

BLACK HILLS CORP /SD/
Form 424B3
February 07, 2003
Table of Contents

Filed pursuant to Rule 424(b)(3)

SEC File No. 333-101576

PROPOSED MERGER YOUR VOTE IS VERY IMPORTANT

Black Hills Corporation, or Black Hills, and Mallon Resources Corporation, or Mallon, have agreed on a merger involving our two companies. Before we can complete the merger, we must obtain the approval of Mallon's common shareholders. We are sending you this proxy statement/prospectus to ask you to vote in favor of the merger.

In the merger, Black Hills Acquisition Corp., a wholly-owned subsidiary of Black Hills, will merge with and into Mallon. Upon consummation of the merger, Mallon will be the surviving company and a wholly-owned subsidiary of Black Hills. As a Mallon shareholder, you will be entitled to receive .044 shares of Black Hills common stock for each share of Mallon common stock and cash instead of any fractional shares you would otherwise receive in the merger.

Black Hills' common stock is traded on the New York Stock Exchange under the symbol BKH. On January 29, 2003, the closing price of Black Hills common stock was \$24.04 per share and the closing price of Mallon common stock was \$1.05 per share. We encourage you to obtain more recent quotations. Shares of Mallon common stock will be deregistered if the merger is consummated.

Mallon will hold a special meeting of its shareholders on March 10, 2003, at 9:00 a.m. local time, at the offices of Holme Roberts & Owen LLP, located at 1700 Lincoln Street, Suite 4100, Denver, Colorado 80203, to consider and vote on the merger agreement. At Mallon's special meeting, Mallon will ask its common shareholders to consider and vote on the merger agreement. Shareholder approval of the proposal is a prerequisite to consummation of the merger. Holders of Mallon common stock are entitled to dissenters' rights in connection with the merger, which are discussed in greater detail on page 38.

TO CAST YOUR VOTE FOR THE SPECIAL MEETING, PLEASE COMPLETE, SIGN AND DATE YOUR PROXY CARD AND RETURN IT IN THE ENCLOSED ENVELOPE.

The enclosed form of proxy, when executed and returned, will be voted as set forth therein. Any shareholder signing a proxy has the power to revoke the proxy in writing, addressed to Mallon, or in person at the meeting at any time before the proxy is exercised.

This document is a prospectus of Black Hills relating to the issuance of shares of Black Hills' common stock in connection with the merger and a proxy statement for Mallon to use in soliciting proxies for its special meeting. It contains answers to frequently asked questions and a summary description of the merger followed by a more detailed discussion of the merger and related matters beginning on page 25. **YOU SHOULD ALSO CONSIDER THE MATTERS DISCUSSED UNDER RISK FACTORS COMMENCING ON PAGE 11 OF THIS PROXY STATEMENT/PROSPECTUS. WE URGE YOU TO CAREFULLY REVIEW THIS ENTIRE DOCUMENT.**

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS PROXY STATEMENT/PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THIS PROXY STATEMENT/PROSPECTUS IS DATED FEBRUARY 5, 2003 AND IS FIRST BEING MAILED TO SHAREHOLDERS ON OR ABOUT FEBRUARY 7, 2003.

Table of Contents

MALLON RESOURCES CORPORATION

999 18TH STREET, SUITE 1700

DENVER, COLORADO 80202

(303) 293-2333

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

TO BE HELD ON MARCH 10, 2003

To Shareholders of Mallon Resources Corporation:

NOTICE IS HEREBY GIVEN that a Special Meeting of Shareholders of Mallon Resources Corporation, a Colorado corporation, or Mallon, will be held at the offices of Holme Roberts & Owen LLP located at 1700 Lincoln Street, Suite 4100, Denver, Colorado 80203, on March 10, 2003 at 9:00 a.m., local time, for the following purposes:

1. To consider and vote upon a proposal to approve the Agreement and Plan of Merger, dated October 1, 2002, among Black Hills Corporation, Black Hills Acquisition Corp. and Mallon.
2. To transact such other business incident to the conduct of the meeting as may properly come before the meeting or any adjournments or postponements thereof.

Only common shareholders of record at the close of business on January 23, 2003 are entitled to notice of and to vote at the Mallon special meeting or at any adjournments or postponements thereof. Approval of the merger agreement requires the affirmative vote of a majority of the outstanding shares of Mallon common stock. Approval of the merger agreement is a prerequisite to the completion of the merger. Holders of Mallon common stock are entitled to dissenters' rights under the Colorado Business Corporation Act in respect of the merger.

The Mallon board of directors has determined that the terms of the merger agreement and the transactions contemplated by it are advisable and in the best interests of Mallon and its shareholders. Accordingly, the members of the Mallon board of directors have unanimously approved the merger and the merger agreement and recommend that common shareholders vote at the special meeting to approve the merger agreement.

Please do not send us any Mallon stock certificates at this time. If the merger is approved by the common shareholders of Mallon, and if the other conditions to the merger agreement are satisfied or waived, forms to be used to exchange your shares of Mallon common stock for shares of Black Hills Corporation common stock will be mailed to you.

Edgar Filing: BLACK HILLS CORP /SD/ - Form 424B3

By Order of the Board of Directors,

George O. Mallon, Jr.

Chairman

Denver, Colorado

February 7, 2003

YOUR VOTE IS VERY IMPORTANT. EVEN IF YOU PLAN TO ATTEND THE SPECIAL MEETING IN PERSON, WE REQUEST THAT YOU SIGN AND RETURN THE ENCLOSED PROXY OR VOTING INSTRUCTION CARD AND THUS ENSURE THAT YOUR SHARES WILL BE REPRESENTED AT THE SPECIAL MEETING IF YOU ARE UNABLE TO ATTEND. IF YOU DO ATTEND THE SPECIAL MEETING AND WISH TO VOTE IN PERSON, YOU MAY WITHDRAW YOUR PROXY AND VOTE IN PERSON.

