

VAALCO ENERGY INC /DE/
Form DEF 14A
April 06, 2018

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

Filed by the Registrant

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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)

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LETTER TO SHAREHOLDERS

Dear Fellow Stockholders

We have seen some strong positive results in 2017 and carry significant, positive momentum into 2018. We are generating meaningful cash flow, our reserves are increasing, and our ability to generate cash has allowed us to pay down most of our debt, further strengthening our already clean balance sheet. We are unhedged in 2018 and beyond and given the significant benefit we are realizing from the strong improvement in Brent Crude prices, we are forecasting substantial cash flow growth. Clearly, VAALCO Energy, Inc. has the potential to grow value for all stakeholders.

Our ability to generate value is predicated on establishing a near-term and long-term strategy that is achievable and definitive and executing on that strategy. We believe that there are many value adding options available to VAALCO, through development drilling at Etame, seeking new complimentary opportunities in West Africa, and through enhancing our current operations. We are focused on minimizing downtime and curtailing production decline to maximize cash flow from our premier assets in Gabon, reaching a fair and equitable resolution with Sonangol regarding our Angola exit, reaching an agreement with partners and gaining government approval in Gabon to begin another development drilling campaign and further enhancing our financial flexibility. We are poised and ready for the future and will work hard to guide the Company toward our mutually shared goal, enhancing shareholder value.

The Board of Directors is committed to maintaining high standards of governance and compensation, at every level of the Company. We welcome engagement with investors on a wide variety of topics and are committed to clear communications, as reflected in the enhanced proxy disclosures for our 2018 Annual Meeting.

Finally, we wish to thank John Myers and Michael Keane for their service and wish them well in their future endeavours.

Signed,

The Board of Directors

9800 Richmond Avenue, Suite 700

Houston, Texas 77042

Notice of Annual Meeting of Stockholders

To the Stockholders of VAALCO Energy, Inc.: Notice is hereby given that the 2018 Annual Meeting of Stockholders of VAALCO Energy, Inc. (the “Company”) will be held at The Houston Marriott Westchase Hotel, 2900 Briarpark Drive, Houston, Texas 77042, on Wednesday, May 9, 2018, at 9:00 a.m. Central Time (the “Annual Meeting”). The Annual Meeting is being held for the following purposes:

- (1) To elect four directors, each for a term of one year;
- (2) To ratify the appointment of BDO USA, LLP as the Company’s independent auditors for 2018;
- (3) To approve, on an advisory basis, the compensation of our Named Executive Officers;

To approve an amendment to the Company’s Restated Certificate of Incorporation to effect (i) a reverse stock split of the Company’s issued and outstanding common stock, par value \$0.10 per share (the “Common Stock”), at a ratio (4) between one-for-five and one-for-twenty, inclusive, such ratio to be determined by the Board of Directors (the “Board”) at a later date, and (ii) a reduction in the number of authorized shares of Common Stock by a corresponding ratio; and

- (5) To transact such other business as may properly come before the Annual Meeting.

These proposals are described in the accompanying proxy materials. You will be able to vote at the Annual Meeting, or any adjournment or postponement thereof, only if you were a stockholder of record at the close of business on March 26, 2018.

VAALCO ENERGY, INC.

9800 Richmond Avenue, Suite 700

Houston, Texas 77042

YOUR VOTE IS IMPORTANT

Your VOTE is important to the future of VAALCO Energy, Inc. and it is important that your shares of Common Stock be represented. Therefore, even if you presently plan to attend the Annual Meeting, please vote your shares by promptly completing, signing and returning the enclosed proxy card using the enclosed envelope. The enclosed envelope requires no postage if mailed within the United States. If you wish to vote by telephone or internet, please follow the instructions on your proxy card. Most of our stockholders hold their shares in “street name” through brokers, banks and other nominees and are required to vote their shares through those other entities by following the instructions on the voter instruction form that they will receive from such entity. If you do attend the Annual Meeting and wish to vote in person, you may withdraw your proxy at that time.

The enclosed proxy statement is available on our website at www.vaalco.com, under the heading “SEC Filings” in the “Investor Relations” section of our website. The proxy statement for the 2017 and 2016 annual meetings of stockholders and our Annual Reports for the years ended December 31, 2017 and December 31, 2016 are also available on the same section of our website. Additionally, and in accordance with Securities and Exchange Commission (“SEC”) rules, you may access our proxy statements and Annual Reports at www.proxyvote.com.

In addition, stockholders may request to receive proxy materials in printed form by mail or electronically by email on an ongoing basis. Stockholders who receive future proxy materials by email will save us the cost of printing and mailing documents and will reduce the impact of meetings of stockholders on the environment. A stockholder’s election to receive proxy materials by email will remain in effect until the stockholder terminates that election.

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS:

The Proxy Statement, our Annual Report for 2017 and our 2017 Financial Statements are available at www.proxyvote.com.

