

CALLON PETROLEUM CO
Form DEF 14A
March 29, 2017
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Rule 14a-101

Schedule 14A Information

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

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

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

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

Callon Petroleum Company

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

No fee required.

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

- (1) Title of each class of securities to which transaction applies:
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- (1) Amount Previously Paid:
 - (2) Form, Schedule or Registration Statement No.:
 - (3) Filing Party:
 - (4) Date Filed:
-

CALLON PETROLEUM COMPANY

200 NORTH CANAL STREET

NATCHEZ, MISSISSIPPI 39120

NOTICE OF THE ANNUAL MEETING OF STOCKHOLDERS

Dear fellow Stockholders:

Notice is hereby given and you are cordially invited to attend the 2017 Annual Meeting of Stockholders (the “Annual Meeting”) of Callon Petroleum Company (“Callon,” the “Company,” “us,” “we,” “our” or like terms), a Delaware corporation, which will be held in Natchez, Mississippi, on Thursday, May 11, 2017, at 9:00 a.m. Central Daylight Time (“CDT”), in the Grand Ballroom of the Natchez Grand Hotel, 111 Broadway Street, Natchez, Mississippi 39120, for the following purposes:

1. To elect three Class II Directors to serve on our board of directors, each for three years;
2. To approve, on a non-binding advisory basis, the compensation of our named executive officers (“NEOs”);
3. To approve, on a non-binding advisory basis, the frequency of our future advisory votes on the compensation of our NEOs;
4. To ratify the appointment of Grant Thornton LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2017; and
5. To transact such other business as may properly come before the Annual Meeting or any adjournment(s) thereof.

The Notice of Meeting and Proxy Statement herein provide further information on the Company’s performance and corporate governance and describe the matters to be presented at the Annual Meeting. Only holders of record of our common stock at the close of business on March 17, 2017 (the “Record Date”), are entitled to notice of and to attend the Annual Meeting and to vote on the above listed matters. Beginning on or about March 29, 2017, we mailed a Notice Regarding the Availability of Proxy Materials (the “Notice”) to our stockholders. The Notice contained instructions on how to access the Proxy Statement and related materials online and how to vote your shares. Instructions for requesting a paper copy of the proxy materials are contained in the Notice. A list of stockholders entitled to vote at the Annual Meeting will be available at our office at 200 North Canal Street, Natchez, MS 39120 during normal business hours for a period of ten days prior to the meeting and will also be available for inspection at the Annual Meeting.

Whether or not you plan to attend the meeting, please vote electronically via the Internet or by telephone, or please complete, sign, date and return the accompanying proxy card in the enclosed postage-paid envelope as soon as possible. See “Annual Meeting Information” towards the end of this Proxy Statement for more details.

We thank you for your continued support and look forward to seeing you at the Annual Meeting.

By Order of the Board of Directors

Natchez, Mississippi By: /s/ B.F. Weatherly
March 29, 2017 B.F. Weatherly
 Corporate Secretary

YOUR VOTE IS IMPORTANT!

Important Notice Regarding the Availability of Proxy Materials for the

Annual Meeting of Stockholders to be held on May 11, 2017:

This Proxy Statement and our 2016 Annual Report on Form 10-K are available at

<https://www.iproxydirect.com/CPE> and www.callon.com

If you have any questions or need assistance voting your shares, please call our proxy solicitor:

Morrow Sodali LLC

470 West Avenue - 3rd Floor

Stamford, CT 06902

Banks and Brokerage Firms, please call (203) 658-9400.

Stockholders, please call toll free (877) 787-9239.

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PROXY STATEMENT SUMMARY

This summary is included to provide an introduction and overview of the information contained in the Proxy Statement. This is a summary only and highlights information contained elsewhere in this Proxy Statement. This summary does not contain all of the information you should consider and is not a form for voting. You should read the entire Proxy Statement carefully before voting. Additional information regarding our 2016 performance can be found in our Annual Report on Form 10-K.