Table of Contents

REFERENCES TO ADDITIONAL INFORMATION

This document incorporates important business and financial information about our companies from documents we have filed with the Securities and Exchange Commission, or SEC, but have not included or delivered with this document. If you call or write us, we will send you these documents, excluding exhibits, without charge. You can contact us at:

Black Hills Corporation	Mallon Resources Corporation
625 Ninth Street	999 18th Street, Suite 1700
Rapid City, South Dakota	Denver, Colorado 80202
Attention: Steven J. Helmers	Attention: Roy K. Ross
605-721-2300	303-293-2333

PLEASE REQUEST DOCUMENTS FROM EITHER COMPANY NOT LATER THAN FEBRUARY 28, 2003. IF YOU REQUEST ANY DOCUMENTS, WE WILL MAIL THE DOCUMENTS TO YOU BY FIRST CLASS MAIL, OR ANOTHER EQUALLY PROMPT MEANS, BY THE NEXT BUSINESS DAY AFTER WE RECEIVE YOUR REQUEST.

See [Where You Can Find More Information](#) on page 128 for more information about the documents referred to in this document.

Table of Contents**TABLE OF CONTENTS**

	Page
<u>QUESTIONS AND ANSWERS ABOUT THE MERGER</u>	v
<u>SUMMARY</u>	1
<u>The Companies</u>	1
<u>The Merger</u>	1
<u>The Mallon Special Meeting</u>	2
<u>Mallon's Recommendation to Shareholders</u>	2
<u>Opinion of Mallon's Financial Advisor</u>	2
<u>Record Date and Voting Power</u>	2
<u>Quorum and Vote Required</u>	2
<u>Credit Agreement</u>	2
<u>Voting Agreements</u>	3
<u>Accounting Treatment</u>	3
<u>Certain Material United States Federal Income Tax Consequences</u>	3
<u>Board of Directors and Management of the Surviving Corporation Following the Merger</u>	4
<u>Regulatory Matters</u>	4
<u>Comparative Per Share Market Price Information</u>	4
<u>Dissenters' Rights for Shareholders</u>	4
<u>Conditions to the Merger</u>	5
<u>Termination of the Merger Agreement</u>	5
<u>Payments Upon Termination</u>	6
<u>Interests of Certain Persons in the Merger That Differ from Your Interests</u>	6
<u>No Solicitation</u>	7
<u>Material Differences in the Rights of Shareholders</u>	7
<u>Summary Selected Historical Consolidated Financial Data</u>	8
<u>Mallon Estimated Proved Oil and Gas Reserves</u>	10
<u>Comparative Per Share Data</u>	10
<u>RISK FACTORS</u>	11
<u>Risks Related to the Merger</u>	11
<u>Risks Related to Black Hills After the Merger</u>	11
<u>SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS</u>	17
<u>MARKET PRICE AND DIVIDEND INFORMATION</u>	19
<u>THE MALLON SPECIAL MEETING</u>	21
<u>Time and Place</u>	21
<u>Purpose of the Special Meeting</u>	21
<u>Outstanding Shares Held on Record Date</u>	21
<u>Shares Entitled to Vote at the Special Meeting</u>	21
<u>Quorum</u>	21
<u>Vote Necessary to Approve Merger</u>	21
<u>Voting Agreements</u>	21
<u>Management Share Ownership</u>	22
<u>Proxies</u>	23
<u>Other Voting Matters</u>	23
<u>Other Business: Adjournments and Postponements</u>	24
<u>THE MERGER</u>	25
<u>Background of the Merger</u>	25
<u>Reasons for the Merger; Recommendations of Mallon's Board of Directors</u>	29
<u>Opinion of Mallon's Financial Advisor</u>	30

Table of Contents**TABLE OF CONTENTS (Continued)**

	<u>Page</u>
<u>Accounting Treatment</u>	36
<u>Regulatory Matters</u>	36
<u>Interests of Certain Persons in the Merger</u>	36
<u>Dissenters' Rights</u>	38
<u>Federal Securities Law Consequences: Resale Restrictions</u>	41
TERMS OF THE MERGER AGREEMENT	42
<u>Effective Time of the Merger</u>	42
<u>Manner and Basis of Converting Shares</u>	42
<u>Exchange Procedures</u>	43
<u>Representations and Warranties</u>	43
<u>Conduct of Business Prior to the Merger</u>	43
<u>No Solicitation</u>	45
<u>Certain Additional Agreements</u>	46
<u>Conditions to the Merger</u>	47
<u>Termination of the Merger Agreement</u>	48
<u>Expenses</u>	49
CREDIT AGREEMENT	50
CERTAIN MATERIAL UNITED STATES FEDERAL INCOME TAX CONSEQUENCES OF THE MERGER	51
<u>Scope of Discussion</u>	51
<u>Tax Opinions</u>	52
<u>United States Federal Income Tax Consequences to U.S. Holders That Participate in the Merger</u>	52
<u>United States Federal Income Tax Consequences to Non-U.S. Holders That Participate in the Merger</u>	53
<u>United States Federal Income Tax Consequences to Mallon Shareholders That Exercise Dissenters' Rights</u>	56
<u>Tax Consequences to Holders of Black Hills Common Stock</u>	56
<u>Backup Withholding and Information Reporting</u>	56
<u>FIRPTA Withholding</u>	57
<u>Wage-Related Withholding and Information Reporting</u>	57
UNAUDITED PRO FORMA COMBINED CONDENSED FINANCIAL INFORMATION	58
<u>Black Hills Corporation Unaudited Pro Forma Combined Condensed Balance Sheet as of September 30, 2002</u>	59
<u>Black Hills Corporation Unaudited Pro Forma Combined Condensed Statement of Operations for the Nine Months Ended September 30, 2002</u>	60
<u>Black Hills Corporation Unaudited Pro Forma Combined Condensed Statement of Operations for the Year Ended December 31, 2001</u>	61
<u>Black Hills Corporation Notes to Unaudited Pro Forma Combined Condensed Financial Statements</u>	62
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF BLACK HILLS CORPORATION	64
<u>Business Strategy</u>	64
<u>Prospective Information</u>	64
<u>Results of Operations</u>	65
<u>Critical Accounting Policies</u>	78
<u>Liquidity and Capital Resources</u>	80
INFORMATION ABOUT BLACK HILLS	84
<u>Integrated Energy</u>	84
<u>Electric Utility</u>	85
<u>Communications</u>	85