By Order of the Board of Directors,

Andrew L. Fawthrop
Chairman of the Board
Houston, Texas
April 6, 2018

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VAALCO ENERGY, INC.
 9800 Richmond Avenue, Suite 700
 Houston, Texas 77042

PROXY STATEMENT
 2018 ANNUAL MEETING OF STOCKHOLDERS

We are providing you these proxy materials in connection with the solicitation of proxies by our Board of Directors (the “Board of Directors” or the “Board”) to be voted at our 2018 Annual Meeting of Stockholders (our “Annual Meeting”), and at any postponement or adjournment of the Annual Meeting. In this proxy statement, VAALCO Energy, Inc. is referred to as the “Company,” “our company,” “we,” “our,” “us” or “VAALCO.”

Matters to be Voted On

Item for Business	Board Vote Recommendation	Further Details (Page No.)
1. Election of Four Directors	FOR EACH DIRECTOR NOMINEE	7
2. Ratification of the appointment of independent auditors	FOR	18
3. Advisory resolution on executive compensation	FOR	21
4. Amendment of Restated Certificate of Incorporation to effect a reverse stock split and a reduction in authorized shares of common stock	FOR	37

YOUR VOTE IS IMPORTANT

WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING, WE ENCOURAGE YOU TO VOTE AND SUBMIT YOUR PROXY BY INTERNET, TELEPHONE OR BY MAIL.

Governance Principles

The Board of Directors’ Corporate Governance Principles, which include guidelines for determining director independence and qualifications for directors, are published on VAALCO’s website at www.VAALCO.com. The website makes available all of VAALCO’s corporate governance materials, including Board committee charters. These materials are also available in print to any stockholder upon request. The Board regularly reviews corporate governance developments and modifies its Governance Principles, committee charters and key practices as warranted.

PROPOSAL NO. 1

ELECTION OF DIRECTORS

Our Board Of Directors

At the recommendation of the Nominating and Governance Committee, the Board of Directors has nominated the following individuals for election as directors of the Company to serve for a one year term beginning at the Annual Meeting and expiring at the 2019 Annual Meeting of Stockholders and until either they are re-elected or their successors are elected and qualified:

Andrew L. Fawthrop

Cary Bounds

A. John Knapp, Jr.

Steven J. Pully

All of the above nominees are currently serving as directors of the Company. Biographical information for each nominee is contained in the "Directors" section below. The Board of Directors has no reason to believe that any of its nominees will be unable or unwilling to serve if elected. If a nominee becomes unable or unwilling to accept nomination or election, either the number of the Company's directors will be reduced or the persons acting under the proxy will vote for the election of a substitute nominee that the Board of Directors recommends. Only the nominees designated by the Board of Directors will be eligible to stand for election as directors at the Annual Meeting.

Board Composition

We believe that our directors should possess the highest personal and professional ethics, integrity and values and be committed to representing the long-term interests of the stockholders. They must also have an inquisitive and objective perspective, practical wisdom and mature judgment. We also endeavor to have a Board representing a range of experiences in business in areas that are relevant to the Company's global activities. The evaluation of director nominees by the Nominating and Corporate Governance Committee also takes into account diversity of background.

The Nominating and Corporate Governance Committee has established 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. 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.

PROPOSAL NO. 1:

ELECTION OF DIRECTORS

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 a 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 in accordance with our Bylaw provisions. Stockholders may recommend candidates by writing to the Corporate Secretary at VAALCO Energy, Inc., 9800 Richmond Avenue, Suite 700, Houston, Texas 77042, 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.

Below we identify and describe the key experience, qualifications and skills our directors bring to the Board that are important in light of VAALCO's businesses and structure. The directors' experiences, qualifications and skills that the Board considered in their re-nomination are included in their individual biographies.

The Board of Directors unanimously recommends that stockholders vote FOR the election of each of the nominees.

The management proxy holders will vote all duly submitted proxies "**FOR**" Proposal ONE unless duly instructed otherwise.

DIRECTORS

The following table provides information with respect to current directors and nominees of VAALCO. Each nominated director will be elected to serve until the next annual meeting of stockholders or until his successor is elected and qualified. On February 28, 2018, Mr. John Myers, Jr. informed the Board of his decision not to stand for re-election as a director at our Company's 2018 Annual Meeting of stockholders and his service as a director ends on the date of the Annual Meeting. In addition, on March 22, 2018, Mr. Michael Keane informed the Board of his decision not to stand for re-election as a director at our Company's 2018 Annual Meeting of stockholders and his service as a director ends on the date of the Annual Meeting.