2017 ANNUAL MEETING OF STOCKHOLDERS

DATE AND TIME: May 11, 2017, at 9:00 a.m., Central Daylight Time
 LOCATION: Natchez Grand Hotel, 111 Broadway Street, Natchez, Mississippi 39120
 RECORD DATE: March 17, 2017
 PROXY VOTING: Stockholders as of the close of business on the Record Date are entitled to vote. Each share of Common Stock is entitled to one vote at the Annual Meeting

PROPOSALS AND BOARD RECOMMENDATION

Proposal	Board Recommendation
NO. 1: Election of Three Director Nominees to Serve for a Three-Year Term	FOR each nominee
NO. 2: Advisory Vote to Approve Named Executive Officer Compensation	FOR
NO. 3: Advisory Vote on Frequency of Advisory Votes on Executive Compensation	ONE YEAR
NO. 4: Ratification of the Appointment of Grant Thornton, LLP as the Company's Independent Registered Public Accounting Firm for 2017	FOR

2016 PERFORMANCE HIGHLIGHTS

2016 was a transformative year for the Company. We moderated our level of drilling activity and high-graded our investments to the highest returning projects to preserve our financial flexibility, while also maintaining operational momentum. Our ability to pivot our operations and maintain a solid financial position allowed us to selectively pursue attractive acquisition opportunities, ultimately putting us in the position to significantly grow our net surface acreage position. Highlights of our 2016 operating and financial performance include:

- Completed multiple strategic acquisitions, growing our net surface acreage position by approximately 122%, creating two new core operating areas and increasing our total acreage footprint by 56,975 gross (38,583 net) acres. These transactions included 29,423 gross (21,895 net) acres in our legacy Midland Basin area and 27,552 gross (16,688 net) acres in the Delaware Basin, representing our initial entry into that Permian sub-basin.
- Significant year-over-year production growth, increasing total production 59% from 3,508 MBOE in 2015 to 5,573 MBOE in 2016, and increasing daily production 59% to 15,227 BOE/d in 2016 (77% oil) vs. 9,610 BOE/d in 2015.
- Significant growth in proved reserves, increasing reserves by 69% to 91.6 MMBOE in 2016 (78% oil) vs. 54.3 MMBOE at year-end 2015, including reserve extensions and discoveries replacement in 2016 of 17.3 MMBOE.
- Drilled and completed our 100th horizontal well in the Midland Basin.
- Continued our strong safety performance in 2016, achieving an exceptional OSHA Recordable Incident Rate (“ORIR”) in the field of 0.58, below our average ORIRs reported for the past three years.
- Increased PUDs by 88% from 25.7 MMBOE in 2015 to 48.3 MMBOE in 2016.
- Increased total revenue by 46%, or \$63.4 million, from \$137.5 million in 2015 to \$200.9 million in 2016.
- Further strengthened our balance sheet and financial flexibility through the completion of four strategic equity offerings for \$1.358 million in net proceeds, funding acquisition growth, increasing liquidity and reducing leverage.

- Achieved an indication to increase our Credit Facility borrowing base from \$385 million to \$500 million, electing to maintain at \$385 million.
- Added significant new net resource potential and more than 950 delineated horizontal drilling locations in the Permian and Delaware Basins, bringing our total inventory of potential locations targeting currently producing zones to over 1,550.
- Continued to enhance operating efficiencies by driving sustainable cost reductions across all areas, reducing LOE by 11% to \$6.88/BOE vs. \$7.71/BOE in 2015 and reducing G&A by 42% to \$4.72/BOE vs. \$8.08/BOE in 2015.

