase 215,250 shares of Abraxas Petroleum common stock at an exercise price equal to the closing price of Abraxas Petroleum common stock on the date the Merger is consummated; and

In addition to Mr. Watson and Ms. Stuckey, certain directors and officers of Abraxas Petroleum beneficially own a total of 71,428 Abraxas Energy common units, 18,000 Abraxas Energy restricted units, 17,080 Abraxas Energy phantom units and have the right to receive options to purchase 63,000 Abraxas Energy common units. As a result of the Merger, these individuals will receive, assuming the mid-point of the exchange ratio of 5.125, or \$1.17 per share, 366,069 shares of Abraxas Petroleum common stock, 179,785 shares of Abraxas Petroleum restricted stock and options to purchase 322,875 shares of Abraxas Petroleum common stock at an exercise price equal to the closing price of Abraxas Petroleum common stock on the date the Merger is consummated.

Table of Contents

Directors of Abraxas Petroleum Following the Merger (see page 152)

Pursuant to the terms of the Merger Agreement, at the closing of the Merger, the Abraxas Petroleum Board will consist of nine persons, including six independent directors from the Abraxas Petroleum Board, the two New Directors and Robert L.G. Watson.

U.S. Federal Income Tax Consequences (see page 69)

The closing of the Merger and related transactions under the Merger Agreement will not have any U.S. federal income tax consequences to the holders of Abraxas Petroleum common stock with respect to their ownership of such stock. Abraxas Petroleum is taxable with respect to its position as the parent of both the General Partner and Investments. Additionally, the Merger will be a taxable transaction to the Abraxas Energy unitholders receiving shares of Abraxas Petroleum common stock.

Anticipated Accounting Treatment (see page 70)

It is anticipated that Abraxas Petroleum will account for the acquisition of Abraxas Energy common units under Statement of Financial Accounting Standards No. 160, Non-controlling Interests in Consolidated Financial Statements an amendment of ARB No. 51 (which we refer to as SFAS No. 160). In accordance with SFAS No. 160, Abraxas Petroleum will not recognize a gain or loss in its net income as a result of the transaction and it will continue to recognize the assets and liabilities of Abraxas Energy at their historical values instead of valuing Abraxas Energy's assets and liabilities at their fair value at the date of completion of the Merger.

Risk Factors (see page 19)

For a discussion of risk factors to be considered by Abraxas Petroleum stockholders in voting to approve the stock issuance, see the Risk Factors section of this document on page 19. These risk factors include risks related to the Merger and risks related to Abraxas Petroleum's business and industry, which will continue whether or not the Merger occurs.

Opinion of Stephens Inc. to the Abraxas Petroleum Special Committee (see page 46)

Stephens Inc., whom we refer to as Stephens, has delivered an opinion to the Special Committee of the Board of Abraxas Petroleum, which we refer to as the Special Committee, to the effect that, as of June 29, 2009, and based upon and subject to the various assumptions, methodologies, limitations and considerations described in such opinion, the exchange ratio to be paid by Abraxas Petroleum in the Merger was fair, from a financial point of view, to Abraxas Petroleum.

The full text of Stephens' written opinion, dated June 29, 2009, is attached hereto as Annex C. Abraxas Petroleum stockholders are urged to read this opinion carefully and in its entirety for information regarding the assumptions made, methodologies used, factors considered and limitations upon the review undertaken by Stephens in rendering its opinion. Stephens has not assumed any responsibility for updating or revising its opinion based on circumstances or events occurring after the date thereof.

Stephens provided its opinion for the information of and assistance to the Special Committee in connection with its consideration of the Merger. The opinion addresses only the fairness to Abraxas Petroleum, from a financial point of view, of the exchange ratio to be paid by Abraxas Petroleum in the Merger as of June 29, 2009, the date of the opinion. The opinion does not address the underlying business decision of Abraxas Petroleum to proceed with or effectuate the Merger and related transactions or the relative merits of the Merger as compared to other transactions that may have been available to Abraxas Petroleum. The opinion does not constitute a recommendation to any stockholder of Abraxas Petroleum as to how such stockholder should vote with respect to the issuance of shares of Abraxas Petroleum common stock in the Merger or any other matter.

Table of Contents

Amendment of LTIP (see page 72)

On September 13, 2005, subject to stockholder approval, the Abraxas Petroleum Board adopted the Abraxas Petroleum Corporation 2005 Employee Long-Term Equity Incentive Plan, or LTIP, which was approved by the stockholders of Abraxas Petroleum Corporation in 2006 and amended by its stockholders at the 2008 annual meeting. On June 29, 2009, the Abraxas Petroleum Board amended the LTIP, subject to stockholder approval, to increase the number of shares of common stock reserved for issuance under the LTIP from 2,100,000 shares to 5,200,000 shares if Proposal 1 is approved, relating to the approval of the issuance of shares of Abraxas Petroleum common stock in the Merger.