Name	Age	Title
Andrew L. Fawthrop	65	Director and Chairman of the Board
Cary Bounds	50	Director and Chief Executive Officer
A. John Knapp, Jr.	66	Director
Steven J. Pully	58	Director

PROPOSAL NO. 1:

ELECTION OF DIRECTORS

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

Andrew L. Fawthrop – Mr. Fawthrop has served on the Board since October 2014 and as the Chairman of the Board since December 2015. Mr. Fawthrop has deep and broad-based experience in the oil and gas industry, including in West Africa, having served for 37 years with Unocal Corporation and Chevron Corporation (following its acquisition of Unocal in 2005) in a vast number of international leadership positions. Most recently, from January 2009 until his retirement in 2014, Mr. Fawthrop served as Chairman and Managing Director for Chevron Nigeria. Prior to his assignment in Nigeria, Mr. Fawthrop served as President and Managing Director for Unocal/Chevron Bangladesh from 2003 until 2007. In his professional career, Mr. Fawthrop held various positions of increasing responsibility for exploration activities around the world in geographies including China, Egypt, Indonesia, South America, Africa, Latin America and Europe. Mr. Fawthrop served as a Member of the Advisory Board of Eurasia Group. He served as a Director of Hindustan Oil Exploration Co. Ltd. from 2003 to 2005. He was an active member of the United States Azerbaijan Chamber of Commerce, the Asia Society of Texas and the Houston World Affairs Council. Mr. Fawthrop holds a Bachelor of Science in Geology and Chemistry and a Masters degree in Marine Geology from the University of London. Mr. Fawthrop's experience in the international oil and gas industry provides a valuable resource to the Board.

Cary Bounds – Effective December 29, 2016, Mr. Bounds was appointed as our company's Chief Executive Officer, and to our Board of Directors. He was appointed as our Interim Chief Executive Officer effective September 1, 2016, upon the effective resignation of Steven P. Guidry as our former chief executive officer. Mr. Bounds joined our company in July 2015 as our Chief Operating Officer. Mr. Bounds has held a variety of technical and management positions of increasing responsibility with major energy companies as well as independent E&P companies. Prior to joining our company, Mr. Bounds was Business Unit Manager and Vice President, Noble Energy Equatorial Guinea Limited from May 2013 until July 2015. Earlier in his tenure with Noble, Mr. Bounds held the position of North Sea Country Manager from April 2010 until May 2013. Prior to Noble, Mr. Bounds was the Engineering and Planning Manager, Worldwide for Terralliance Technologies, Inc. and served as their Country Manager in Mozambique from 2007 to 2010. Mr. Bounds was with SM Energy from 2004 to 2007 and held the position of Engineering Manager for their Gulf Coast and Permian regions. Mr. Bounds spent five years with Dominion E&P serving in corporate development, planning and reservoir engineering positions. Mr. Bounds began his career with ConocoPhillips in 1991 where he held a variety of reservoir and production engineering positions in U.S. onshore regions. Mr. Bounds holds a Bachelor of Science Degree in Petroleum Engineering from Texas A&M University.

PROPOSAL NO. 1:

ELECTION OF DIRECTORS

A. John Knapp, Jr. – Mr. Knapp has served on the Board since December 2015. Mr. Knapp is a Partner at CCM Opportunistic Advisors, LLC, an investment fund in Houston Texas, a position he has held since March 2011. He also serves as the President, Chief Executive Officer, and principal stockholder of Andover Group, Inc., a real estate investment and development company he founded in 1978. Mr. Knapp currently serves on the board of directors of ATRM Holdings, Inc. (NASDAQ:ATRM) which he joined in April 2015, and previously served on from January 2013 until March 2013. Previously, Mr. Knapp served as the Chief Executive Officer and a director of ICO, Inc. (NASDAQ: ICOC), from October 2005 to April 2010. Mr. Knapp is a Chartered Financial Analyst and is currently a trustee of Transylvania University in Lexington, Kentucky. Mr. Knapp holds a Bachelor of Arts from Williams College. Mr. Knapp's prior experience as a chief executive officer of a public company makes him a valuable resource to the Board.

Steven J. Pully – Mr. Pully has served on the Board since July 2015. Mr. Pully has over 30 years of experience in capital markets, finance, investing and legal matters. He also has extensive board participation and leadership experience, having served in a variety of roles on twenty boards. Mr. Pully is currently on the board of three other public companies, Bellatrix Exploration, a Calgary-based oil and gas producer, Titan Energy, an oil and gas company operating in several basins and Goodrich Petroleum Corp., an onshore U.S. oil and gas producer. Within the past five years, Mr. Pully also served on the boards of Energy XXI Gulf Coast and EPL Oil & Gas. From 2008 until 2014, Mr. Pully served as General Counsel and a Partner of the investment firm, Carlson Capital, L.P. Mr. Pully was also previously an investment banker, serving as a Managing Director in the energy and power investment banking division of Bank of America and as a Senior Managing Director in the natural resources investment banking department of Bear Stearns & Company. Mr. Pully began his career as an attorney with Baker Botts LLP in Houston. Mr. Pully holds a Bachelor of Science in Accounting from Georgetown University and a J.D. from The University of Texas School of Law. Mr. Pully is a Chartered Financial Analyst, a Certified Public Accountant in the State of Texas and a member of the State Bar of Texas. Mr. Pully's significant experience serving on the boards of exploration and production companies, as well as his capital markets and legal experience, make him a valuable resource to the Board.

All director nominees of VAALCO are United States citizens.