EXECUTIVE COMPENSATION HIGHLIGHTS

Our compensation policies and practices promote a performance-based culture and align our executives' interests with those of our stockholders through a strong emphasis on at-risk compensation tied to the achievement of performance objectives and the creation of stockholder value. In this Proxy Statement, you will find a discussion of our pay-for-performance compensation program structured to align executive pay with Company performance, stockholder expectations and prevailing market practices. Key actions in 2016 included the following:

- As a result of the achievements detailed above and in the Compensation Discussion and Analysis ("CD&A") section, the Compensation Committee awarded bonuses above target for our NEOs for 2016 performance;
- In May 2016, the Compensation Committee granted long-term incentives to our NEOs, 60% of which were tied to our "Total Stockholder Return," or "TSR";
- The Compensation Committee certified the results of the 2014 grants of TSR phantom shares, which measured our TSR against certain of our peers for the 2014-2016 time period. We ranked first out of 10 peers, resulting in 200% of the targeted number of phantom shares vesting; and
- The Compensation Committee approved the first increase in our Chief Executive Officer's ("CEO's") base salary in four years and increased the salaries of three NEOs and granted restricted stock unit awards commensurate with their promotions.

APPROXIMATELY 97% OF THE SHARES VOTED AT OUR 2016 ANNUAL MEETING APPROVED OUR 2015 EXECUTIVE COMPENSATION BY SUPPORTING OUR "SAY-ON-PAY" PROPOSAL.

KEY ELEMENTS OF OUR EXECUTIVE COMPENSATION

- "Pay-for-Performance" philosophy linking compensation directly to performance, with a significant portion of total annual compensation placed "at risk"
 - Competitive base salary
- Annual cash bonus incentive tied to the achievement of specified Company performance goals
- Long-term equity or equity-based incentive awards and performance share program based on relative TSR
- Do not set performance metrics that would encourage excessive risk-taking
- Aligning internal pay parity and consistency while generally considering peer compensation metrics for individual roles and executive officers

- Do not provide significant perquisites to our executive officers, but provide other benefit plans and programs, such as retirement, health benefits and severance protection

GOVERNANCE HIGHLIGHTS

We are committed to effective and sustainable corporate governance, which we believe strengthens Board and management accountability, promotes the long-term interests of our stockholders and helps build public trust in our Company. We continually assess our core values and governance principles to ensure that we operate our business responsibly, ethically and in a manner aligned with the interests of our stockholders. Highlights of our commitment to strong corporate governance include the following:

- Board meetings in 2016: 9
- Committee meetings: Audit – 5; Compensation – 4; Nominating and Corporate Governance – 2; Strategic Planning and Reserves – 3
- 7 out of 8 Directors are independent and committees are comprised entirely of independent Directors
- Board recently refreshed with three new independent Directors (two in 2014 and one in 2015)
- Board includes a balance of experience, tenure and qualifications in areas important to our business

- Overboarding policy in place for Directors
- Regular executive sessions of independent Directors
- Conduct annual Board and committee self-evaluations
- Annual Say-On-Pay voting
- Majority vote standard for uncontested Director elections
- Classified Board of Directors with staggered terms to align with the long-term nature of business
- Significant Director and executive officer stock ownership guidelines
- Regular succession planning
- Independent executive compensation consultant reporting to the Compensation Committee
- No employment agreements with NEOs
- No excise or other tax gross-ups in our compensation plans
- Double-trigger change-in-control provisions in our change-in-control plan with fixed term
- No Poison Pill (Stockholder Rights Plan)
- Anti-hedging and pledging policies
- Active stockholder engagement practices

PROPOSAL 1

ELECTION OF DIRECTORS

The Board currently consists of eight directors, and our Certificate of Incorporation provides for a classified Board. The current Board is divided into three classes designated as Class I, Class II and Class III, with staggered, three-year terms. The following table provides information with respect to the nominees and all current directors whose terms will continue after the 2017 Annual Meeting until the election and qualification of their respective successors or until their earlier death, retirement, resignation or removal.