The purpose of the LTIP is to employ and retain qualified and competent personnel and promote the growth and success of Abraxas Petroleum by aligning the long-term interests of Abraxas Petroleum's key employees with those of Abraxas Petroleum's stockholders by providing an opportunity to acquire an interest in Abraxas Petroleum and by providing both rewards for exceptional performance and long-term incentives for future contributions to the success of Abraxas Petroleum. Abraxas Petroleum believes that this purpose will be furthered through the granting of awards, as authorized under the LTIP, so that such key employees will be encouraged and enabled to acquire a substantial personal interest in the continued success of Abraxas Petroleum. Abraxas Petroleum believes the additional shares to be reserved pursuant to the amendment to the LTIP is necessary for Abraxas Petroleum to continue its policy of emphasizing equity compensation and to remain competitive with industry equity grant practices.

In connection with the Merger, the restricted units and phantom units of Abraxas Energy will be converted into restricted shares of Abraxas Petroleum common stock and the unit options that were approved by the Abraxas Energy Board and issuable upon the closing of the initial public offering of Abraxas Energy will be assumed by Abraxas Petroleum and converted into options to purchase Abraxas Petroleum common stock with an exercise price equal to the closing price of Abraxas Petroleum common stock on the date the Merger is consummated. Assuming the mid-point of the exchange ratio of 5.125, or \$1.17 per share, 1,275,869 shares of Abraxas Petroleum common stock would be reserved for issuance as options to purchase Abraxas Petroleum common stock and 508,169 shares would be issued as restricted stock.

The Abraxas Petroleum Board Unanimously Recommends that Abraxas Petroleum Stockholders Vote FOR the Approval of the Issuance of Shares of Abraxas Petroleum Common Stock in the Merger and the Amendment to the LTIP (see pages 46, 71 and 76)

The Abraxas Petroleum Board believes that the Merger is in the best interests of Abraxas Petroleum and its stockholders and has unanimously approved the Merger and the Merger Agreement. The Abraxas Petroleum Board unanimously recommends that Abraxas Petroleum stockholders vote FOR the proposal to approve the issuance of shares of Abraxas Petroleum common stock in the Merger.

The Abraxas Petroleum Board also has unanimously approved the proposal to amend the LTIP. The Abraxas Petroleum Board determined that the proposal is advisable and in the best interests of Abraxas Petroleum and its stockholders. The Abraxas Petroleum Board unanimously recommends that Abraxas Petroleum stockholders vote FOR the amendment to the LTIP. The approval of this proposal is a condition to the consummation of the Merger.

To review the background of, and Abraxas Petroleum's reasons for, the Merger, as well as certain risks related to the Merger, see Proposal 1 Approval of Stock Issuance Background of the Merger and Abraxas Petroleum's Reasons for the Merger; Recommendation of the Abraxas Petroleum Special Committee and the Abraxas Petroleum Board and to review Abraxas Petroleum's reasons for the amendment of the LTIP, see Proposal 2 Amendment of LTIP Reasons for the Amendment of the LTIP.

Table of Contents

Adjournment (see page 77)

If necessary or appropriate, stockholders will be asked to approve a proposal to postpone or adjourn the Special Meeting to a later time in order for us to solicit additional proxies in favor of any of the proposals. In any event, the Special Meeting may be adjourned if a quorum is not present.

Abraxas Petroleum will hold its Special Meeting on September [], 2009 (see page 32)

The Abraxas Petroleum Special Meeting will be held on September [], 2009, at 9:00 a.m., local time, at Abraxas Petroleum's corporate office located at 18803 Meisner Drive, San Antonio, Texas 78258. At the Special Meeting, Abraxas Petroleum stockholders will be asked to:

approve the issuance of shares of Abraxas Petroleum common stock in the Merger;

approve the amendment to the LTIP increasing the number of shares of Abraxas Petroleum common stock reserved for issuance under the LTIP; and

approve the adjournment of the Special Meeting, if necessary or appropriate, to solicit additional proxies, in the event that there are not sufficient votes at the time of the Special Meeting to approve the foregoing proposals.

Record Date. Only holders of record at the close of business on [], 2009 will be entitled to vote at the Special Meeting. Each share of Abraxas Petroleum common stock is entitled to one vote. As of the record date, there were [] shares of Abraxas Petroleum common stock entitled to vote at the Special Meeting.

Required Vote. Approval of the issuance of shares of Abraxas Petroleum common stock in the Merger and the amendment to the LTIP each require the votes cast in favor of each such proposal to exceed the votes cast against such proposal at the Special Meeting by the holders of Abraxas Petroleum common stock, assuming a quorum. Because the required vote is based on the votes cast in favor of such proposal exceeding the votes cast against such proposal, your failure to vote, a broker non-vote or an abstention will not be treated as a vote cast and, therefore, will have no effect on these proposals, assuming a quorum.

