

VAALCO ENERGY INC /DE/  
Form DEF 14A  
April 14, 2010

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a)**

**of the Securities Exchange Act of 1934**

**(Amendment No. )**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

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

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

**VAALCO ENERGY, INC.**

(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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(4) Proposed maximum aggregate value of transaction:

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.. Fee paid previously with preliminary materials.

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(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

## Notice of the 2010

### Annual Meeting of Stockholders

**Meeting Date:** June 2, 2010  
**Meeting Time:** 10:00 a.m., CDT  
**Location:** St. Regis Houston Hotel

1919 Briar Oaks Lane

Houston, Texas 77027

**Record Date:** April 1, 2010  
**Agenda**

Elect eight directors of VAALCO to serve until the next Annual Meeting of the stockholders;

Ratify the appointment of the independent registered public accounting firm; and

Transact any other business that may be properly brought before the Annual Meeting.

All stockholders are invited to attend the VAALCO Annual Meeting. We will hold the Annual Meeting at 10:00 a.m. Houston, Texas time on June 2, 2010, in the Plaza Room at the St. Regis Houston Hotel, 1919 Briar Oaks Lane, Houston, Texas 77027. The hotel is located near the intersection of Briar Oaks Lane and Post Oak Parkway, just inside the Interstate 610 W Loop, approximately five miles west of downtown Houston. A complete list of stockholders entitled to vote at the Annual Meeting will be available for examination at VAALCO's offices in Houston, Texas during normal business hours by any holder of VAALCO common stock for any purpose relevant to the Annual Meeting for a period of ten days prior to the Annual Meeting. Such list will also be available at the Annual Meeting and any VAALCO stockholder may inspect it for any purpose relevant to the Annual Meeting.

#### Voting

Stockholders owning shares of VAALCO common stock at the close of business on April 1, 2010, or their legal proxy holders, are entitled to vote at the Annual Meeting. Your vote is important and we encourage you to vote even if you are unable to attend the Annual Meeting.

#### Important Notice Regarding the Availability of Proxy Materials for the Stockholders Meeting:

Our proxy material relating to our 2010 Annual Meeting (notice, proxy statement, proxy and 2009 Annual Report to Shareholders) is available on our website at [www.vaalco.com](http://www.vaalco.com). This information will also be available by calling 1 800 579-1639 or by email at [www.proxyvote.com](http://www.proxyvote.com). The date, time and location of the 2010 Annual Meeting and the matters to be voted upon at the 2010 Annual Meeting, are set forth on this page. For the Board's recommendations regarding those matters, please refer to Election of Directors and Ratification of Appointment of Independent Registered Public Accounting Firm .

By Order of the Board of Directors,

Robert L. Gerry, III

Chairman

**VAALCO Energy, Inc.**

**4600 Post Oak Place**

**Suite 309**

**Houston, Texas 77027**

April 16, 2010

## **2010 Proxy Statement**

### **General Information**

The Board is providing you these proxy materials in connection with the solicitation of proxies to be voted at our 2010 Annual Meeting of Stockholders to be held at 10:00 a.m. Houston, Texas time on June 2, 2010, at the St. Regis Houston Hotel, 1919 Briar Oaks Lane, Houston, Texas 77027, and at any postponement or adjournment of the Annual Meeting. In this proxy statement, VAALCO Energy, Inc. is referred to as we, our, us or VAALCO.

#### **APPOINTMENT OF PROXY HOLDERS**

The Board of Directors asks you to appoint Robert L. Gerry and W. Russell Scheirman, or either of them, as your proxy holder to vote your shares at the Annual Meeting. **You make this appointment by voting the enclosed proxy form.**

If appointed by you, the proxy holders will vote your shares as you direct on the matters described in this proxy statement. In the absence of your direction, they will vote your shares as recommended by the Board.

Unless you otherwise indicate on the proxy form, you also authorize your proxy holders to vote your shares on any matters that are not known by the Board at the time this proxy statement was printed and that, under VAALCO's By-Laws, may be properly presented for action at the Annual Meeting.

This proxy statement and the accompanying form of notice and proxy card are being distributed to stockholders on or about April 16, 2010. Our annual report for our fiscal year ended December 31, 2009 is also being mailed to stockholders contemporaneously with this proxy statement, although the annual report does not form a part of the material for the solicitation of proxies. The content of this proxy statement has been approved by our Board of Directors.

#### **VOTING**

**The Board encourages you to exercise your right to vote. Your vote is important. Voting early helps ensure that VAALCO receives a quorum of shares necessary to hold the Annual Meeting.**

If you are a stockholder of record (you own shares in your own name) you can vote by mail by signing, dating and returning your proxy forms in the pre-addressed, postage-paid envelope provided. If you are a street name stockholder (you own shares in the name of a bank, broker or other holder of record) you should refer to the proxy form or the information you receive from the record holder to see the voting methods available to you.

**Voting at the Annual Meeting.** Voting by proxy will not limit your right to vote at the Annual Meeting if you decide to attend in person. The Board recommends that you vote by proxy since it is not practical for most stockholders to attend the Annual Meeting. If you are a street name stockholder, you must obtain a proxy, executed in your favor, from the holder of record to be able to vote at the Annual Meeting.

**Revoking Your Voting Instructions to Your Proxy Holders.** If you are a stockholder of record and you vote by proxy using the mail, you may later revoke your proxy instructions by:

Sending a written statement to that effect to the Corporate Secretary at the address listed on page 1 of this proxy statement submitting a proxy with a later date and signed as your name appears on the stock account; or  
voting in person at the Annual Meeting.

If you are a street name stockholder and you vote by proxy, you may later revoke your proxy instructions by informing the holder of record in accordance with that entity's procedures.

#### **VOTE REQUIRED AND METHOD OF COUNTING**

The Board has fixed April 1, 2010, as the record date for the determination of stockholders entitled to vote at the Annual Meeting. At the close of business on the record date, there were 56,427,254 shares of VAALCO Common Stock outstanding and entitled to vote at the Annual Meeting. Each outstanding share is entitled to one vote. A complete list of all stockholders entitled to vote at the Annual Meeting will be open for examination by any stockholder during normal business hours for a period of ten days prior to the Annual Meeting at our offices, 4600 Post Oak Place, Suite 309, Houston, Texas, 77027. Such list will also be available at the Annual Meeting and may be inspected by any stockholder who is present.