Name	Age	Director	
		Since	Position (Committee Memberships)
Class I Directors (term expires in 2019)			
Larry D. McVay	69	2007	Director (a,b,c,d)
John C. Wallace	78	1994	Director (a,b,c,d)
Michael L. Finch	61	2015	Director (c)
Class II Directors (term expires in 2017)			
Anthony J. Nocchiero	65	2011	Director, Nominee (a,b,c,d)
Matthew R. Bob	59	2014	Director, Nominee (c,d)
James M. Trimble	68	2014	Director, Nominee (b,d)
Class III Directors (term expires in 2018)			
Fred L. Callon	67	1994	Director, Chairman of the Board and CEO
L. Richard Flury	69	2004	Director (a,b,c,d)

- (a) Audit Committee
- (b) Compensation Committee
- (c) Nominating and Corporate Governance Committee
- (d) Strategic Planning and Reserves Committee

Based on the recommendations from the Nominating and Corporate Governance Committee, our Board has nominated three continuing Class II Directors, Anthony J. Nocchiero, Matthew R. Bob and James M. Trimble, to stand for re-election to the Board for a three-year term expiring at our 2020 Annual Meeting, or, in each case, until the election and qualification of their respective successors or until their earlier death, retirement, resignation or removal.

Director Nominees

The biographies below reflect the particular experience, qualifications, attributes and skills that led the Board to conclude that each nominee should serve on the Board.

Anthony J. Nocchiero was first elected to the Board in March 2011. Since 2010, Mr. Nocchiero has been retired. From April 2007 until September 2010, Mr. Nocchiero held the position of senior vice president and Chief Financial Officer for CF Industries, Inc. From July 2005 until March 2007, he was the Vice President and CFO for Merisant Worldwide, Inc. From January 2002 to July 2005, Mr. Nocchiero was self-employed as an advisor and private consultant. From January 1999 until December 2001, Mr. Nocchiero served as Vice President and CFO of BP Chemicals, the global petrochemical business of BP p.l.c. Prior to that, he spent twenty-four years with Amoco Corporation in various financial and management positions, including service as Amoco's Vice President and controller from April 1998 to January 1999. Mr. Nocchiero holds a B.S. degree in chemical engineering from Washington University in St. Louis and an M.B.A. degree from the Kellogg Graduate School of Management at Northwestern University. Mr. Nocchiero has previous experience serving as a member of the board of directors of various public and private companies, including Terra Nitrogen LP, Keytrade AG, Vysis Corporation and the Chicago Chamber of Commerce. He brings to Callon a broad knowledge of the oil and gas industry, as well as extensive experience with finance and M&A related transactions, which we believe benefits the Board. In addition, Mr. Nocchiero has the accounting or financial management expertise to be considered a "financial expert" as defined and required by New York Stock Exchange ("NYSE") rules and the Securities Exchange Act of 1934, as amended (the "Exchange Act").

Matthew R. Bob was elected to the Board at the 2014 Annual Meeting. Mr. Bob has been the founder and Managing Member of MB Exploration and affiliated companies since 1994. MB Exploration is engaged in the oil and gas exploration, development and consulting business. Effective August 1, 2014, Mr. Bob was appointed

President of Eagle Oil and Gas. Mr. Bob also served as President of Hall Phoenix Energy LLC, a privately held oil and gas company, from 2009 to 2011. Prior to forming MB Exploration in 1994, Mr. Bob was Chief Geophysicist at Pitts Oil Company. He began his career at Union Oil Company of California where he held various geological positions. He is a member of the American Association of Petroleum Geologists, the Society of Exploration Geophysicists and the Dallas Petroleum Club, and is a registered Geoscientist in the States of Texas, Mississippi and Louisiana. He holds a B.A. in Geology from St. Louis University, an M.S. in Geology from Memphis University, and is a graduate of Harvard University's Executive Management Program. We believe Mr. Bob's extensive experience in the oil and gas business and his technical expertise are a benefit to the Board of Directors.