DIRECTORS AND MANAGEMENT

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. Fawthrop, Mr. Keane, Mr. Knapp, Mr. Myers and Mr. Pully), 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 non-employee director nominee qualifies as “independent” according to VAALCO’s Corporate Governance Principles, which comply with the Corporate Governance Rules of the New York Stock Exchange (“NYSE”).

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 2017 a relationship requiring disclosure as a related party transaction.

Communicating Concerns to 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., 9800 Richmond Avenue, Suite 700, Houston, Texas 77042.

BOARDS ROLE AND RESPONSIBILITIES

Board Risk Oversight

While the full Board of Directors, with input from each of its committees, oversees VAALCO’s risk management function, VAALCO’s management team is responsible for the execution of our 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 and 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.

Code of Conduct

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 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.

Board Leadership Structure

Cary Bounds was appointed as our Chief Executive Officer effective December 29, 2016. On that date, he also became a member of our Board of Directors. Our Board determined in December 2015 to separate the roles of Chief Executive Officer and Chairman of the Board in connection with a Settlement Agreement entered into on December 22, 2015. Under the Settlement Agreement, the roles of Chairman of the Board and Chief Executive Officer of our company were separated, and Andrew L. Fawthrop was designated as Chairman of the Board. Mr. Fawthrop has continued to serve as our Chairman of the Board. With his significant experience and working knowledge of the industry and the issues that face VAALCO, our Board believes Mr. Fawthrop is the best person to lead and guide the Board of Directors. Also in December 2015, the Board appointed Michael Keane as Vice Chairman of the Board. The principal responsibilities of the Vice Chairman are to perform the duties of the Chairman in his absence and to have and perform such other duties and powers as may from time to time be assigned to him by the Board. We believe this provides a beneficial leadership structure for VAALCO and our stockholders by providing strong leadership from both our management team and Board of Directors.

For additional information regarding this Settlement Agreement and its effects on our corporate governance structure, please refer to the section entitled "Transactions with Related Persons – Other Agreements" found elsewhere in this proxy statement.

DIRECTORS AND MANAGEMENT

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.

No Interlocking Directorates

None of our executive officers serve as a member of the compensation committee of any other company that has an executive officer serving as a member of our 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.

MEETINGS AND COMMITTEES OF DIRECTORS

The Board has adopted written charters for each of its three standing, regular committees: the Audit Committee, the Compensation Committee, and the Nominating and Corporate Governance Committee. The committee charters are available on VAALCO's website at www.VAALCO.com. Each committee is operated according to the rules of the NYSE. Each member of these committees meets the independence requirements of the NYSE, as applicable to each

committee.

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DIRECTORS AND
MANAGEMENT

In addition, in January 2016, our Board of Directors formed a Strategic Committee to oversee evaluations of certain strategic alternatives for our Company. The functions of this committee are also described below.

Committees and Current Membership	Committee Functions
	<ul style="list-style-type: none"> • Selects and reviews the qualifications, performance, and independence of the independent registered public accounting firm
Audit ⁽¹⁾	<ul style="list-style-type: none"> • Reviews reports of independent and internal auditors
Mr. A. John Knapp, Jr. ⁽²⁾ (Chairman)	<ul style="list-style-type: none"> • Reviews and pre-approves the scope and cost of all services (including non-audit services) provided by the independent registered public accounting firm • 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 • Approves the salary and other compensation for the Chief Executive Officer
Mr. Andrew L. Fawthrop	
Mr. Steven J. Pully ⁽²⁾	
Mr. John Myers, Jr.	
Compensation	<ul style="list-style-type: none"> • Review and approve salaries and other compensation for executive officers other than the Chief Executive Officer
Mr. Steven J. Pully (Chairman)	<ul style="list-style-type: none"> • Approves and administers VAALCO's incentive compensation and equity-based plans • Prepares the annual report on executive compensation • Evaluates the effectiveness of the Compensation Committee • Authority to retain a compensation consultant • Reviews VAALCO's corporate governance principles and practices and recommends changes as appropriate
Mr. Andrew L. Fawthrop	
Mr. A. John Knapp, Jr.	
Mr. Michael Keane	
Nominating and Corporate Governance	<ul style="list-style-type: none"> • Evaluates the effectiveness of the Board and its committees and recommends changes to improve Board, Board committee and individual director effectiveness
Mr. Andrew L. Fawthrop (Chairman)	<ul style="list-style-type: none"> • Assesses the size and composition of the Board • Identifies and recommends prospective director nominees
Mr. Michael Keane	
Mr. A. John Knapp, Jr.	
Mr. John Myers, Jr.	

- Reviews and approves or ratifies any related person transaction that is required to be disclosed

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

Strategic Committee⁽³⁾

Mr. Michael Keane (Chairman)

- Identifies and evaluates potential merger and acquisition opportunities

Mr. Cary M. Bounds

- Assists management with sourcing financing for potential acquisitions or other Company financing needs

Mr. Andrew L. Fawthrop

- Assess opportunities to divest non-core assets

Mr. A. John Knapp, Jr.