A quorum, which is a majority of the outstanding shares as of the record date, must be present in person or by proxy at the Annual Meeting. A quorum is calculated based on the number of shares represented at the meeting, either by the stockholders attending in person or by the proxy holders. For the purposes of determining whether a quorum is present under Delaware law, broker non-votes and abstentions count toward the establishment of a quorum.

If you are a street name stockholder and do not give your broker instructions on how to vote your shares on a proposal, your broker may not have discretionary power to vote on the proposal and as a result your shares will not be voted on this matter and will be considered a broker non-vote.

The required vote and method of calculation for the various business matters to be considered at the Annual Meeting are as follows:

#### **Item 1 Election of Directors**

Each outstanding share of VAALCO Stock is entitled to one vote for each of the eight nominees. Directors are elected by a plurality vote. This means the eight Director nominees who receive the highest number of affirmative votes cast are elected, whether or not such votes constitute a majority of the votes cast. If you do not wish your shares to be voted with respect to a particular Director nominee, you may withhold authority to vote for one or more of the nominees or to withhold authority to vote for all nominees by following the instructions on the proxy card. For the purpose of voting for directors, withholding authority is the equivalent of an abstention. Abstentions and broker non-votes have no effect on determinations of a plurality except to the extent that they affect the total votes received by a particular candidate.

*Please note that the New York Stock Exchange ( NYSE ) recently amended its rules regarding broker discretionary voting. Unlike prior years, the NYSE rules do not give brokers discretionary authority to vote on the election of directors. This means that your broker, bank, or other nominee cannot vote your shares unless you provide it with voting instructions. Therefore, if you hold shares of our common stock in street name and do not provide voting instructions to your broker, bank, or other nominee, your shares will not be voted on the election of directors.*

**Item 2 Ratification of Independent Registered Public Accounting Firm**

The ratification of the Independent Registered Public Accounting Firm is approved if a majority of the shares present at the Annual Meeting vote for the proposal. If this appointment is not ratified, our Audit Committee may reconsider its appointment. Even if the selection is ratified, our Audit Committee may direct the appointment of a different independent registered public accounting firm at any time during the year if it determines that such a change would be in our and our stockholders best interests. Abstentions are considered present at the Annual Meeting for this proposal so the effect of an abstention is the same as a no vote. Broker non-votes will not be considered present at the Annual Meeting for this proposal so a broker non-vote will have the practical effect of reducing the number of affirmative votes required to achieve a majority vote by reducing the total number of shares from which a majority is calculated.

**METHOD AND COST OF SOLICITING AND TABULATING VOTES**

We have retained D.F. King & Co., Inc. to solicit proxies in connection with the Annual Meeting at a fee of \$5,000 for its services, plus reasonable out-of-pocket expenses. We have also retained D.F. King & Co., Inc. to request brokerage houses, banks, and other custodians or nominees holding stock in their names for others to forward proxy materials to their customers or principals who are the beneficial owners of shares of our common stock and will reimburse them for their expenses in doing so. We do not anticipate that the costs and expenses incurred in connection with this proxy solicitation will exceed those normally expended for a proxy solicitation for those matters to be voted upon at the Annual Meeting. In addition to solicitation by mail, our directors, officers, and employees, without receiving any additional compensation, may solicit proxies personally or by telephone or facsimile.

Votes cast at the meeting will be counted by VAALCO's corporate secretary, who will act as the inspector of election.

**OTHER MATTERS**

The Board does not know of any other matter that will be presented for consideration at the Annual Meeting. If any other matter does properly come before the Annual Meeting, your proxy holders will vote on it as they think best unless you direct otherwise in your proxy instruction.

## Election of Directors

*(Proposal 1 on the proxy card)*

At the Annual Meeting, VAALCO stockholders will elect eight individuals to serve as directors. The bylaws of VAALCO authorize a board of directors consisting of at least three members and not more than fifteen members, with the exact number of directors being determined from time to time by VAALCO's board of directors. Our current board of directors consists of Messrs. Allen, Brazelton, Caflisch, Chapoton, Farish, Gerry, Myers, Nielsen and Scheirman. Mr. Nielsen will not stand for reelection. Each of the nominees is currently a member of our board of directors. Each director is elected to hold office until the next annual stockholder meeting in 2011 and until his successor is duly elected and qualified, or until his earlier death, resignation or removal.

The nominees have consented to be nominated and have expressed their intent to serve if elected. The VAALCO board has no reason to believe that any of the nominees will be unable to serve if elected to office and, to the knowledge of the VAALCO board, the nominees intend to serve the entire term for which election is sought. Only the nominees designated by the board of directors will be eligible to stand for election as directors at the Annual Meeting.

The individuals named as proxies will vote the enclosed proxy for the election of all nominees, unless you direct them to withhold your votes. Although VAALCO does not expect this to occur, if any nominee becomes unable to serve as a director before the Annual Meeting, the persons named as proxies have the discretionary authority to vote for substitute nominees proposed by the VAALCO board. The election of directors requires the affirmative vote of a plurality of shares of VAALCO common stock present and entitled to vote.

**The Board unanimously recommends a vote FOR each of these nominees.**



## DIRECTORS AND EXECUTIVE OFFICERS

The following table provides information with respect to directors and executive officers of VAALCO. Each executive officer has been elected to serve until his successor is duly appointed or elected by the Board of Directors or his earlier removal or resignation from office.