James M. Trimble was elected to our Board at the 2014 Annual Meeting. Mr. Trimble served as CEO and President of PDC Energy, Inc. from 2011 until his resignation effective January 1, 2015, and has served on the board of PDC since 2009. Mr. Trimble was an officer of PDC in September 2013 when twelve partnerships for which PDC was the managing general partner each filed for bankruptcy in the federal bankruptcy court, Northern District of Texas, Dallas Division. From 2005 until 2010, Mr. Trimble was Managing Director of Grand Gulf Energy, Limited, a public company traded on the Australian Securities Exchange, and President and CEO of Grand Gulf's U.S. subsidiary Grand Gulf Energy Company LLC, an exploration and development company focused primarily on drilling in mature basins in Texas, Louisiana and Oklahoma. From 2000 through 2004, Mr. Trimble was CEO of Elysium Energy and then TexCal Energy LLC, both of which were privately held oil and gas companies that he managed through workouts. Prior to this, he was Senior Vice President of Exploration and Production for Cabot Oil and Gas, a publicly traded independent energy company. Mr. Trimble was hired in July 2002 as CEO of TexCal (formerly Tri-Union Development) to manage a distressed oil and gas company through bankruptcy, and that company filed for Chapter 11 reorganization within 45 days after the date that Mr. Trimble accepted such employment. He successfully managed the company through its exit from bankruptcy in 2004. Mr. Trimble currently serves on the Board of Directors of Crestone Peak Resources LLC (a private company operation in the DJ Basin of Colorado) since December 2016 and Stone Energy Resources (NYSE:SGY) since March 2017. Mr. Trimble previously served on the boards of PDC Energy from 2009 until June 2016, C&J Energy Services LTD from March of 2016 to January 2017 to assist with its Chapter 11 process, Seisgen Exploration LLC, a small private exploration and production company operating in southern Texas, from 2008 to 2015, Grand Gulf Energy LTD from 2009 to 2012, and Blue Dolphin Energy, an independent oil and gas company with operations in the Gulf of Mexico from November 2002 until May 2006. Mr. Trimble is a Registered Professional Engineer who brings many years of oil and gas industry executive management experience to the Board, including experience as a CEO, and knowledge of current developments and best practices in the industry.

Majority Vote Standard

In 2015, the Board amended our Corporate Governance Guidelines to adopt a majority voting policy in uncontested director elections. The Company believes that this majority vote standard ensures accountability and the opportunity for a positive mandate from the Company's stockholders. At any stockholder meeting for the election of directors at which a quorum is present, any nominee for director who receives a greater number of votes "withheld" from his or her election than votes "for" such election ("Majority Withheld Vote") shall tender his or her resignation for consideration by the Nominating and Corporate Governance Committee following certification of the stockholder vote, unless the number of nominees exceeds the number of directors to be elected as of the record date for such meeting, in which event the directors shall be elected by a plurality of the votes cast. Such resignation will only be effective upon Board acceptance of such resignation after receiving the recommendation of the Nominating and Corporate Governance Committee.

If a director nominee receives a Majority Withheld Vote, then, promptly following certification of the election results, the Nominating and Corporate Governance Committee will consider any factors it deems relevant to the best interests of the Company and our stockholders in determining whether to accept the director's resignation and recommend to the Board the action to be taken with respect to the tendered resignation. Within 120 days following certification of the stockholder vote, the Board shall consider the recommendation and make a determination as to whether to accept or reject such director's resignation and shall notify the director concerned of its decision. We will also promptly publicly disclose the Board's decision and process in a periodic or current report filed with or furnished to the SEC.

If you hold your shares through a broker and you do not instruct the broker how to vote, your broker will not have the authority to vote your shares. Abstentions and broker non-votes will each be counted as present for purposes of determining the presence of a quorum, but will have no effect upon the outcome of the vote. All shares of common stock represented by the proxies will be voted "FOR" the election of the above director nominees, except where authority to vote in the election of directors has been withheld. Should the nominees become unable or unwilling to serve as a director at the time of the 2017 Annual Meeting, the person or persons exercising the

proxies will vote for the election of substitute nominees designated by the Board, or the Board may choose to reduce the number of members of the Board to be elected at the 2017 Annual Meeting in order to eliminate the vacancy. Your proxy cannot be otherwise voted for a person who is not named in this Proxy as a candidate for director or for a greater number of persons than the number of director nominees named. The Board has no reason to believe that the nominees will be unable or unwilling to serve if elected.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE "FOR" THE THREE NOMINEES.