Table of Contents**TABLE OF CONTENTS (Continued)**

	<u>Page</u>
<u>MANAGEMENT OF BLACK HILLS</u>	86
<u>Executive Officers</u>	86
<u>Securities Ownership of Management and Principal Shareholders</u>	88
<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF MALLON</u>	91
<u>Overview</u>	91
<u>Recent Events</u>	91
<u>Results of Operations</u>	93
<u>Critical Accounting Policies</u>	100
<u>Liquidity and Capital Resources</u>	101
<u>Hedging Activities</u>	104
<u>Contractual Commitments and Obligations</u>	104
<u>Impact of Inflation</u>	105
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	105
<u>Miscellaneous</u>	106
<u>INFORMATION ABOUT MALLON</u>	107
<u>General</u>	107
<u>Areas of Operations</u>	107
<u>East Blanco Field, Rio Arriba County, New Mexico</u>	107
<u>Other San Juan Basin Fields</u>	107
<u>Other Areas</u>	107
<u>Gas Sweetening Plant</u>	108
<u>Title to Properties; Acreage</u>	108
<u>Summary Oil and Gas Reserve Data</u>	109
<u>Drilling Activity</u>	109
<u>Recompletion Activity</u>	109
<u>Productive Wells</u>	110
<u>Production and Sales</u>	110
<u>Marketing</u>	110
<u>Price Risk Management Transactions</u>	110
<u>Employees</u>	111
<u>Legal Proceedings</u>	111
<u>MANAGEMENT OF MALLON</u>	112
<u>Directors, Executive Officers and Key Employees</u>	112
<u>The Mallon Board of Directors and its Committees</u>	113
<u>Executive Compensation of Mallon</u>	114
<u>Stock Options Granted in 2001</u>	114
<u>Stock Option Exercises and Fiscal Year End Values</u>	115
<u>Equity Compensation Plan Information</u>	115
<u>Director Compensation</u>	116
<u>Employment Agreements</u>	116
<u>CERTAIN TRANSACTIONS OF MALLON</u>	118
<u>SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE OF MALLON</u>	118
<u>SECURITIES OWNERSHIP OF MANAGEMENT AND CERTAIN BENEFICIAL OWNERS OF MALLON</u>	119
<u>SHAREHOLDER PROPOSALS</u>	120

Table of Contents

TABLE OF CONTENTS (Continued)

	Page
<u>COMPARISON OF SHAREHOLDER RIGHTS</u>	120
<u>Authorized Common Stock</u>	120
<u>Directors</u>	120
<u>Special Meetings of Shareholders</u>	121
<u>Notice of Meetings: Certain Proposals</u>	122
<u>Amendment to Articles of Incorporation</u>	122
<u>Amendment to Bylaws</u>	122
<u>State Takeover Legislation</u>	122
<u>Rights Plan</u>	123
<u>Liability of Directors</u>	123
<u>Indemnification of Directors and Officers</u>	124
<u>Dissenters' Rights</u>	124
<u>Inspection of Books and Records</u>	125
<u>Vote Required for Mergers</u>	125
<u>EXPERTS</u>	126
<u>LEGAL MATTERS</u>	126
<u>GLOSSARY OF OIL AND GAS TERMS</u>	127
<u>WHERE YOU CAN FIND MORE INFORMATION</u>	128
<u>Black Hills</u>	129
<u>Mallon</u>	129

LIST OF ANNEXES

Annex A	Agreement and Plan of Merger dated as of October 1, 2002 by and among Black Hills Corporation, Black Hills Acquisition Corp. and Mallon Resources Corporation
Annex B	Opinion of Waterous & Co. Limited dated October 1, 2002
Annex C	Provisions of Colorado Business Corporation Act relating to dissenters' rights

Table of Contents

QUESTIONS AND ANSWERS ABOUT THE MERGER

Q: WHY ARE THE TWO COMPANIES PROPOSING TO MERGE?

A: The proposed merger will combine the businesses of Black Hills and Mallon. Our companies are proposing the merger because we believe that the combined company, with its larger, more diverse asset base and expanded cash flow, will be better positioned to continue growing in the independent energy industry. We believe that the merger will, among other things:

support Black Hills' integrated energy strategy by substantially increasing its current natural gas production and reserves;

increase Black Hills' exploitation drilling potential;

result in administrative cost savings and operating efficiencies on a combined basis; and

improve the liquidity of Mallon's shareholders.

Please review the more detailed description of our reasons for the merger on pages 29-30.

Q: HOW WILL THE MERGER WORK?

A: Black Hills Acquisition Corp., a wholly-owned subsidiary of Black Hills, will merge with and into Mallon and Mallon will continue as the surviving corporation and will be a wholly-owned subsidiary of Black Hills. We refer to Black Hills Acquisition Corp. as "Merger Sub" in this document. Shareholders of Mallon will become shareholders of Black Hills.

Q: WHAT WILL HAPPEN TO MALLON COMMON STOCK AND STOCK OPTIONS IN THE MERGER?

A: Mallon shareholders will receive .044 of a share of Black Hills common stock for each share of Mallon common stock they own. Mallon shareholders will also receive cash for any fractional Black Hills shares they would otherwise receive in the merger. As of the close of business on the effective date of the merger, all outstanding options to purchase Mallon common stock that are not exercised will be cancelled and terminated automatically. Each holder of an option who exercises such option concurrently with the consummation of the merger will receive .044 of a share of Black Hills common stock for each share of Mallon common stock received upon exercise of such option.

Q: WHEN DO YOU EXPECT THE MERGER TO BE COMPLETED?

A: Subject to shareholder and regulatory approval, we hope to complete the merger in the first quarter of 2003.

Q: WHEN IS THE SPECIAL SHAREHOLDERS' MEETING?