Name	Age	Position with VAALCO	Director Since
Robert L. Gerry III	72	Chairman of the Board and Chief Executive Officer	1997
W. Russell Scheirman	54	President, Chief Operating Officer and Director	1991
Robert H. Allen	81	Director	2003
Frederick W. Brazelton	39	Director	2008
Luigi P. Caflisch	75	Director	2005
O. Donaldson Chapoton	73	Director	2006
William S. Farish	71	Director	2004
John J. Myers	52	Director	2010

### Executive Officers

Gregory R. Hullinger	56	Chief Financial Officer
Gayla M. Cutrer	68	Vice President, Corporate Secretary

The following is a brief description of the background and principal occupation of each director (including each nominee) and executive officer:

*Robert L. Gerry III* Mr. Gerry has served as Chairman of the Board and Chief Executive Officer for VAALCO Energy, Inc. since August 1997. Mr. Gerry currently serves on the Board of Directors of Plains Exploration and Production Company, and Integrity Bank a newly formed independent bank located in Houston, Texas. Mr. Gerry also serves on the Board of Texas Children's Hospital and is a member of the University of Texas Advisory Council. From February 1994 until August 1997, Mr. Gerry served as Vice-Chairman of Nuevo Energy Company. Prior to being appointed Vice-Chairman of Nuevo, Mr. Gerry had served as President and Chief Operating Officer of Nuevo since its formation in March 1990. Mr. Gerry served as Senior Vice President of Energy Assets International Corporation ( EAIC ) from January 1989 until March 1990. For ten years prior to joining EAIC, Mr. Gerry was active as an independent investor concentrating on energy investments.

*W. Russell Scheirman* Mr. Scheirman has served as the President of VAALCO since 1992, and as a Director since 1991. In 2008, Mr. Scheirman was named the Company's Chief Operating Officer. From 1991 to 1992, Mr. Scheirman served as Executive Vice President of VAALCO. Prior to joining VAALCO, Mr. Scheirman was an Associate at McKinsey & Company, Inc. from 1989 to 1991, an investment banker with Copeland, Wickersham and Wiley from 1984 to 1989, and a Petroleum Reservoir Engineer for Exxon Company, U.S.A. from 1978 to 1984. Mr. Scheirman holds a B.S. (Summa Cum Laude) and M.S. in Mechanical Engineering from Duke University (1977 and 1978, respectively) and an M.B.A. from California Lutheran University (1984).

*Robert H. Allen* is the managing partner of Challenge Investment Partners, which is active in mining ventures in Canada, Greenland, Mexico, South America and Indonesia. From 1957 to 1982 he

was with Gulf Resources and Chemical Corporation, a diversified natural resource based company. During that affiliation, Mr. Allen served as Chief Executive Officer, Director and Chairman of the Board. In the past 20 years he has been instrumental in the start-up of several natural resource oriented companies, the most notable, Getty Resources Ltd., Toronto, Canada. Mr. Allen is Chairman of the Board of Trustees of Baylor College of Medicine. He is also a member of the Advisory Board of the George Bush School of Government and Public Service, and of the Development Council of the Mays School of Business at Texas A&M University. He has served on many boards including Federal Express Corporation; Gulf Canada Resources Ltd. Most recently he served as Chairman of the Board of Gulf Indonesia Resources Ltd., and Chairman of the Board of The University of Texas Investment Management Company. He also served as Chairman of the Audit Committee of the Brown Foundation. Mr. Allen received his B.B.A. degree in 1951 from Texas A&M University. He is a certified public accountant and a member of the Texas Society of CPAs. Mr. Allen has over 50 years of experience in the oil and gas industry, with extensive experience in accounting. We believe that this experience, as well as his leadership abilities, brings valuable experience and skill to our board of directors.

*Frederick W. Brazelton* Mr. Brazelton was appointed to the Board on June 27, 2008. Mr. Brazelton is the Co-Founder and President of Platform Partners, LLC, a private holding company that makes equity investments in middle-market companies. Prior to founding Platform in August 2006, Mr. Brazelton was a Partner of The CapStreet Group, LLC, an institutional private equity fund focused on investing in middle-market companies where he had worked from August 2000 until July 2006. Prior to joining CapStreet, Mr. Brazelton worked for the private equity firms of Hicks, Muse, Tate & Furst and Willis Stein & Partners after starting his career in investment banking at CS First Boston in its Natural Resources Group. Mr. Brazelton serves on the boards of directors of Landmark FBO, LLC, TRE Financial Services, LLC, Avalon Advisors, LLC and the Small Steps Nurturing Center. He received his BBA from the Business Honors Program at the University of Texas at Austin and his MBA from Stanford University. Mr. Brazelton's extensive experience in private equity and finance provides a valuable resource to our board.

*Luigi P. Caflisch* Mr. Caflisch was appointed to the Board on April 6, 2005. He has spent over 45 years in the petroleum industry in exploration, research and development, and management. For Gulf Oil Co., he worked in the U.S.A., Europe, North Africa, Nigeria, Angola and the Far East. In 1978, Mr. Caflisch served as Vice President of Geoman, a Gulf affiliate providing technical assistance to OPEC countries, mainly in Kuwait and Venezuela. Beginning in 1982, Mr. Caflisch served as Gulf's General Manager for Exploration of the North Sea. After Chevron's acquisition of Gulf in 1984, Mr. Caflisch served as Chevron's Deputy Managing Director of Europe. Beginning in 1987, Mr. Caflisch served as Assistant to Chevron's VP of Overseas Exploration. In 1988, he became Managing Director of Africa for Chevron and in 1995 he became Managing Director of Africa and Middle East for Chevron. As a member of Chevron's Management Team, he shared responsibilities for directing worldwide Upstream operations. Since his retirement from Chevron in 1999, Mr. Caflisch has offered consulting and management assistance to a variety of companies; as a member of the board of directors or advising on target areas for exploration, acquisition or divestiture. Multilingual, he holds a Doctorate in Geology and Geophysics from the University of Milan. Mr. Caflisch's technical background and his knowledge of international oil and gas operations provide a critical resource and skill set to our board of directors.

*O. Donaldson Chapoton* Mr. Chapoton was appointed to the Board on February 15, 2006. He joined Baker Botts, LLP in early 1960's specializing in tax law. Mr. Chapoton served as Assistant Secretary for Tax Policy at the U.S. Treasury Department from 1987 to 1989. He rejoined Baker Botts, LLP as the partner-in-charge of the firm's Washington office in 1989 and served in that position through 2000. In 2006, Mr. Chapoton joined Breen Investors, LLC, an asset management firm, as a partner where he participates in strategic and business development matters and sits on the firm's executive committee. Mr. Chapoton received his LL.B., with honors, from the University of Texas School of Law. Mr. Chapoton's legal background and experience provides a valuable resource to our board.