- Provides additional guidance to management on key strategic decisions

Mr. Steven J. Pully

Mr. John Myers, Jr.

(1) *The Board has determined that all members of the Audit Committee are financially literate within the meaning of the NYSE standards.*

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

(3) *The Strategic Committee does not maintain a separate charter.*

DIRECTORS AND MANAGEMENT

Meetings and Attendance

In 2017, the Board held eleven Board meetings, four Audit Committee meetings, six Compensation Committee meetings and four Nominating and Governance Committee meetings. During 2017, each of our directors attended at least 75% of the meetings of the Board of Directors and the meetings of the board committees of the Board of Directors on which that director served at the time. VAALCO does not have a policy on whether directors are required to attend the Annual Meeting, although all of our directors attended the 2017 Annual Meeting of stockholders and are expected to attend the 2018 Annual Meeting.

Executive sessions of independent directors are held, at a minimum, in conjunction with each quarterly Board meeting. Any non-employee director can request that an executive session be scheduled. The sessions are scheduled and presided over by the Chairman of the Board.

Review and Approval of Related Person Transactions

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.

Under SEC rules, related party transactions are those transactions in which the Company was or is to be a participant and the amount involved exceeds \$120,000, and in which any "related person" had or will have a direct or indirect material interest. Executive officers, directors, 5% beneficial owners of our common stock, and their respective immediate family members are considered to be related persons under SEC rules. Any related party transactions that occurred since the beginning of our fiscal 2017, and any currently proposed transactions, are required to be disclosed in this proxy statement. Other than as detailed below, we are not aware of any related party transactions during 2017. In addition, the Nominating and Corporate Governance Committee reviews and approves or ratifies any related person transaction that is required to be disclosed. In the course of its review and approval or ratification of a disclosable related person transaction, the Committee considers:

- the nature of the related person's interest in the transaction;
- the material terms of the transaction, including, without limitation, the amount and type of transaction;

- the importance of the transaction to the related person;
- the importance of the transaction to the company;
- whether the transaction would impair the judgment of a director or executive officer to act in the best interest of the company; and
- any other matters the Nominating and Corporate Governance Committee deems appropriate.

Any member of the Nominating and Corporate Governance Committee who is a related person with respect to a transaction under review may not participate in the deliberations or vote for approval or ratification of the transaction, provided, however, that such director may be counted in determining the presence of a quorum at a meeting of the committee that considers the transaction.

DIRECTORS AND
MANAGEMENT

Related Party Transactions

Except as detailed below, since the beginning of fiscal year 2017 there have been no transactions, and there are no currently proposed transactions, in excess of \$120,000, between our Company and any “related person” in which the related person had or will have a direct or indirect material interest, and there are no currently proposed transactions.

Settlement Agreement with Group 42-BLR Reporting Group

On December 22, 2015, the Company entered into a Settlement Agreement (the “Settlement Agreement”) with Group 42, Inc., a Delaware corporation, Paul A. Bell, Michael Keane, and BLR Partners LP, a Texas limited partnership, BLRPart, LP, a Texas limited partnership, BLRGP Inc., a Texas corporation, Fondren Management, LP, a Texas limited partnership, FMLP Inc., a Texas corporation, The Radoff Family Foundation, a Texas non-profit corporation and Bradley L. Radoff (collectively referred to herein as the “Group 42-BLR Group”).

Under the Settlement Agreement, the Group 42-BLR Group agreed, among other items, that until the Settlement Agreement is terminated, the Group 42-BLR Group would vote in favor of (i) the election of each director nominated by the Board, and (ii) in accordance with the Board’s recommendations with respect to any other proposal to be submitted at a meeting of stockholders, unless Institutional Shareholder Services (“ISS”) recommends otherwise, in which case the Group 42-BLR Group may vote in accordance with ISS’ recommendations. The Settlement Agreement may be terminated by either party at this time.

In addition, the Group 42-BLR Group agreed to certain standstill restrictions, except that Group 42 is allowed to increase its share ownership up to a total of 6.5% and the BLR Group up to a total of 8.5% of the outstanding shares of the Company’s common stock. Under the Settlement Agreement, Mr. Keane, as the director nominee, (or any replacement designee) shall resign as a director in the event the Group 42-BLR Group fails to maintain beneficial ownership of at least 5% of the outstanding Shares or upon the termination of the Settlement Agreement.

The foregoing description of the Settlement Agreement is qualified in its entirety by reference to the Settlement Agreement, which is attached as Exhibit 10.1 to the Company’s Current Report on Form 8-K filed with the SEC on December 23, 2015 and is incorporated herein by reference.

DIRECTORS AND MANAGEMENT

DIRECTOR COMPENSATION

Our compensation for non-employee directors is designed to be competitive with our peer group of independent energy companies, link rewards to business results and stockholder returns and facilitate increased ownership of our stock. We do not have a retirement plan for non-employee directors. Any of our executive officers who serve as directors are not paid additional compensation for their services as directors.