If there is a quorum, approval of any necessary or appropriate adjournment of the Special Meeting requires the votes cast in favor of such proposal to exceed the votes cast against such proposal at the Special Meeting by the holders of Abraxas Petroleum common stock. In the absence of a quorum, the Special Meeting may be adjourned by the approval of the holders of a majority of the outstanding shares present and entitled to vote at the Special Meeting.

As of the record date, directors and executive officers of Abraxas Petroleum and their affiliates had the right to vote [] shares of Abraxas Petroleum common stock, or []% of the outstanding Abraxas Petroleum shares entitled to be voted at the Special Meeting. We currently expect that each of these individuals will vote their shares of Abraxas Petroleum common stock in favor of the proposals to be presented at the Special Meeting.

Table of Contents**SELECTED HISTORICAL AND PRO FORMA COMBINED FINANCIAL DATA****Summary Historical Financial Information of Abraxas Petroleum**

The following table shows summary historical financial data of Abraxas Petroleum for the periods and as of the dates indicated. The summary historical financial data as of December 31, 2007 and 2008 and for the years ended December 31, 2006, 2007 and 2008 are derived from the audited consolidated financial statements of Abraxas Petroleum included elsewhere in this proxy statement. The summary historical financial data as of June 30, 2009 and for the six months ended June 30, 2008 and 2009 are derived from the unaudited condensed consolidated financial statements of Abraxas Petroleum included elsewhere in this proxy statement. The financial condition and results of operations of Abraxas Petroleum are consolidated and reflect the financial condition and results of operations of Abraxas Petroleum and all of its consolidated subsidiaries including Abraxas Energy and Abraxas Operating. The operations of Abraxas Petroleum and Abraxas Energy are consolidated for financial reporting purposes with the interest of the limited partners, other than Investments, of Abraxas Energy presented as non-controlling interest.

	Historical Abraxas Petroleum				
	Year Ended December 31, 2006	2007	2008	Six Months Ended June 30, 2008	2009 (unaudited)
	(In thousands, except per share data)				
Total operating revenue	\$ 51,077	\$ 48,309	\$ 100,310	\$ 56,593	\$ 23,218
Lease operating and production taxes	11,776	11,254	26,635	12,372	11,854
Depreciation, depletion and amortization	14,939	14,292	23,343	11,098	8,994
Ceiling-test impairment			116,366		
General and administrative	5,160	6,438	7,127	3,672	3,730
Net interest expense	16,738	7,984	10,309	5,011	5,596
Amortization of deferred financing fees	1,591	671	1,028	467	586
Financing fees			359		362
Loss (gain) on derivative contracts	(646)	4,363	(28,333)	108,093	1,695
Loss on debt extinguishment		6,455			
Gain on sale of assets		(59,439)			
Other	819	1,148	9,379	1,137	2,628
Income (loss) before income tax	\$ 700	\$ 55,143	\$ (65,903)	\$ (85,257)	\$ (12,227)
Income tax		(283)			
Consolidated net income (loss)	\$ 700	\$ 54,860	\$ (65,903)	\$ (85,257)	\$ (12,227)
Less: Net (income) loss attributable to non-controlling interest		1,842	13,500	18,578	6,645
Net income (loss) attributable to Abraxas Petroleum	\$ 700	\$ 56,702	\$ (52,403)	\$ (66,679)	\$ (5,582)
Net income (loss) attributable to Abraxas Petroleum per common share:					
Basic	\$ 0.02	\$ 1.22	\$ (1.07)	\$ (1.36)	\$ (0.11)
Diluted	\$ 0.02	\$ 1.19	\$ (1.07)	\$ (1.36)	\$ (0.11)

Table of Contents

	Historical Abraxas Petroleum				
	2006	Year Ended December 31, 2007	2008	Six Months Ended June 30, 2008 2009 (unaudited)	
(In thousands)					
Cash flow data:					
Net cash provided by operating activities	\$ 15,561	\$ 18,332	\$ 43,387	\$ 30,487	9,456
Net cash used in investing activities	(14,102)	(26,908)	(173,944)	(155,475)	(7,510)
Net cash provided by (used in) financing activities	(1,458)	27,469	113,545	118,762	(2,080)

	Abraxas Petroleum			
	2006	At December 31, 2007 2008		At June 30, 2009 (unaudited)
(In thousands)				
Consolidated Balance Sheet Data:				
Working capital (deficit)	\$ (3,719)	\$ 11,348	\$ (26,000)	\$ (30,915)
Total assets	116,940	147,119	211,839	200,563
Current maturities of long-term debt			40,134	46,062
Long-term debt	127,614	45,900	130,835	128,843
Stockholders' equity (deficit)	(22,165)	79,344	11,751	(270)