*William S. Farish* Mr. Farish was appointed to the Board on November 28, 2004. Mr. Farish is currently President of W. S. Farish and Company, an investment trust company in Houston, Texas and President of The William Stamps Farish Fund. He is the owner of Lane's End Farms in Versailles, Kentucky, and a former director and Chairman of the Board of Churchill Downs, Inc. Mr. Farish is presently a Trustee and board member of Keeneland Association, as well as a Trustee of Breeders' Cup Limited, and Vice Chairman and Steward of The Jockey Club. Mr. Farish formerly served on the boards of Matagorda Production Company, Houston Natural Gas, Pogo Producing and Galveston-Houston. He was co-owner of PL Drilling and President of Navarro Exploration, and later on the board of Zapata Offshore Oil Company. Mr. Farish was a founding director of Hambro American Bank, and served on the boards of Post Oak Bank and Capital National Bank. Additionally, Mr. Farish is an honorary director of the Texas Heart Institute. Mr. Farish served as the United States Ambassador to the Court of St. James from 2001 until mid 2004. Mr. Farish has extensive industry and international experience, which are valuable resources to the board.

*John J. Myers* Mr. Myers was appointed to serve on the VAALCO Energy, Inc. Board of Directors effective March 3, 2010. Mr. Myers was founder and Managing Partner for Treaty Oak Capital Management, an energy investment hedge fund based in Austin, Texas from 2002 through 2009. In 2007 Mr. Myers founded Tectonic Capital Management investment fund. Mr. Myers, a Chartered Financial Analyst, was engaged for over 20 years as an equity analyst having served with RBC Dain Rauscher Wessels, Morgan Keegan, Petrie Parkman & Co. and Southcoast Capital. Mr. Myers is a Chartered Financial Analyst. He holds a Masters degree in Management from Northwestern University, Evanston, Illinois. He also holds a Bachelors of Science degree in Chemical Engineering from the University of Michigan, Ann Arbor, Michigan. Mr. Myers' knowledge and experience in the oil and gas business and the capital markets make him a valuable resource to our board.

*Gregory R. Hullinger* Mr. Hullinger joined VAALCO in October 2008 after more than 30 years of finance and accounting experience at Shell Oil Company and its parent company, Royal Dutch Shell. Notable positions held by Mr. Hullinger at Shell Oil include Controller, Treasurer, CFO Shell Deer Park Refining Company and CFO Pecten Cameroon Company (West Africa). For Royal Dutch Shell, Mr. Hullinger held the positions of International Audit Manager and as the Manager for Group Accounting, the unit responsible for the financial consolidations, results and reporting. Mr. Hullinger was twice elected Chairman of the Accounting Committee of the American Petroleum Institute. He holds a B.S. in Accounting from Louisiana State University.

*Gayla M. Cutrer* Ms. Cutrer joined Alcorn International, Inc., predecessor to VAALCO Energy, Inc., in 1986 and served as executive support and administrative advisor for the newly founded international energy company. She was named to the Board of Directors on March 20, 1990 and serve on the Board during the Company's transition from a privately held company to a publicly traded company. Ms. Cutrer was named Vice President and Corporate Secretary of VAALCO Energy, Inc. in 1990 and continues to serve in that capacity. Ms. Cutrer's previous experience in the energy industry includes positions with Cities Service International, Inc, Amoco International, Inc. and Kilroy Company of Texas.

All officers and director nominees of VAALCO are United States citizens.

## Board Operations

### BOARD COMMITTEE MEMBERSHIP AND FUNCTIONS

The Audit, Compensation and Board Nominating and Governance Committees are each constituted by written charters and operated according to the rules of the New York Stock Exchange (NYSE). Each member of these committees meets the independence requirements of the NYSE.

#### Committees and Current Membership AUDIT

#### Committee Functions

Mr. Frederick W. Brazelton (Chairman)

Selects the independent registered public accounting firm

Mr. Robert H. Allen

Reviews reports of independent and internal auditors

Mr. Luigi P. Caflisch

Reviews and approves the scope and cost of all services (including non-audit services) provided by the independent registered public accounting firm

Mr. O. Donaldson Chapoton

Mr. Arne R. Nielsen\*

Monitors the effectiveness of the audit process and financial reporting

Reviews the adequacy of financial and operating controls

Monitors the corporate compliance program

Evaluates the effectiveness of the Audit Committee

#### COMPENSATION

Mr. Luigi P. Caflisch (Chairman)

Approves the salary and other compensation matters for the CEO

Mr. Robert H. Allen

Reviews and recommends salaries and other compensation matters for executive officers other than the CEO

Mr. Frederick W. Brazelton

Administers VAALCO's incentive compensation and equity-based plans

Mr. William S. Farish

Evaluates the effectiveness of the Compensation Committee

#### NOMINATING AND CORPORATE GOVERNANCE

Mr. O. Donald Chapoton (Chairman)

Reviews VAALCO's Corporate Governance Principles and practices and recommends changes as appropriate

Mr. Luigi P. Caflisch

Evaluates the effectiveness of the Board and its committees and recommends changes to improve Board, Board committee and individual Director effectiveness

Mr. William S. Farish

Assesses the size and composition of the Board

Recommends prospective director nominees

Periodically reviews and recommends changes as appropriate in the Amended and Restated Certificate of Incorporation, By-Laws and other Board-adopted governance provisions

**Audit Committee Financial Expert as determined by the Board under SEC regulations.**

**\*Mr. Nielsen will not stand for reelection as a director.**

**MEETINGS AND ATTENDANCE**

In 2009, the Board held five regular Board meetings and seven Board committee meetings, which included five Audit Committee, one Compensation Committee and one Nominating and Governance Committee meetings. Seven directors attended all of the Board meetings and Board Committee meetings on which they served. Mr. Farish was available for 60% of the Board and Board committee meetings during 2009. VAALCO does not have a policy on whether directors are required to attend the Annual Meeting.

Executive sessions of independent Directors are held after each quarterly Board meeting. Any non-employee Director can request that an executive session be scheduled. The sessions are scheduled and presided over by an alphabetical order rotation amongst the independent directors. The independent directors also meet from time to time with the Chairman of the Board.