Edgar Filing: BLACK HILLS CORP /SD/ - Form 424B3

A: Mallon's special meeting of shareholders will take place on March 10, 2003. The time and location of the special meeting is specified on the cover page of this document.

Q: WHAT WILL HAPPEN AT THE SPECIAL SHAREHOLDERS MEETING?

A: Mallon's shareholders will vote on whether to approve the merger agreement and the transactions contemplated by the merger agreement.

Q: WHAT VOTE IS REQUIRED FOR THE PROPOSAL?

A: At the Mallon special meeting, approval of the merger agreement requires the affirmative vote of a majority of the outstanding shares of Mallon common stock.

v

Table of Contents

Q: WHAT DO I NEED TO DO TO VOTE?

A: If you own Mallon common stock, after reading this document, indicate on the enclosed proxy how you want to vote, sign it and mail it in the enclosed return envelope as soon as possible so that your shares will be represented at the special meeting. If you sign and send in your proxy card and do not indicate how you want to vote, your proxy will be counted as a vote in favor of the proposals submitted at the special meeting. The failure to return your proxy card will have the same effect as voting against the merger.

You may attend the special meeting and vote your shares in person, rather than signing and mailing your proxy card. In addition, you may revoke your proxy on or before the day of the special meeting by following the instructions on page 23. You then may either change your vote or attend the special meeting and vote in person.

THE MEMBERS OF THE MALLON BOARD OF DIRECTORS HAVE UNANIMOUSLY APPROVED THE MERGER AND THE MERGER AGREEMENT AND RECOMMEND THAT MALLON SHAREHOLDERS VOTE FOR THE APPROVAL OF THE MERGER AGREEMENT.

Q: IF MY SHARES ARE HELD IN STREET NAME BY MY BROKER, WILL MY BROKER VOTE THEM FOR ME?

A: Your broker will not be able to vote your shares without instructions from you. You should instruct your broker to vote your shares, following the procedure provided by your broker.

Q: SHOULD I SEND IN MY STOCK CERTIFICATES NOW?

A: No. After the merger is completed, we will send you written instructions that explain how to exchange your stock certificates for certificates representing Black Hills common stock. Please do not send in any stock certificates until you receive these written instructions and the letter of transmittal.

Q: WILL MALLON SHAREHOLDERS BE ABLE TO TRADE THE BLACK HILLS COMMON STOCK THAT THEY RECEIVE IN THE MERGER?

A: Yes. Except for Black Hills common stock to be held by certain affiliates of Mallon, the Black Hills common stock received in the merger will be freely tradable. The Black Hills common stock issued in connection with the merger will be listed on the New York Stock Exchange under the symbol BKH.

Q: AM I ENTITLED TO DISSENTERS RIGHTS?

A: Yes. Holders of Mallon common stock are entitled to dissenters rights in connection with the merger. See the detailed description beginning on page 38.

Q: WHAT ARE THE UNITED STATES FEDERAL INCOME TAX CONSEQUENCES OF THE MERGER TO BLACK HILLS AND MALLON COMMON SHAREHOLDERS?

A:

Edgar Filing: BLACK HILLS CORP /SD/ - Form 424B3

A summary of certain United States federal income tax consequences of the merger likely to be material to typical shareholders of Mallon and Black Hills is included in the section Certain Material United States Federal Income Tax Consequences of the Merger beginning on page 51.

Q: ARE THERE RISKS ASSOCIATED WITH THE MERGER THAT I SHOULD CONSIDER IN DECIDING HOW TO VOTE?

A: Yes. You should carefully read the detailed description of the risks associated with the merger and Black Hills beginning on page 11.

Table of Contents

Q: WHO CAN HELP ANSWER MY QUESTIONS?

A: If you have more questions about the merger you should contact:

Roy K. Ross
Mallon Resources Corporation
999 18th Street, Suite 1700
Denver, Colorado 80202
(303) 293-2333

Q: WHERE CAN I FIND MORE INFORMATION ABOUT THE COMPANIES?

A: Both of our companies file periodic reports with the SEC. You may read and copy this information at the SEC's public reference room at 450 Fifth Street, N.W., Washington D.C. 20549. Please call the SEC at 1-800-SEC-0330 for information about the reference room. This information is also available through the Internet at the Edgar database maintained by the SEC at <http://www.sec.gov> and, with respect to Black Hills, at the offices of the New York Stock Exchange.

Table of Contents

SUMMARY

This summary primarily highlights selected information from this document and does not contain all of the information that may be important to you. To understand the merger fully and for a more complete description of the terms of the merger, you should read carefully this entire document and the other available information referred to in "Where You Can Find More Information" on page 128. We have included page references parenthetically to direct you to more complete descriptions of the topics presented in this summary. The merger agreement is the legal document that governs the merger and is included as Annex A to this proxy statement/prospectus. If you are not familiar with certain industry terms used in this document, you should read "Glossary of Oil and Gas Terms" on pages 127-128.

The Companies (see pages 84-85 and pages 107-111)

Black Hills Corporation

P. O. Box 1400 (57709-1400)

625 Ninth Street

Rapid City, South Dakota 57701

605-721-1700

Black Hills is a growth oriented, diversified energy holding company operating principally in the United States. Its regulated and unregulated businesses have expanded significantly in recent years. Its integrated energy group produces and markets power and fuel. Black Hills produces and sells electricity in a number of markets, with a strong emphasis on the western United States. It also produces coal, natural gas and crude oil primarily in the Rocky Mountain region and markets fuel products nationwide. Its electric utility serves an average of 59,600 customers in South Dakota, Wyoming and Montana. Black Hills' communications group offers state-of-the-art broadband communication services to over 23,700 residential and business customers in Rapid City and the northern Black Hills region of South Dakota. Its predecessor company was incorporated and began providing electric utility service in 1941 and began selling and marketing various forms of energy on an unregulated basis in 1956.