Table of Contents**Summary Historical Financial Information of Abraxas Energy**

The following table shows summary historical financial data of Abraxas Petroleum and Abraxas Energy for the periods and as of the dates indicated. The summary historical financial data of Abraxas Petroleum for the year ended December 31, 2006 and for the period from January 1 to May 24, 2007 and the summary historical financial data of Abraxas Energy as of December 31, 2007 and 2008 and for the period from May 25 to December 31, 2007 and for the year ended December 31, 2008 are derived from the audited consolidated financial statements included elsewhere in this proxy statement. The summary historical financial data of Abraxas Energy as of June 30, 2009 and for the six months ended June 30, 2008 and 2009 are derived from the unaudited condensed consolidated financial statements of Abraxas Energy included elsewhere in this proxy statement. The financial condition and results of operations of Abraxas Petroleum for the periods up to May 24, 2007 are referred to in this proxy statement as *Predecessor*, and the financial condition and results of operations for periods subsequent to May 24, 2007 are referred to as *Successor* and represent only those of Abraxas Energy.

	Predecessor		Historical		Successor	
	Abraxas Petroleum		Abraxas Energy		Abraxas Energy	
Year	Ended	January 1 -	May 25 -	Year Ended	Six Months Ended	
	December 31,	May 24,	December 31,	December 31,	June 30,	
	2006	2007	2007	2008	2008	2009
	(unaudited)					
(In thousands, except per share/unit data)						
Total operating revenue	\$ 51,077	\$ 19,305	\$ 22,148	\$ 83,391	\$ 47,260	\$ 18,321
Lease operating and production taxes	11,776	4,757	5,136	22,577	10,756	9,833
Depreciation, depletion and amortization	14,939	5,773	7,039	20,063	9,583	7,028
Ceiling-test impairment				97,121		2,775
General and administrative	5,160	1,867	987	2,657	1,290	1,475
Net interest expense	16,738	6,371	1,774	10,181	5,052	5,316
Amortization of deferred financing fees	1,591	632	121	988	447	537
Financing fees				359		362
Loss (gain) on derivative contracts	(646)	218	4,125	(28,333)	108,093	1,695
Loss on debt extinguishment			6,455			
Other	819	295		1,105	711	2,229
Income (loss)	\$ 700	\$ (608)	\$ (3,489)	\$ (43,327)	\$ (88,672)	\$ (12,929)
Income (loss) per common share/unit:						
Basic	\$ 0.02	\$ (0.01)	\$ (0.31)	\$ (3.81)	\$ (7.80)	\$ (1.13)
Diluted	\$ 0.02	\$ (0.01)	\$ (0.31)	\$ (3.81)	\$ (7.80)	\$ (1.13)
Cash flow data:						
Net cash provided by operating activities	\$ 15,561	\$ 10,150	\$ 5,466	\$ 30,474	\$ 19,285	\$ 10,676
Net cash used in investing activities	(14,102)	(6,622)	(14,086)	(131,900)	(134,039)	(3,098)
Net cash provided by (used in) financing activities	(1,458)	(1,742)	10,379	101,591	113,299	(7,988)

Table of Contents

	Predecessor Abraxas Petroleum 2006	Historical		
		At December 31, 2007	Successor Abraxas Energy 2008	At June 30, 2009 (unaudited)
(In thousands)				
Consolidated Balance Sheet Data:				
Working capital (deficit)	\$ (3,719)	\$ 3,740	\$ (14,595)	\$ (15,683)
Total assets	116,940	105,703	169,240	153,414
Current maturities of long-term debt			40,000	40,000
Long-term debt	127,614	45,900	125,600	123,675
Stockholders / Partners equity (deficit)	(22,615)	49,688	(12,492)	(25,989)

Table of Contents

Selected Unaudited Pro Forma Combined Financial Information

The following unaudited pro forma combined financial information reflects Abraxas Petroleum's historical results on a pro forma basis to give effect to (a) the Merger and related transactions and (b) the new credit facility. The unaudited pro forma combined balance sheet information reflects the Merger and related transactions, including the new credit facility, as if they occurred on June 30, 2009, and the unaudited pro forma combined statement of operations information for the twelve months ended December 31, 2008 and the six months ended June 30, 2009 reflect the Merger and related transactions, including the new credit facility, as if they occurred on January 1, 2008.

The unaudited pro forma combined financial information is based on the historical financial statements of Abraxas Petroleum and Abraxas Energy and on publicly available information and certain assumptions and adjustments as discussed in the section entitled "Unaudited Pro Forma Combined Financial Information" included elsewhere in this proxy statement. The unaudited pro forma combined financial information is provided for illustrative purposes only and is not necessarily indicative of what the operating results or financial position of Abraxas Petroleum or Abraxas Energy would have been had the Merger a