**DIRECTOR INDEPENDENCE**

It is the policy of the Board of Directors that a majority of the members of the Board be independent. The Board has affirmatively determined that, as to each current, non-employee Director nominee (Mr. Allen, Mr. Brazelton, Mr. Caflisch, Mr. Chapoton, Mr. Farish and Mr. Myers) no material relationship exists that, in the opinion of the Board, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director, and that each current, non-employee Director and Director nominee qualifies as independent according to VAALCO's Corporate Governance Principles, which comply with the Corporate Governance Rules of the NYSE.

## **BOARD LEADERSHIP STRUCTURE AND ROLE IN RISK MANAGEMENT**

VAALCO is led by Mr. Robert L. Gerry. Mr. Gerry has served as our Chairman and Chief Executive Officer since 1997. We do not have a lead director, but our non-management directors meet regularly in executive session. Mr. Gerry, as CEO of VAALCO, has a working knowledge of our day-to-day operations and issues that face VAALCO. As such, and taking into account the number of employees we have and our size as a small cap company, our board believes that Mr. Gerry is the best person to lead and guide the board of directors. We therefore believe this leadership structure, with a combined Chairman/CEO position, experienced independent directors and committees, as well as regularly held executive sessions with non-management board members, benefits VAALCO by providing a strong, unified leadership for our management team and board of directors and is the optimal structure for VAALCO and our stockholders.

While the full board of directors, with input from each of its committees, oversees VAALCO's management of risks, VAALCO's management team is responsible for the day-to-day risk management process. The audit committee reviews with management, as well as internal and external auditors, the Company's business risk management process, including the adequacy of VAALCO's overall control environment and controls in selected areas representing significant financial and business risk. The audit committee periodically discusses with management its assessment of various risks and considers the impact of risk on our financial position and the adequacy of our risk-related internal controls. Our compensation committee also considers risks that could be implicated by our compensation programs, and our nominating & corporate governance committee annually reviews the effectiveness of our leadership structure. In addition, each of our committees as well as senior management reports regularly to the full board of directors.

## **BUSINESS CONDUCT AND ETHICS CODE**

VAALCO has adopted a Code of Business Conduct and Ethics for Directors, officers and employees. In addition, VAALCO has adopted a Code of Ethics for the Chief Executive Officer and Senior Financial Officers. Both codes are available on VAALCO's web site at [www.vaalco.com](http://www.vaalco.com) and are available in print upon request. VAALCO has not granted any waivers to these codes. VAALCO intends to post any waivers or amendments to the codes on its web site.

## **TRANSACTIONS WITH RELATED PERSONS**

It is VAALCO's policy that all employees and Directors, as well as their family members, must avoid any activity that is or has the appearance of conflicting with VAALCO's business interest. This policy is included in our Code of Business Conduct and Ethics. Each Director and executive officer is instructed to always inform the Chairman and Corporate Secretary when confronted with any situation that may be perceived as a conflict of interest. In addition, at least annually, each Director and executive officer completes a detailed questionnaire specifying any business relationship that may give rise to a conflict of interest. The Nominating and Corporate Governance Committee reviews all relevant information, including the amount of all business transactions involving VAALCO and the entity with which the Director is associated, and makes recommendations, as appropriate, to the Board.

## **COMMUNICATION WITH THE BOARD OF DIRECTORS**

In order to provide our stockholders and other interested parties with a direct and open line of communication to the Board of Directors, the Board of Directors has adopted procedures for communications to Directors. Our stockholders and other interested persons may communicate with the Chairman of our Audit Committee, or with our non-employee Directors as a group, by written communications addressed in care of Corporate Secretary, VAALCO Energy, Inc., 4600 Post Oak Place, Suite 309, Houston, Texas 77027.

All communications received in accordance with these procedures will be reviewed initially by our senior management. Senior management will relay all such communications to the appropriate director or directors unless it is determined that the communication:

does not relate to our business or affairs or the functioning or constitution of the Board of Directors or any of its committees;

relates to routine or insignificant matters that do not warrant the attention of the Board of Directors;

is an advertisement or other commercial solicitation or communication;

is frivolous or offensive; or

is otherwise not appropriate for delivery to directors.

The Director or Directors who receive any such communication will have discretion to determine whether the subject matter of the communication should be brought to the attention of the full Board of Directors or one or more of its committees and whether any response to the person sending the communication is appropriate. Any such response will be made only in accordance with applicable law and regulations relating to the disclosure of information.

The Corporate Secretary will retain copies of all communications received pursuant to these procedures for a period of at least one year. The Board of Directors will review the effectiveness of these procedures from time to time and, if appropriate, recommend changes. As of the record, one such communication had been received.

#### **AUDIT COMMITTEE REPORT**

The Audit Committee is composed of five members of the Board of Directors, each of whom is independent and financially literate. In addition, the Board of Directors has determined that Mr. Brazelton, the Chairman of the Audit Committee, is an audit committee financial expert. The Audit Committee charter is available on VAALCO's website at [www.vaalco.com](http://www.vaalco.com).

On behalf of the Board of Directors, the Audit Committee oversees VAALCO's financial reporting process and its internal control over financial reporting, areas for which management has the primary responsibility. The independent registered public accounting firm is responsible for expressing an opinion on the conformity of VAALCO's audited financial statements with accounting principles generally accepted in the United States and for issuing its report on VAALCO's internal control over financial reporting.

In this context, the Audit Committee has reviewed and discussed with management and the independent registered public accounting firm the audited financial statements and the quarterly unaudited financial statements, and matters relating to VAALCO's internal control over financial reporting.

Among other items, the Audit Committee has discussed with the independent registered public accounting firm the matters required to be discussed by the standards of the Public Company Accounting Oversight Board. The Audit Committee has received from the independent registered public accounting firm the written disclosures and the letter required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant's communications with the Audit Committee concerning independence and discussed with them their independence from the Company and its management. In addition, the Committee has received written materials addressing Deloitte & Touche LLP's internal quality control procedures and other matters as required by the NYSE listing standards.