Mallon Resources Corporation

999 18th Street, Suite 1700

Denver, Colorado 80202

303-293-2333

Mallon is an independent energy company engaged in oil and natural gas exploration, development and production. Mallon conducts its operations through its wholly-owned subsidiary, Mallon Oil Company. Mallon operates primarily in New Mexico, where nearly all of its estimated proved reserves are located in the San Juan Basin. Mallon has been active in the San Juan Basin since 1984.

The Merger

In the merger, Merger Sub will merge with and into Mallon and Mallon will continue as the surviving corporation and will be a wholly-owned subsidiary of Black Hills. Mallon's shareholders will receive .044 of a share of Black Hills common stock for each share of Mallon common stock they own and cash in lieu of any fractional shares of Black Hills common stock. As of the close of business on the effective date of the merger, all outstanding options to purchase Mallon common stock that are not exercised will be cancelled and terminated automatically. Each holder of an option who exercises such option concurrently with the consummation of the merger will receive .044 of a share of Black Hills common stock for each share of Mallon common stock received upon exercise of such option and cash in lieu of any fractional shares of Black Hills common stock.

Table of Contents

The Mallon Special Meeting (see pages 21-24)

A special meeting of Mallon shareholders will be held on March 10, 2003 at the offices of Holme Roberts & Owen LLP located at 1700 Lincoln Street, Suite 4100, Denver, Colorado, 80203, commencing at 9:00 a.m., local time. At the Mallon special meeting, holders of Mallon common stock will be asked to:

approve the merger agreement and the transactions contemplated thereby; and

act on other matters that may be submitted to a vote at the meeting.

Approval of the merger agreement is a prerequisite to completion of the merger.

Mallon's Recommendation to Shareholders (see pages 29-30)

The Mallon board of directors has unanimously approved the merger and the merger agreement and recommends that holders of Mallon common stock vote FOR approval of the merger agreement.

Opinion of Mallon's Financial Advisor (see pages 30-35)

In deciding to approve the merger agreement, the Mallon board of directors considered the opinion from its financial advisor. Mallon received a written opinion dated October 1, 2002 from its financial advisor, Waterous & Co. Limited, that as of that date, the exchange ratio was fair, from a financial point of view, to Mallon's shareholders. The full text of this opinion describes the basis and assumptions on which it was rendered and is attached hereto as Annex B. You are encouraged to read this opinion in its entirety.

Record Date and Voting Power

You can vote at the meeting of Mallon shareholders if you owned common stock at the close of business on January 23, 2003. You can cast one vote for each share of Mallon common stock you owned at such time.

Quorum and Vote Required

Edgar Filing: BLACK HILLS CORP /SD/ - Form 424B3

The transaction of business at the Mallon special meeting requires the presence in person or by proxy of the holders of one third of the shares of Mallon common stock entitled to vote. Approval of the merger and adoption of the merger agreement requires the affirmative vote of a majority of the outstanding shares of Mallon common stock. Abstentions and broker non-votes will count in determining whether a quorum is present at the special meeting. However, abstentions and broker non-votes will be the equivalent of a no vote on the proposal to approve the merger and adopt the merger agreement.

Credit Agreement (see pages 50 and 102-104)

At the time of executing the merger agreement, Aquila Energy Capital Corporation, or Aquila, assigned to Black Hills the credit agreement dated as of September 9, 1999, as amended, that Aquila had in place with Mallon and Mallon Oil. At that time, Mallon and Mallon Oil owed to Aquila approximately \$29.3 million in principal and accrued interest, which Black Hills paid to Aquila on October 1, 2002 in consideration for the assignment. Upon the assignment of the credit agreement to Black Hills, Mallon and Mallon Oil became indebted to Black Hills for that amount. In connection with the assignment of the credit agreement: (i) Aquila and Mallon released one another, and Black Hills and Aquila released one another, from all claims that may have arisen under the credit agreement, (ii) Aquila assigned to Mallon the 615,000 shares of Mallon common stock that Mallon had issued to Aquila in connection with the credit agreement and various amendments thereof (which shares were subsequently cancelled), (iii) Aquila and Mallon terminated their agency agreement, and (iv) Aquila Merchant Services, Inc., or AMS, Mallon and Mallon Oil terminated certain hedge agreements among them in exchange for a payment of approximately \$1.2 million to AMS.

Table of Contents

Immediately after the assignment of the credit agreement to Black Hills, Black Hills, Mallon and Mallon Oil entered into an amended and restated credit agreement dated as of October 1, 2002, by which the parties amended and restated the original credit agreement that had been assigned to Black Hills. Under the amended and restated credit agreement, Black Hills loaned to Mallon and Mallon Oil the following additional amounts subject to the following conditions: (i) approximately \$1.2 million to be paid to AMS as consideration to AMS for the termination of two ISDA Master Agreements and the hedge agreements related thereto and (ii) approximately \$1.4 million to settle a tax dispute with the Jicarilla Apache Indian Nation, or the Nation. Black Hills also agreed to loan at the request of Mallon and Mallon Oil, after Black Hills has received an applicable AFE acceptable to it in its reasonable discretion, amounts to cover costs incurred in drilling four wells on certain land of the Nation. The drilling advance is not to exceed the difference between \$2.5 million and the advance made to the Nation to settle the tax dispute.

On December 19, 2002, Mallon and Black Hills executed the first amendment to the amended and restated credit agreement to, among other things, provide for an additional advance to Mallon of \$753,266 consisting of: (i) amounts to be paid to certain Mallon employees in satisfaction of Mallon's obligations to such employees under Mallon's bonus pool and its severance and sale program; and (ii) amounts (not to exceed \$10,766) required to satisfy the Medicare tax related to the payments described in clause (i).

Voting Agreements (see pages 21-22)

Each of George O. Mallon, Jr., Roy K. Ross, Peter H. Blum, Christopher H. B. Mills, Roger R. Mitchell, Francis J. Reinhardt, Jr., J.O. Hambro Capital Management Limited and Hare & Co. A/C Bank of New York entered into a voting agreement with Black Hills and Merger Sub to vote all of the shares of Mallon stock owned, controlled or subsequently acquired by them in favor of the merger agreement.