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Directors Continuing in Office

Biographical information for our other directors continuing in office is as follows:

Fred L. Callon has been Chairman of our Board since May 2004 and President and CEO since January 1997. In August 2016, Joseph C. Gatto, Jr. was promoted to President, CFO and Treasurer, with Mr. Callon continuing as Chairman of the Board and CEO. Prior to January 1997, he was our President and Chief Operating Officer (“COO”), positions he had held with us or our predecessors since 1984. He has been employed by us or our predecessors since 1976. Mr. Callon graduated from Millsaps College in 1972 and received his M.B.A. degree from the Wharton School of Finance in 1974. Following graduation and until his employment by Callon Petroleum Operating Company, he was employed by Peat, Marwick, Mitchell & Co., certified public accountants. He is son of the late Sim C. Callon, one of our co-founders, and the nephew of the late John S. Callon, the other co-founder. We believe that Mr. Callon’s strong financial background, combined with his longevity with us and many years of operational experience in the E&P industry throughout changing conditions in the market, provide him with the ability to successfully lead us forward.

L. Richard Flury was appointed to the Board in 2004. Mr. Flury has been retired since 2001. Prior to 2001, he spent over 30 years with Amoco Corporation, and later, BP p.l.c., most recently as Chief Executive, Gas and Power and Renewables. Prior to Amoco's merger with BP in 1998, he served in various executive positions, including Chief Executive for Worldwide Exploration and Production and Executive Vice President of Amoco Corporation. Mr. Flury was a member of the Board of QEP Resources, Inc., a publicly traded oil and gas exploration company, from 2010 until 2015, and is also a director and the non-executive Chairman of Chicago Bridge and Iron Company, N.V., a publicly-traded engineering, procurement and construction company. He is a graduate of the University of Victoria (Canada). Mr. Flury has many years of prior experience with a major oil and gas company, as well as continued involvement in the industry through his other directorship positions. Mr. Flury’s vast experience and extensive knowledge of the E&P industry, together with his executive-level perspective and strategy-making abilities, strengthen the Board’s collective qualifications, skills and experience, and will continue to prove very beneficial to us.

Larry D. McVay was appointed to the Board in October 2007. Mr. McVay has been a Managing Director of Edgewater Energy, LLC, a privately held oil and gas investment company, since 2007. From 2003 until 2006, he served as COO of TNK-BP Holding, one of the largest oil producing companies in Russia. From 2000 to 2003, he served as Technology Vice President and Vice President of Health, Safety and Environment for BP. He also led the global E&P Operations Excellence effort for improving the operating efficiency of BP’s upstream operations. Mr. McVay earned a mechanical engineering degree from Texas Tech University, where he was recognized as a Distinguished Engineer in 1995. In January 2008, Mr. McVay became a member of the board of directors of Praxair, Inc., an industrial gases company in North and South America, where he serves on the Audit Committee, the Technology, Safety and Sustainability Committee and is chairman of the Finance & Pension Committee. Mr. McVay is also a member of the board of directors of Chicago Bridge and Iron, N.V., a publicly traded engineering, procurement, and construction company, where he serves on the Audit Committee, the Strategic Initiatives Committee and is the chairman of the Corporate Governance Committee. Mr. McVay has been directly involved in nearly all aspects of the oil and gas industry, including drilling, production, finance, environmental risk, and safety. We believe that this experience and his knowledge of the oil and gas exploration and production (“E&P”) industry, particularly in the Permian Basin, provides invaluable insight in the development of our long-term strategies.