Further, the Audit Committee has pre-approved all audit, audit-related and permitted non-audit services provided by the independent registered public accounting firm to VAALCO and the related fees for such services, and has concluded that such services are compatible with the auditors independence.

Relying on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors, and the Board approved, that the audited financial statements and management's assertion on internal control over financial reporting be included in VAALCO's Annual Report on Form 10-K for the year ended December 31, 2009, for filing with the U.S. Securities and Exchange Commission. The Audit Committee has also selected Deloitte & Touche LLP as the Company's independent registered public accounting firm for the Company and its subsidiaries for 2010. The Board of Directors has concurred on that selection and has presented the matter to the stockholders of VAALCO for ratification.

*Respectfully submitted on March 16, 2010, by the members of the Audit Committee of the Board:*

*Frederick W. Brazelton (Chairman)*

*Robert H. Allen*

*Luigi P. Caflisch*

*O. Donaldson Chapoton*

*Arne R. Nielsen*



## NOMINATING AND CORPORATE GOVERNANCE COMMITTEE

The Nominating and Corporate Governance Committee is responsible for defining and assessing qualifications for Board membership, identifying qualified Director candidates, assisting the Board in organizing itself to discharge its duties and responsibilities, and providing oversight on corporate governance practices and policies including an effective process for stockholders to communicate with the Board. The Nominating and Corporate Governance Committee is composed entirely of independent Directors and operates under a written charter. The Nominating and Corporate Governance Committee charter is available on VAALCO's web site at [www.vaalco.com](http://www.vaalco.com) and is available in print upon request. The Committee submits this report to stockholders to report on its role and corporate governance practices at VAALCO in 2009.

The Nominating and Corporate Governance Committee has established certain criteria it considers as guidelines in considering nominations to the Board of Directors. The criteria include:

personal characteristics, including such matters as integrity, age, education, diversity of background and experience, absence of potential conflicts of interest with VAALCO or its operations, and the availability and willingness to devote sufficient time to the duties of a director;

experience in corporate management, such as serving as an officer or former officer of a publicly held company;

experience in the oil and gas industry and with relevant social policy concerns;

experience as a board member of another publicly held company; and

practical and mature business judgment.

The criteria are not exhaustive and the Nominating and Corporate Governance Committee and the Board of Directors may consider other qualifications and attributes which they believe are appropriate in evaluating the ability of an individual to serve as a member of the Board of Directors. The Nominating and Corporate Governance Committee's goal is to assemble a Board of Directors that brings us a variety of perspectives and skills derived from high quality business and professional experience. In order to ensure that the Board consists of members with a variety of perspectives and skills, the Nominating and Corporate Governance Committee has not set any minimum qualifications and also considers candidates with appropriate non-business backgrounds. Other than ensuring that at least one member of the Board is a financial expert and a majority of the Board members meet all applicable independence requirements, the Nominating and Corporate Governance Committee does not have any specific skills that it believes are necessary for any individual director to possess. Instead, the Nominating and Corporate Governance Committee evaluates potential nominees based on the contribution such nominee's background and skills could have upon the overall functioning of the Board.

In making its nominations, the Nominating and Corporate Governance Committee identifies nominees by first evaluating the current members of the Board willing to continue their service. Current members with qualifications and skills that are consistent with the Nominating and Corporate Governance Committee's criteria for Board service are re-nominated. As to new candidates, the committee will generally poll the Board members and members of management for recommendations. The Nominating and Corporate Governance Committee may also review the composition and qualification of the boards of directors of VAALCO's competitors, and may seek input from industry experts or analysts. The Nominating and Corporate Governance Committee reviews the qualifications, experience and background of the candidates. Final candidates are interviewed by the independent directors and executive management. In making its determinations, the Nominating and Corporate Governance Committee evaluates each individual in the context of the Board as whole, with the objective of assembling a group with diverse backgrounds that can best represent stockholder interests through the exercise of sound judgment. After review and deliberation of all feedback and data, the

Nominating and Corporate Governance Committee makes its recommendation to the Board of Directors. The Nominating and Corporate Governance Committee may in the future choose to engage third-party search firms in situations where particular qualifications are required or where existing contacts are not sufficient to identify an appropriate candidate.

The Nominating and Corporate Governance Committee considers all candidates recommended by our stockholders. Stockholders may recommend candidates by writing to the Corporate Secretary at VAALCO Energy, Inc, 4600 Post Oak Place, Suite 309, Houston, Texas 77027, stating the recommended candidate's name and qualifications for Board membership. When considering candidates recommended by stockholders, the Nominating and Corporate Governance Committee follows the same Board membership qualifications evaluation and nomination procedures discussed above.

The Nominating and Corporate Governance Committee will apply the criteria described above when considering candidates recommended by stockholders as nominees for the Board. In addition, any stockholder of ours may nominate one or more persons for election as a director of VAALCO at an Annual Meeting of stockholders if the stockholder complies with the notice, information and consent provisions contained in our Amended and Restated Bylaws. We have an advanced notice Bylaw provision relating to the nomination of Directors. Pursuant to that provision, to be considered for inclusion in our proxy materials, notice of a stockholder's nomination of a person for election to the Board must be received by the Secretary of VAALCO in writing at the address listed on the first page of this Proxy Statement no earlier than the close of business on the 120<sup>th</sup> day and no later than the close of business on the 90<sup>th</sup> day prior to the anniversary date of the preceding year's Annual Meeting. The stockholder's written notice must include information about the proposed nominee, including name, age, business address, number of shares of our common stock beneficially owned, and any other information required in proxy solicitations for the contested election of directors, including employment history, participation as a director of other public or private corporations, and information about any relationship or understanding between the proposing stockholder and the candidate or any other person (naming that person) pursuant to which the nomination is to be made. In addition, the stockholder giving the notice must include the following information: such stockholder's name, record address, number of shares of our common stock beneficially owned, any short positions held in our securities, other information about his or her ownership of our securities, and a description of all arrangements or understandings between the stockholder and each nominee and any other person (naming such person) pursuant to which each nomination is to be made by the stockholder.

#### **COMPENSATION COMMITTEE REPORT**

The Compensation Committee of VAALCO has reviewed and discussed with management the Compensation Discussion and Analysis beginning on the following page and, based on such review and discussion, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement and incorporated by reference into our Annual Report on Form 10-K.