The aggregate amount of shares of Mallon common stock subject to the Mallon voting agreements represents approximately 11.56% of the outstanding Mallon common stock as of the record date for the Mallon special meeting. The Mallon voting agreements terminate upon the earlier to occur of the written mutual consent of the parties, the effective time of the merger, or the termination of the merger agreement in accordance with its terms.

Accounting Treatment (see page 36)

The merger will be accounted for as a purchase transaction for financial accounting purposes. Upon completion of the merger, Black Hills will record the assets acquired and the liabilities assumed from Mallon based upon their estimated fair market value. Black Hills will account for its oil and natural gas operations using the full cost method of accounting.

Certain Material United States Federal Income Tax Consequences (see pages 51-57)

We expect that, for United States federal income tax purposes, the merger will be classified as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended, or the Code. Assuming that the merger meets this classification: (1) Mallon shareholders who are United States persons (as defined in Section 7701(a)(30) of the Code) generally will not recognize any gain or loss as a result of the exchange of shares of Mallon common stock for shares of Black Hills common stock in the merger; (2) Mallon shareholders who

Edgar Filing: BLACK HILLS CORP /SD/ - Form 424B3

are not United States persons (as defined in Section 7701(a)(30) of the Code) may recognize gain or loss as a result of the exchange of shares of Mallon common stock for shares of Black Hill common stock in the merger; (3) Mallon shareholders that exercise compensatory options to purchase Mallon common shares in connection with the merger will be required to recognize ordinary income with respect to such exercise; and (4) Mallon shareholders that successfully exercise dissenters' rights in connection with the merger generally will be required to recognize gain or loss.

Table of Contents

It is a condition to the merger that Black Hills and Mallon each receive an opinion from tax counsel to the effect that the merger will qualify as a reorganization within the meaning of Section 368(a) of the Code. These opinions will be based on customary assumptions and customary representations made by, among others, Black Hills and Mallon. These opinions will represent the legal judgment of tax counsel to Black Hills and Mallon and will neither bind the Internal Revenue Service, or the IRS, nor preclude the IRS or the courts from adopting a contrary position. Neither Black Hills nor Mallon intends to obtain a ruling from the IRS regarding the tax consequences of the merger.

TAX MATTERS ARE VERY COMPLICATED AND THE TAX CONSEQUENCES OF THE MERGER TO YOU WILL DEPEND ON THE FACTS OF YOUR OWN SITUATION. MALLON SHAREHOLDERS ARE STRONGLY URGED TO CONSULT THEIR TAX ADVISORS AS TO THE SPECIFIC TAX CONSEQUENCES TO THEM OF THE MERGER, INCLUDING THE APPLICABILITY AND EFFECT OF UNITED STATES FEDERAL, STATE, LOCAL AND FOREIGN INCOME AND OTHER TAX LAWS IN THEIR PARTICULAR CIRCUMSTANCES.

Board of Directors and Management of the Surviving Corporation Following the Merger

Upon completion of the merger, Merger Sub will merge with and into Mallon and Mallon will continue as the surviving corporation and will be a wholly owned subsidiary of Black Hills. The directors and officers of Merger Sub immediately prior to the merger will be the directors and officers of the surviving corporation. The articles of incorporation and bylaws of Merger Sub will be the articles of incorporation and bylaws of the surviving corporation. The surviving corporation will change its name to MRC Resources Corporation.

Regulatory Matters (see page 36)

To our knowledge, the merger does not require the approval of any U.S. federal or state agency, other than the effectiveness of the registration statement of which this proxy statement/prospectus is a part and compliance with the Colorado Business Corporation Act.

Comparative Per Share Market Price Information

Shares of Black Hills common stock are listed on the NYSE and shares of Mallon common stock are traded on the OTC Bulletin Board. The following table sets forth the closing prices per share of Black Hills common stock and Mallon common stock and the equivalent pro forma per share price for Mallon common stock as of October 1, 2002, the last trading day prior to the first public announcement of the execution of the merger agreement:

Black Hills	\$	26.57
Mallon	\$.43
Mallon equivalent price	\$	1.17

Dissenters Rights for Shareholders (see pages 38-41)

Under Colorado law, holders of Mallon common stock are entitled to dissent and obtain payment of the fair value of their shares in connection with the merger. Shareholders who dissent from the merger may require Mallon to purchase their dissenting shares for cash at a price equal to the fair value of the shares. If the merger is approved, shareholders of Mallon who are then entitled to demand payment for their shares will be sent separately a notice of dissenters' rights and instructions regarding how to exercise such rights.

Table of Contents

Conditions to the Merger (see pages 47-48)

We will complete the merger only if a number of conditions to the merger are satisfied or waived. In addition to customary conditions relating to the accuracy of representations and warranties and Black Hills and Mallon's compliance with the merger agreement, these conditions include the following:

the merger and the merger agreement shall have been approved and adopted by the required vote of Mallon shareholders;

the waiting period applicable to the completion of the merger under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, if any, shall be expired or terminated;

other than the articles of merger, all authorizations or orders or registrations, declarations or filings with, or expirations of waiting periods imposed by, any governmental authority shall have been filed, been obtained or occurred;

the registration statement, of which this proxy statement/prospectus is a part, shall have been declared effective under the Securities Act and shall not be the subject of any stop order or proceedings seeking a stop order;

no governmental authority or court of competent jurisdiction shall have enacted, issued, promulgated, enforced or entered any law, regulation or order which is in effect and which has the effect of making the merger illegal or otherwise prohibiting completion of the merger;

all of the shares of Black Hills common stock to be issued in connection with the merger shall have been approved for listing on the NYSE, subject to official notice of issuance;

the Mallon employee royalty bonus pool shall have been terminated;

Black Hills and Mallon shall have received an opinion from their respective counsel to the effect that the merger will be treated for United States federal income tax purposes as a reorganization;

Black Hills shall have received a comfort letter from Mallon's independent auditors;

holders of not more than 5% of the shares of Mallon common stock entitled to vote on the merger shall have dissented to the merger;

Mallon's officers and directors shall have resigned their positions; and

Mallon shall have taken all such actions as have been reasonably requested by Black Hills to satisfy any outstanding liens and obligations to the Nation pursuant to the notice of lien for possessory interest taxes for the year 2002.