John C. Wallace has been a member of our Board since 1994. Mr. Wallace has been retired since 2010. Mr. Wallace is a Chartered Accountant having qualified with PricewaterhouseCoopers in Canada in 1963, after which he joined Baring Brothers & Co., Limited in London, England. Prior to his retirement in December 2010, Mr. Wallace served for over twenty-five years as Chairman of Fred. Olsen Ltd., a London-based corporation that he joined in 1968 and which specializes in the business of shipping, renewable energy and property development. He received his B. Comm degree majoring in Accounting and Economics from McGill University in 1959. In November 2004, he successfully completed the International Uniform Certified Public Accountant Qualification Examination and has received a CPA Certificate from the State of Illinois. Mr. Wallace is also retired from the board of directors of Ganger Rolf ASA and Bonheur ASA, Oslo, both publicly-traded shipping companies with interests in offshore energy services and renewable energy. In May 2012, Mr. Wallace was appointed as a non-executive director to the board of directors of Siem Offshore Inc., a publicly traded shipping company in Norway with a fleet of vessels active in the offshore energy sector, and for which he is a member of the Audit Committee. As a result of his association with Fred Olsen, Ltd. and various associated or related companies, Mr. Wallace has extensive financial and accounting experience in not only the oil and gas industry, but in a number of other related

industries qualifying him as “financial expert.” We believe that this experience and his unique perspective of the risks and rewards in the oil and gas industry will continue to be beneficial to us.

Michael L. Finch was elected to the Board at the 2015 Annual Meeting. He served as CFO and a member of the Board of Directors of Stone Energy Corporation from its initial public offering in 1993 until his resignation in 1999. He was affiliated with Stone in a variety of capacities for nineteen years. Prior to his service with Stone, he was employed by Arthur Andersen & Co. in New Orleans, Louisiana from 1976 to 1980. Mr. Finch has been a private investor since 1999. He was licensed as a Certified Public Accountant in 1978 (inactive status at present), and received a Bachelor of Science in Accounting from the University of South Alabama in 1976. Mr. Finch was an independent director of Petroquest Energy, Inc. from 2003 to 2016, where he served as chairman of the Audit Committee, as a member of the Compensation Committee, and as a member of the Nominating and Corporate Governance Committee. Mr. Finch has extensive financial and operating experience within our industry, and his background, prior experiences, professional credentials and expertise qualify him as a director and “financial expert.”

All of our Directors are United States citizens, except Mr. Wallace, who is a citizen of Canada, and Mr. Flury, who holds both U.S. and Canadian citizenship.

CORPORATE GOVERNANCE

Board of Director Structure and Responsibilities

General. Our Board is responsible for determining the ultimate direction of our business, determining the principles of our business strategy and policies, and promoting the long-term interests of the Company. The Board of Directors possesses and exercises oversight authority over our business but, subject to our governing documents and applicable law, delegates day-to-day management of the Company to our CEO and our executive management. The Board generally fulfills its responsibilities through regular quarterly meetings to review significant developments affecting us and to act on matters requiring Board approval. Between regularly scheduled meetings, the Board may also hold special meetings, execute unanimous written consents, and participate in telephone conference calls when an important matter requires Board action. During 2016, our Board met formally nine times and transacted business on twenty-four occasions during the year by unanimous written consent. All of our directors attended each of the Board meetings either in person or by telephone. In addition, to promote open discussion, the non-employee directors meet in executive session without management following each quarterly board meeting. The chairperson of such executive sessions is the chairperson of the Nominating and Corporate Governance Committee unless, at the first executive session held in each fiscal year, the independent directors select a different independent director to serve as the chairperson for all executive sessions held during that fiscal year. L. Richard Flury, Chairman of the Compensation Committee, was selected to preside over all executive sessions during 2016. It is the policy of the Board that, to the extent possible, all directors attend the annual meeting. All then current directors attended the 2016 annual meeting.

The Board, in consultation with the Nominating and Governance Committee, has determined that a classified board structure continues to be appropriate for us, particularly in an industry where long-term strategic planning is critical for the successful exploration, development and production of oil and natural gas resources. Our future success depends in significant part on the in-depth knowledge of our business and operations by our directors. We believe that a classified board promotes stability, continuity and experience among our directors, which is essential to developing and implementing long-term strategies, while resisting the pressure to focus on short-term results at the expense of enhancing long-term value and success.