*Respectfully submitted on March 3, 2010, by members of the Compensation Committee of the Board:*

*Luigi P. Caflisch (Chairman)*

*Robert H. Allen*

*Frederick W. Brazelton*

*William S. Farish*

**COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION**

None of the members of our Compensation Committee are or have been officers or employees of VAALCO or any of its subsidiaries or had during 2009 a relationship requiring disclosure as a related party transaction.

None of VAALCO's executive officers serves as a member of the compensation committee of any other company that has an executive officer serving as a member of VAALCO's Board of Directors. None of VAALCO's executive officers serves as a member of the board of directors of any other company that has an executive officer serving as a member of VAALCO's Compensation Committee.

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# Executive Compensation

## COMPENSATION DISCUSSION AND ANALYSIS

### The Compensation Committee

The Compensation Committee is responsible for overseeing VAALCO's executive remuneration programs. The Committee's primary purpose is to assist the board of directors in the discharge of its fiduciary responsibilities relating to fair and competitive compensation of our executive officers. Consistent with the listing requirements of the New York Stock Exchange, the Compensation Committee is composed entirely of non-management members of our board of directors. The Compensation Committee meets each year to review our compensation program and to determine compensation levels for the ensuing fiscal year. The Compensation Committee charter is available on our website at [www.vaalco.com](http://www.vaalco.com) and is available in print upon request.

In this Compensation Discussion and Analysis, we discuss our compensation objectives, our decisions and the rationale behind those decisions relating to 2009 compensation for our named executive officers.

### Objectives of Our Compensation Program

Our executive compensation program is intended to align the interests of our management team with those of our shareholders by motivating our executive officers to achieve strong financial and operating results for us, which we believe closely correlate to long term shareholder value. In addition, our program is designed to achieve the following objectives:

- attract and retain talented executive officers by providing reasonable total compensation levels competitive with that of executives holding comparable positions in similarly situated organizations;
- provide total compensation that is justified by individual performance;
- provide performance based compensation that balances rewards for short term and long term results and is tied to both individual and our performance; and
- encourage the long term commitment of our executive officers to us and our shareholders long term interests.

### What Our Compensation Program is Designed to Reward

Our strategy is to increase reserves and production through the exploration of oil and gas properties with an emphasis on international opportunities. Our compensation program is designed to reward performance that contributes to the achievement of our business strategy on both a short-term and long-term basis. In addition, we reward qualities that we believe help achieve our strategy such as teamwork; individual performance in light of general economic and industry specific conditions; performance that supports our core values; resourcefulness; the ability to manage our existing corporate assets; the ability to explore new avenues to increase oil and gas production and reserves; level of job responsibility; and tenure with the company.

### Elements of Our Compensation Program and Why We Pay Each Element

To accomplish our objectives, our compensation program is comprised of four elements: base salary, cash bonus, long-term equity-based compensation and benefits.

We pay base salary in order to recognize each executive officer's unique value and historical contributions to our success in light of salary norms in the industry and the general marketplace; to match competitors for executive talent; to provide executives with predictable, regularly-paid income; and to reflect an executive's position and level of responsibility.

We include an annual cash bonus as part of our compensation program because we believe this element of compensation helps to motivate management to achieve key corporate objectives by

rewarding the achievement of these objectives. The annual cash bonus also allows us to be competitive from a total remuneration standpoint.

Long-term equity-based incentive compensation is an element of our compensation policy because we believe it aligns executives' interests with the interests of our shareholders; rewards long-term performance; is required in order for us to be competitive from a total remuneration standpoint; to encourage executive retention; and to give executives the opportunity to share in our long-term performance. Without exception, awards are granted at exercise prices not less than the market value of our common stock on the date of the grant and are not transferable (other than to the holder's heirs or entities for the benefit of his or her heirs.) Therefore, equity-based incentives will have no realizable value unless our stock price appreciates in value. These types of awards also provide a form of compensation that we believe is transparent and easy for stockholders to understand.

We offer benefits such as a 401(k) Plan and payment of insurance premiums in order to provide a competitive remuneration package.

### **How We Determine Each Element of Compensation**

In determining the elements of compensation, we consider various measures of company and industry performance including stockholder's return, debt levels, revenues, cash flow, capital expenditures, reserves of oil and gas, costs and other measures discussed herein. We may from time to time retain an independent compensation consulting firm to assist the committee in evaluating the executive compensation program. We did not retain a consultant with respect to determining 2009 compensation.

**Base Salary.** At its regularly scheduled meeting in December, the Compensation Committee meets to review the base salaries of our executive officers. During the first portion of the meeting, the committee reviews the compensation of the chief executive officer, and the chief executive officer is not present. Following this private session, the chief executive officer joins the meeting, and base salary levels of our other executive officers are discussed with his input.

In setting base salaries, the committee seeks to maintain stability and predictability from year to year, and usually makes percentage increases based on its view of the cost of living and competitive conditions for executive talent in the oil and gas business. The committee also considers subjective factors in setting base salary, including individual achievements, our performance, level of responsibility, experience, leadership abilities, increases or changes in duties and responsibilities and contributions to our performance. For 2009, we generally increased base salaries for our officers, including the CEO, by approximately 6% to reflect cost of living and our view as to competitive pressures in the industry.

**Bonus.** We established a program whereby executive officers, senior management and other non-management personnel have the potential to receive a meaningful cash bonus if annual financial and operational objectives or goals, pre-established by the Compensation Committee, are met. At a meeting, usually prior to the end of the year, our board of directors approves the operating budget and financial forecast for the ensuing fiscal year. Based on the budget and forecast, the Compensation Committee sets various targets for measures such as oil and gas production levels, operating expenses, pre-tax net income and cash flows from operations. In addition, non-financial targets are established such as exploration prospects to be generated, safety goals, accounting systems implementation and environmental regulations compliance goals. During the first quarter of each year, following a preliminary determination of our financial and operating results, our compensation committee meets to establish bonus compensation for the previous year.