Termination of the Merger Agreement (see pages 48-49)

The merger agreement may be terminated at any time prior to the effective time of the merger, whether before or after approval by the common shareholders of Mallon:

by the mutual written consent of Black Hills and Mallon;

by either Black Hills or Mallon in certain circumstances if the effective time of the merger shall not have occurred by April 30, 2003;

by either Black Hills or Mallon if there has been a breach of any representation, warranty, covenant or agreement on the part of the other party set forth in the merger agreement, which breach would, if uncured as of the effective time, cause certain closing conditions not to be satisfied and shall not have been cured within 20 business days following the breaching party's receipt of written notice of such breach from the other party;

Table of Contents

by either Black Hills or Mallon if a court of competent jurisdiction or other governmental authority shall have issued a nonappealable final order or taken any other nonappealable final action, in each case having the effect of permanently enjoining or otherwise permanently prohibiting the merger;

by Black Hills if (i) the board of directors of Mallon has withdrawn or modified, in a manner adverse to Black Hills, its recommendation of the merger agreement or the merger; or (ii) the board of directors of Mallon has recommended to the shareholders of Mallon a superior proposal;

by Mallon in connection with the execution of a definitive agreement providing for a superior proposal in accordance with requirements of the merger agreement, provided that Mallon has complied with all applicable provisions of the merger agreement and, concurrently with such termination, Mallon pays the termination fee required by the merger agreement;

by either Black Hills or Mallon if any of the conditions to such party's obligation to consummate the transactions contemplated by the merger agreement will have become impossible to satisfy; or

by either Black Hills or Mallon if at the Mallon special meeting (including any adjournment or postponement thereof) the requisite shareholder approval is not obtained.

Payments Upon Termination (see page 49)

Mallon will pay Black Hills a termination fee of \$1,500,000 if the merger agreement is terminated in the following circumstances:

by Black Hills if (i) the board of directors of Mallon has withdrawn or modified, in a manner adverse to Black Hills, its recommendation of the merger agreement or the merger; or (ii) the board of directors of Mallon has recommended to the shareholders of Mallon a superior proposal; or

by Mallon in connection with the execution of a definitive agreement providing for a superior proposal as described in the merger agreement.

Interests of Certain Persons in the Merger That Differ from Your Interests (see pages 36-38)

Some Mallon directors and officers have interests in the merger that differ from, or are in addition to, your interest as a shareholder of Mallon. Some Mallon officers and directors hold stock options under which the exercise price will be reduced to \$0.01 per share as a result of the merger. Some Mallon officers and directors will receive employment severance payments made under the Mallon Severance and Sale Program or under their employment contracts with Mallon. Some Mallon officers and directors will receive payments made in connection with the termination of the Mallon employee royalty bonus pool as a result of the merger. Two of Mallon's officers and directors have entered into consulting agreements with Black Hills, which will become effective upon consummation of the merger. Three Mallon officers and directors own interests in Deep Gas, LLC, which has entered into a farmout agreement with Black Hills. Mallon's board of directors was aware of these interests and considered them in approving the merger.

Table of Contents

No Solicitation (see pages 45-46)

Mallon agreed, subject to certain exceptions, not to initiate or engage in any discussions with another party regarding a business combination while the merger is pending. However, prior to obtaining the requisite shareholder approval:

Mallon may provide information to, and otherwise engage in discussions with, another person in response to an unsolicited acquisition proposal or an offer if Mallon's board of directors determines in good faith that such action is legally advisable for the board to comply with its fiduciary duties, the offer or proposal is not subject to any financing contingencies or is, in the good faith judgment of Mallon's board of directors, reasonably capable of being financed, and Mallon's board of directors determines in good faith after consultation with its independent counsel and financial advisor that such offer or proposal constitutes or may reasonably be expected to result in a superior proposal. Mallon must obtain a confidentiality agreement from the interested third party prior to providing information in response to a proposal. Mallon must promptly notify Black Hills of such proposal.

The Mallon board of directors may approve or recommend an acquisition proposal but only if (i) a period of 24 hours has elapsed following the delivery of the required notice to Black Hills and (ii) the acquisition proposal is deemed to be a superior proposal by the affirmative vote of a majority of the Mallon board of directors, taking into account any adjustments to the terms of the merger proposed by Black Hills.

Mallon may enter into a definitive agreement with a third person regarding a superior proposal, provided that Mallon has complied with the provisions set forth above and has paid the termination fee.

Material Differences in the Rights of Shareholders (see pages 120-126)

As a result of the merger, Merger Sub will merge with and into Mallon and Mallon will continue as the surviving corporation, which will be a wholly-owned subsidiary of Black Hills. Mallon shareholders will become shareholders of Black Hills. Mallon is a Colorado corporation and Black Hills is a South Dakota corporation. The rights of Mallon shareholders are currently governed by the Colorado Business Corporations Act, or the CBCA, and Mallon's articles of incorporation and bylaws. As shareholders of Black Hills, their rights will be governed by the South Dakota Business Corporation Act, or the SDCA, and by Black Hills' articles of incorporation and bylaws. South Dakota law and the articles of incorporation and bylaws of Black Hills differ in some material respects from Colorado law and the articles of incorporation and bylaws of Mallon.

Table of Contents**Summary Selected Historical Consolidated Financial Data**

The following tables set forth summary selected historical consolidated financial data for Black Hills and Mallon for the periods presented. The following data has been derived from, and should be read in conjunction with, the consolidated financial statements and other supplemental financial information incorporated by reference in this document.