Director Independence. To minimize potential conflicts, it is a policy of the Board that a majority of the non-employee members of the Board be independent. Currently the only member of our Board who is not independent is our Chairman and CEO. In accordance with the standards for companies listed on the NYSE and the rules and regulations promulgated by the SEC, as well as our Corporate Governance Guidelines, the Board considers a director to be independent if it has affirmatively determined that the director has no material relationship with the Company that could compromise his ability to exercise independent judgment in carrying out his responsibilities. The Board makes independence determinations when it approves director nominees for election at the annual meeting and also whenever a new director joins the Board between annual meetings. The Board reviewed the independence of its directors and nominees in accordance with the standards described above, and affirmatively determined that each of its directors and nominees (other than Mr. Callon) is independent. The Board will evaluate the independence of each non-employee director on an ongoing basis.

Board Leadership Structure. One of the Board's key responsibilities is determining the appropriate leadership structure for the Board, which helps ensure its effective and independent oversight of management on behalf of our stockholders. Our Board believes that there is no one generally accepted approach to providing board leadership and that given the dynamic and competitive environment in which we operate, the optimal board leadership structure may vary as circumstances warrant. Accordingly, the Board has no policy mandating the separation or combination of the roles of Chairman of the Board and CEO, but periodically discusses and considers the structure as circumstances change. As such, the Board believes that it is in the best position to evaluate the needs of the Company and to determine how best to organize the Company's leadership structure to meet those needs.

At the present time, the Board believes that the most effective leadership structure for the Company is for Mr. Fred L. Callon to serve as both Chairman of the Board and CEO. The Board believes this current structure best serves the interests of our stockholders and is efficient and cost effective for the size of our Company within the independent E&P industry. The Board believes this model promotes the execution of our long-term corporate strategy, more effective implementation of strategic initiatives, and fosters clearer accountability for the Company's success or failure.

The Board is currently comprised of eight directors, of which seven are independent. Independent directors and management generally have different perspectives and roles in strategy development. Our independent directors

have backgrounds in the oil and gas industry which complement the CEO's comprehensive, company-specific perspective. As the director having primary responsibility for managing our daily operations and identifying strategic priorities, the CEO is best positioned to lead the Board through reviews of key business and strategy decisions. This dynamic effectively promotes the opportunity for a successful blend of our independent directors' perspectives and oversight responsibilities and facilitates information flow and communication between senior management and the Board, which are both essential to effective governance. The Board's structure does not currently provide for a lead independent director. The Board has four standing committees, each of which is comprised entirely of independent directors. Accordingly, the Compensation Committee maintains its independence to both objectively and subjectively evaluate Mr. Callon's performance when reviewing or modifying his compensation. The Board believes that this commitment to committee independence counterbalances any perceived risk posed by having Mr. Callon serve as the Chairman and CEO.

The role of our Chairman is to oversee and ensure Board effectiveness, and in his capacity as Chairman, Mr. Callon has the following responsibilities:

- schedules all meetings of the Board;
- establishes Board meeting agendas and ensure critical issues are included;
- chairs meetings of the Board and the Annual Meeting of Stockholders;
- ensures that the flow of information provided to the Board is timely, complete, and accurate;
- communicates with all directors on key issues and concerns outside of Board meetings;
- represents us to and interacts with external stockholders; and
- assists the Board and executive officers in assuring compliance with and implementation of our governance principles.

Standing Committees of the Board of Directors

In order to facilitate the various functions of the Board, the Board currently has four standing committees, each of which is comprised solely of independent directors, including the:

- Audit Committee;
- Compensation Committee;
- Nominating and Corporate Governance Committee; and
- Strategic Planning and Reserves Committee.

Each committee, discussed below in greater detail, has a written charter that has been adopted by the Board, which sets forth guidance on the role of the chairman of such committee and the roles and responsibilities of the committee as a whole.

Audit Committee Functions and Responsibilities

Purpose: The principal function of the Audit Committee is to assist the Board in overseeing the areas of financial reporting and accounting integrity.

Members: The Audit Committee is currently comprised of the following independent Directors, with two Directors deemed by the Board to be financial experts, as defined and required by the NYSE rules and the Exchange Act (“Financial Expert”):