The Compensation Committee is responsible for evaluating and recommending to the independent members of the Board the compensation for non-employee directors, and the independent members of the Board set the compensation.

To reflect the reduction in oil prices, the Board agreed to a reduction in their annual cash compensation on April 1, 2016. The Board elected to maintain the reduction through 2017. Non-employee directors were compensated in 2017 for service on the Board of Directors or any committee thereof as follows:

- \$33,750 retainer per annum, payable in quarterly installments;
- \$7,500 retainer per annum for the chairman of each Board committee, payable in quarterly installments;
- \$15,000 retainer per quarter for the Chairman of our Strategic Committee, payable in quarterly installments;
- \$18,750 retainer per annum for the Chairman of the Board, payable in quarterly installments;
- \$1,500 for each Board meeting attended;
- \$750 for each committee meeting attended; and

an annual equity award in an amount determined by the independent members of the Board. For fiscal year 2017, the awards of common stock and options to purchase common stock were granted on June 1, 2017 for Messrs. Fawthrop, Myers, Keane, Pully and Knapp. The awards of common stock are not restricted or subject to any vesting period; however, the stock award agreements provide that the director is prohibited from disposing of the stock within three years of the date of grant. The awards of options had an exercise price of \$0.99 and are not subject to any vesting period.

2017 Non-Employee Director Compensation

The following table shows compensation paid to each of our non-officer directors who served during the fiscal year ended December 31, 2017.

Name	Fees Earned or Paid in Cash (\$) ⁽¹⁾	Stock Awards (\$) ⁽²⁾	Stock Options (\$) ⁽²⁾	Total (\$)
Steven J. Pully	88,502	40,000	40,000	168,502
Michael Keane	141,002	40,000	40,000	221,002
John J. Myers, Jr.	80,252	40,000	40,000	160,252
Andrew L. Fawthrop	107,250	40,000	40,000	187,250
A. John Knapp, Jr.	85,502	40,000	40,000	165,502

Includes annual cash retainer fee, board and committee meeting fees and committee chair and chairman of the (1) board director fees for each non-employee director during fiscal year 2017, as more fully explained in the preceding paragraphs.

The amounts reported in this column reflect the aggregate grant date fair value of stock awards and stock options granted in fiscal year 2017, computed in accordance with FASB ASC Topic 718. See Note 12, "Stock-Based (2) Compensation and Other Benefit Plans" to the Company's Consolidated Financial Statements contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2017 for additional detail regarding assumptions underlying the value of these equity awards. The date of grant of these awards was June 1, 2017.

DIRECTORS AND MANAGEMENT

EXECUTIVE OFFICERS

The following table provides information with respect to current executive officers of VAALCO.

Name	Age	Title
Philip F. Patman, Jr.	49	Chief Financial Officer (Principal Financial Officer)
Elizabeth D. Prochnow	59	Controller and Chief Accounting Officer

The following is a brief description of the background and principal occupation of each non-director executive officer:

Philip F. Patman, Jr. – Mr. Patman became our Chief Financial Officer on April 17, 2017. Prior to joining VAALCO, from 2012 to 2016, Mr. Patman served as Senior Vice President of Business Development, The Americas, for Thailand’s National Oil Company PTT Exploration and Production (PTTEP). While at PTTEP, he led the company’s E&P mergers and acquisitions activities in the US, Canada, and to a lesser extent, Brazil. These activities involved multiple deal structures and tax regimes, and frequently required assessments of the impacts to complex financial statements. Mr. Patman also served as Managing Director, Mergers & Acquisitions (Asia) for The AES Corporation from 2010 to 2011, where he led a team focused on acquisitions and sales of single and multiple-asset portfolios of Asian independent power plants. He also served as Principal, Global Infrastructure, for Darby Private Equity, a unit of Franklin Templeton Investments, from 2007 to 2010, with a specific focus on Asian infrastructure, including energy systems and other fee-generating infrastructure assets. Before that, Mr. Patman was Director, Business Development-Asia, for Globeleq Ltd. from 2004 to 2007 where he made acquisitions and divestitures; he also served on boards of directors of holding and subsidiary companies owned in part by Globeleq, and, as part of executing board decisions, had responsibility for approving financial statements. He also served as a Professional Consultant, LNG and Natural Gas, for Marathon Oil from 2002 to 2004, where he advised on the development of Marathon’s Equatorial Guinea LNG liquefaction facility. Mr. Patman began his career as a lawyer in private practice in Houston. Mr. Patman received a J.D. from the University of Houston Law Center and a B.A. in the Plan II Honors Program from the University of Texas at Austin.