A significant portion of each executive's total compensation is dependent on achieving both the short and long term financial and strategic goals outlined above. Accordingly, following the end of each year,

incentive bonuses, if any, are awarded to the chairman of the board and chief executive officer and to the president and chief operating officer and to the other executive officers for performance in the prior year or years. In determining the incentive bonuses earned, the Compensation Committee gives substantial weight to our achievement of the goals and objectives set out in our budget for the preceding year. The committee may also consider matters other than those set out in the schedule of goals and objectives in the budget such as stock performance for the previous budget year, indicated return on stockholders' investment, corporate debt levels, revenues, change in oil and gas reserves, cash flow, capital expenditures and other items that are considered to be critical to our success, including safety performance and environmental performance. We do not assign these measures relative weights preferring to make a subjective determination after considering all measures collectively. The committee must find that the executive's performance met or exceeded stated goals and objectives set out in the previous year's annual budget. As an example, should the performance level be determined at 80%, then the incentive bonus would be 80% of base salary. In order for there to be an incentive bonus payment, performance has to meet or exceed 75%. Should the committee determine that the minimum standard of 75% has not been met, it may recommend that the board of directors consider payment of discretionary bonuses for the executive officers. Only with committee recommendations and board approval can the annual incentive bonus pay-out exceed 100% of each executive's base salary.

In addition to the above, incentive bonuses may be paid to other employees as determined by the chairman and chief executive officer and president and chief operating officer. All incentive bonuses exceeding 100% of base salary must be approved by the Compensation Committee.

The Compensation Committee awarded bonuses in March of 2010 for fiscal 2009 results based upon our achievement of the following performance goals:

- Achievement of oil and gas production targets
- Achievement of Direct Operating Cost budget
- Stewardship of the General and Administrative expense budget
- Startup of production from the Ebouri platform in Gabon
- Exploration Department goals to develop exploration prospects
- Safety and Environmental program goals

We provide executives the opportunity to defer receipt of earned annual incentives.

**Long-Term Equity-Based Incentives.** The Compensation Committee administers our long-term incentive plans and perform functions that include selecting award recipients, determining the timing of grants and assigning the number of shares subject to each award, fixing the time and manner in which awards are exercisable, setting exercise prices and vesting and expiration dates. For compensation decisions regarding the grant of equity compensation to executive officers, our Compensation Committee typically considers recommendations from our chief executive officer. Typically, awards vest over multiple years but the committee maintains the discretionary authority to vest the equity grant immediately if the individual situation merits. In the event of a change of control, or upon the death, disability, retirement or termination of a grantee's employment without good reason, all outstanding equity-based awards will immediately vest.

We have no set formula for granting awards to our executives or employees. In determining whether to grant awards and the amount of any awards, we take into consideration discretionary factors such as the individual's previous and expected future performance, level of responsibilities, retention considerations, and the total compensation package. Previous awards, whether vested or unvested, impact the decision on the current year awards and grants.

**Benefits.** We provide company benefits or perquisites, that we believe are standard in the industry to all of our employees. These benefits consist of a group medical and dental insurance program for employees and their qualified dependents and a 401(k) employee savings and protection plan. The costs of these benefits are paid for entirely by the company. We do not provide employee life insurance amounts surpassing the Internal Revenue Service maximum. Through December 31, 2009, we did not make matching contributions to the 401(k) contribution of each qualified participant. The company pays all administrative costs to maintain the plan.

#### **How Elements of Our Compensation Program are Related to Each Other**

We view the various components of compensation as related but distinct and emphasize pay for performance with a significant portion of total compensation reflecting a risk aspect tied to long- and short-term financial and strategic goals. Our compensation philosophy is to foster entrepreneurship at all levels of the organization by making long-term equity-based incentives, in particular stock option grants, a significant component of executive compensation. We determine the appropriate level for each compensation component based in part, but not exclusively, on our view of internal equity and consistency, and other considerations we deem relevant, such as rewarding extraordinary performance. Our Compensation Committee has not adopted any formal or informal policies or guidelines for allocating compensation between long-term and currently paid out compensation, between cash and non-cash compensation, or among different forms of non-cash compensation.

#### **Assessment of Risk**

The Compensation Committee is aware of the need to take risk into account when making compensation decisions. By design, our compensation program for executive officers is designed to avoid excessive risk taking. In particular, incentive awards are not locked in to specific metrics, but rather, after review of performance relative to these metrics, the Compensation Committee determines final incentive awards in their discretion.

#### **Accounting and Tax Considerations**

We have structured our compensation program to comply with Internal Revenue Code Sections 162(m) and 409A. Under Section 162(m) of the Internal Revenue Code, a limitation was placed on tax deductions of any publicly-held corporation for individual compensation to certain executives of such corporation exceeding \$1,000,000 in any taxable year, unless the compensation is performance-based. If an executive is entitled to nonqualified deferred compensation benefits that are subject to Section 409A, and such benefits do not comply with Section 409A, then the benefits are taxable in the first year they are not subject to a substantial risk of forfeiture. In such case, the service provider is subject to regular federal income tax, interest and an additional federal income tax of 20% of the benefit includible in income. We have no employees with non-performance based compensation paid in excess of the Internal Revenue Code Section 162(m) tax deduction limit. However, we reserve the right to use our judgment to authorize compensation payments that do not comply with the exemptions in Section 162(m) when we believe that such payments are appropriate and in the best interest of the stockholders, after taking into consideration changing business conditions or the executive's individual performance and/or changes in specific job duties and responsibilities.

All equity awards to our employees, including executive officers, and to our directors have been granted and reflected in our consolidated financial statements, based upon the applicable accounting guidance, at fair market value on the grant date in accordance with SFAS No. 123R.

#### **Termination of Employment Arrangements**

We have no employment or consulting contracts with any person that requires more than 30 days notice of termination. There are no employment termination arrangements other than we will pay the cost to relocate our expatriate employees working overseas back to their home base along with their personal effects in the event of termination.

**Stock Ownership Policy**

Currently we do not have a stock ownership policy that applies to our directors and executive officers.

**SUMMARY COMPENSATION TABLE**

The following sets forth the compensation of VAALCO's named executive officers for each of the three years ended December 31, 2009.

Name and

Principal Position