Black Hills

	Nine months ended September 30		Years ended December 31				
	2002	2001	2001	2000	1999	1998	1997
	(in thousands except per share data)						
Total assets	\$ 1,903,922	\$ 1,646,768	\$ 1,658,767	\$ 1,320,320	\$ 668,492	\$ 559,417	\$ 508,741
Property and investments:							
Total property and investments	\$ 1,829,247	\$ 1,499,231	\$ 1,564,664	\$ 1,072,013	\$ 699,928	\$ 619,549	\$ 598,306
Accumulated depreciation and depletion	398,137	312,109	328,325	277,797	245,992	229,942	197,179
Capital expenditures	201,792	502,601	594,142	173,517*	152,948	27,225	28,319
Capitalization:							
Long-term debt	\$ 561,399	\$ 434,993	\$ 415,798	\$ 307,092	\$ 160,700	\$ 162,030	\$ 163,360
Preferred stock equity	5,549	5,549	5,549	4,000			
Common stock equity	529,278	500,458	509,615	278,346	216,606	206,666	205,403
Total capitalization	\$ 1,096,226	\$ 941,000	\$ 930,962	\$ 589,438	\$ 377,306	\$ 368,696	\$ 368,763
Capitalization ratios:							
Long-term debt	51.2%	46.2%	44.7%	52.1%	42.6%	43.9%	44.3%
Preferred stock equity	0.5	0.6	0.6	0.7			
Common stock equity	48.3	53.2	54.7	47.2	57.4	56.1	55.7
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Total operating revenues	\$ 312,215	\$ 365,800	\$ 461,938	\$ 292,142	\$ 185,287	\$ 180,674	\$ 171,936
Income from continuing operations	\$ 47,063	\$ 82,969	\$ 87,584	\$ 52,812	\$ 37,738	\$ 25,808**	\$ 32,359
Dividends paid on common	\$ 23,326	\$ 20,752	\$ 28,517	\$ 23,527	\$ 22,602	\$ 21,737	\$ 20,540

Edgar Filing: BLACK HILLS CORP /SD/ - Form 424B3

stock									
Common stock data:									
Shares outstanding, basic	26,778	24,988	25,374	22,118	21,445	21,623	21,692		
Shares outstanding, diluted	27,052	25,404	25,771	22,281	21,482	21,665	21,706		
Shares outstanding, end of period	26,887	26,459	26,652	22,921	21,372	21,578	21,705		
Basic earnings per share									
Continuing operations	\$ 1.75	\$ 3.30	\$ 3.43	\$ 2.39	\$ 1.76	\$ 1.19	\$ 1.49		
Diluted earnings per share									
Continuing operations	\$ 1.74	\$ 3.27	\$ 3.40	\$ 2.37	\$ 1.76	\$ 1.19	\$ 1.49		
Dividends paid per share	\$ 0.87	\$ 0.84	\$ 1.12	\$ 1.08	\$ 1.04	\$ 1.00	\$ 0.95		

* Excludes the non-cash acquisition of Indeck Capital, Inc.

** Includes impact of \$8.8 million after tax, or 41 cents per average share, write-down of certain oil and gas properties.

Table of Contents*Mallon*

	Nine months ended September 30		Years ended December 31				
	2002	2001	2001	2000	1999	1998	1997
	(in thousands except per share data)						
Total assets	\$ 33,559	\$ 45,777	\$ 37,971	\$ 91,710	\$ 65,426	\$ 58,452	\$ 51,426
Property and equipment:							
Total property	\$ 105,227	\$ 102,151	\$ 103,666	\$ 130,644	\$ 112,740	\$ 102,888	\$ 66,573
Accumulated depreciation and depletion	74,818	69,280	70,414	59,057	53,428	48,748	26,393
Capital expenditures	1,628	15,309	16,785	17,937	9,852	36,354	20,169
Capitalization:							
Long-term debt	\$ 3,724	28,130	\$ 28,970	\$ 40,180	\$ 34,874	\$ 27,183	\$ 1
Series B stock*				798	1,341	1,329	1,317
Mandatorily redeemable common stock	5,362	4,694	4,853	4,248	3,450		
Total shareholders equity (deficit)	(10,713)	4,872	(599)	28,536	19,490	22,164	40,196
Total capitalization	\$ (1,627)	\$ 37,696	\$ 33,224	\$ 73,762	\$ 59,155	\$ 50,676	\$ 41,514
Capitalization ratios:							
Long-term debt	328.9%	74.6%	87.2%	54.4%	59.0%	53.7%	0.0%
Series B stock*	0.0	0.0	0.0	1.1	2.2	2.6	3.2
Mandatorily redeemable common stock	429.6	12.5	14.6	5.8	5.9	0.0	0.0
Common stock equity	(658.5)	12.9	(1.8)	38.7	32.9	43.7	96.8
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Total revenues	\$ 8,001	\$ 16,893	\$ 19,795	\$ 17,307	\$ 13,298	\$ 13,178	\$ 8,651
Loss from continuing operations	\$ (8,523)	\$ (25,851)	\$ (31,365)	\$ (6,531)	\$ (2,777)	\$ (18,186)	\$ (3,704)
Common stock data:							
Shares outstanding, basic**	10,940	10,668	10,686	8,525	7,283	7,015	4,682
Shares outstanding, end of period	11,395	10,725	10,772	10,605	7,833	7,021	6,995
Basic loss per share Continuing operations	\$ (0.83)	\$ (2.47)	\$ (2.99)	\$ (0.83)	\$ (0.41)	\$ (2.61)	\$ (0.92)

* Series B Mandatorily Redeemable Convertible Preferred Stock.

**

Edgar Filing: BLACK HILLS CORP /SD/ - Form 424B3

Because of Mallon's loss position for all years presented, all common stock equivalents are anti-dilutive; therefore, only basic shares and loss per share data are presented.

Table of Contents

Mallon Estimated Proved Oil and Gas Reserves

Set forth below is a summary of the net quantities of Mallon's proved crude oil and natural gas reserves estimated by independent consulting petroleum engineering firms for the year ended December 31, 2001. All of Mallon's reserves are located in the continental United States.

	2001	
	Oil	Gas
	(in thousands of barrels of oil and MMcf of gas)	
Estimated proved developed and undeveloped reserves:		
Balance at beginning of year	2,138	110,471
Production	(105)	(5,954)