Elizabeth D. Prochnow – Ms. Prochnow has served as our Controller and Chief Accounting Officer since May 2015. Prior to joining our company, Ms. Prochnow most recently served as Controller and Chief Accounting Officer for Total Safety, U.S., Inc. from August 2014 to March 2015. Prior to that, she served as a director of Carrtegra, LLC, a financial advisory consulting firm, from June 2013 to August 2014 and as Executive Vice President, Chief Financial Officer of Sterling Construction Company, Inc. (Nasdaq: STRL) from November 2011 to May 2013. Before beginning with Sterling in February 2011, Ms. Prochnow was Vice President, Finance and Chief Financial Officer of Bristow Group Inc. (NYSE: BRS) from May 2009 to June 2010, and Vice President, Chief Accounting Officer and Controller from 2005 to 2009. From 1997 to 2005, Ms. Prochnow served in positions of increasing responsibility at MAXXAM Inc., ultimately as the company’s Vice President and Controller. Before MAXXAM, Ms. Prochnow served as the Controller and Chief Accounting Officer of GulfMark Offshore, Inc. (formerly GulfMark International, Inc. (NYSE:GLF)) from 1990 to 1996. Ms. Prochnow began her career as a public accountant at Arthur Andersen LLP in

1981. Ms. Prochnow holds a Bachelor of Arts degree and a Master of Accounting degree from Rice University and is a certified public accountant in the State of Texas.

PROPOSAL NO. 2

RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS

AUDIT COMMITTEE MATTERS

The Audit Committee has selected BDO USA, LLP (“BDO”) as the independent registered public accounting firm to audit the consolidated financial statements and the internal control over financial reporting of VAALCO and its subsidiaries for 2018. The Board has endorsed this appointment.

Representatives of BDO USA, LLP will be present at the Annual Meeting, will have an opportunity to make statements if they desire and will be available to respond to appropriate questions. If the stockholders do not ratify the appointment of BDO USA, LLP, the Audit Committee will consider the failure to ratify the appointment when appointing an independent registered public accounting firm for the following year. Deloitte & Touche LLP (“D&T”) previously audited the consolidated financial statements of VAALCO and VAALCO’s internal control over financial reporting during the year ended December 31, 2015. During the year ended December 31, 2015, Deloitte & Touche LLP provided both audit and non-audit services.

On behalf of the Company, the Audit Committee retained BDO USA, LLP to audit our consolidated financial statements and our internal control over financial reporting for 2017. Aggregate fees for professional services rendered for VAALCO by (i) BDO USA, LLP and by (ii) the member firms of Deloitte Touche Tohmatsu and their respective affiliates are as follows (amounts in thousands of dollars):

	BDO		D&T	
	2017	2016	2017	2016
	<i>(in thousands)</i>		<i>(in thousands)</i>	
Audit Fees	\$569	\$517	\$30	\$321
Audit-related Fees	–	–	121	–
Tax Fees	–	66	7	36
Total	\$569	\$583	\$158	\$357

Audit Fees

For the years ended December 31, 2017 and 2016, audit fees paid by us to Deloitte & Touche LLP and to BDO USA, LLP were for the audit of our annual financial statements, the related attestation of internal control over financial reporting, and the review of our quarterly financial statements.

Tax Fees

For the years ended December 31, 2017 and 2016, fees billed by Deloitte & Touche LLP and BDO USA, LLP to VAALCO for tax services were for review of federal and state income tax filings, consultation with respect to IRS audits, and for consultation in Gabon on payroll tax matters.

Audit Committee Pre-Approval Policies and Procedures

The 2017 audit and non-audit services provided by Deloitte & Touche LLP and BDO USA, LLP were pre-approved by the Audit Committee. The non-audit services which were approved by the Audit Committee were also reviewed to ensure compatibility with maintaining the accounting firm's independence.

The Audit Committee has in place pre-approval policies and procedures related to the provision of audit and non-audit services. Under these procedures, the Audit Committee pre-approves both the type of services to be provided by its independent registered public accounting firm and the estimated fees related to these services. During the approval process, the Audit Committee considers the impact of the types of services and the related fees on the independence of the accounting firm. The services and fees must be deemed compatible with the maintenance of the accounting firm's independence, including compliance with SEC rules and regulations.

Throughout the year, the Audit Committee reviews any revisions to the estimates of audit and non-audit fees initially approved.

PROPOSAL NO. 2:
RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS

During 2017, no fees for services outside the audit, review or attestation that exceeded the waiver provisions of 17 CFR 210.2-01(o)(7)(i)(c) were approved by the Audit Committee.

The Board of Directors unanimously recommends that stockholders vote FOR the ratification of the appointment of BDO USA, LLP as the Company's Independent Auditor for the year 2018. If not otherwise specified, proxies will be voted "FOR" Proposal No. 2.

Change in Independent Registered Public Accountants

Effective June 20, 2016, our Audit Committee approved the engagement of BDO USA, LLP as our company's independent registered public accounting firm for the year ending December 31, 2016. Also on that date, the Audit Committee informed Deloitte & Touche LLP that it would be dismissed as the Company's independent registered public accounting firm, effective June 20, 2016. The Audit Committee made its decision after soliciting proposals from several accounting firms.

During the years ended December 31, 2015 and 2014, and through June 20, 2016, neither we nor anyone on our behalf consulted with BDO USA, LLP with respect to either (i) the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on our consolidated financial statements, and neither written nor oral advice was provided to us that BDO USA, LLP concluded was an important factor considered by us in reaching a decision as to any accounting, auditing or financial reporting issue; or (ii) any matter that was either the subject of disagreement (as defined in Item 304(a)(1)(iv) of Regulation S-K and the related instructions to Item 304 of Regulation S-K) or a reportable event (as defined by Item 304(a)(1)(v) of Regulation S-K).

The reports of Deloitte & Touche LLP on our consolidated financial statements for the years ended December 31, 2015 and 2014 did not contain an adverse opinion or disclaimer of an opinion, and were not qualified or modified as to uncertainty, audit scope, or accounting principles, except that the December 31, 2015 report contained an explanatory paragraph regarding substantial doubt about our ability to continue as a going concern.

During the years ended December 31, 2015 and 2014 and through June 20, 2016, there were no disagreements (as defined in Item 304(a)(1)(iv) of Regulation S-K and the related instructions to Item 304 of Regulation S-K) with Deloitte & Touche LLP on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of Deloitte & Touche LLP, would have caused Deloitte & Touche LLP to make reference to the matter in its report on the consolidated financial statements for such year.

Except for the material weaknesses in our internal control over financial reporting as described by us in Item 9A of our Annual Reports on Form 10-K for the years ended December 31, 2014 (the “2014 Form 10-K”), December 31, 2015 (the “2015 Form 10-K”), each as filed with the Securities and Exchange Commission (the “Commission”) on March 16, 2015 and March 16, 2016, respectively, and the material weakness in our internal control over financial reporting that has not been remediated as described by us in Item 4 of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 (“Q1 2016 Form 10-Q”), as filed with the Commission on May 10, 2016, there were no “reportable events,” as defined in Item 304(a)(1)(v) of Regulation S-K that occurred during the years ended December 31, 2015 and 2014 or during the subsequent interim period through June 20, 2016. The Audit Committee discussed these matters with Deloitte & Touche LLP, and we authorized Deloitte & Touche LLP to respond fully to inquiries by BDO USA, LLP regarding these reportable events.

Deloitte & Touche LLP furnished a letter to the Commission stating that it agreed with the statements above concerning Deloitte & Touche LLP, and a copy of that letter was filed as an exhibit to our Current Report on Form 8-K that we filed with the SEC on June 24, 2016.

PROPOSAL NO. 2:

RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS

AUDIT COMMITTEE REPORT

The Board of Directors has determined that all current Audit Committee members are (i) independent, as defined in Section 10A of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), (ii) independent under the standards set forth by the NYSE and (iii) financially literate. In addition, Mr. Knapp and Mr. Pully qualify as audit committee financial experts under the applicable rules adopted under the Exchange Act. The Audit Committee is a separately designated standing committee of the Board, as defined in Section 3(a)(58)(A) of the Exchange Act, and operates under a written charter approved by the Board, which is reviewed annually.

Management is responsible for our system of internal controls and the financial reporting process. The independent accountants are responsible for performing an independent audit of our consolidated financial statements in accordance with generally accepted auditing standards in the United States of America and issuing a report thereon. In addition, the independent accountants are responsible for issuing an opinion on their audit of our internal control over financial reporting. The Audit Committee is responsible for monitoring (i) the integrity of our financial statements, (ii) our compliance with legal and regulatory requirements, and (iii) the independence and performance of our auditors.

The Audit Committee has reviewed and discussed with our management and the independent auditors the audited consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2017, including a discussion of the quality, not just the acceptability, of the accounting principles applied, the reasonableness of significant judgments and the clarity of disclosures in the consolidated financial statements. Management represented to the Audit Committee that our consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America. The Audit Committee discussed with the independent auditors the matters required to be discussed by Public Company Accounting Oversight Board (PCAOB) Auditing Standard No. 1301 (AS 1301), “Communications with Audit Committees.”

Our independent auditors also provided to the Audit Committee the written disclosure required by applicable rules of the PCAOB regarding the independent auditors’ communications with the Audit Committee concerning independence. The Audit Committee discussed with the independent auditors that firm’s independence.

Based on the Audit Committee’s discussions with management and the independent auditors, and the Audit Committee’s review of the representations of management and the report of the independent auditors to the Audit Committee, the Audit Committee recommended that the Board include the audited consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2017 filed with the SEC.

Audit Committee of the Board of Directors

A. John Knapp, Jr., Chairman

Andrew L. Fawthrop

John J. Myers, Jr.

Steven J. Pully

The forgoing information contained in this Audit Committee Report and references in this Proxy Statement to the independence of the Audit Committee members shall not be deemed to be “soliciting material” or to be “filed” with the SEC, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.

PROPOSAL NO. 3

ADVISORY RESOLUTION ON EXECUTIVE COMPENSATION

EXECUTIVE COMPENSATION

We are asking stockholders to vote “FOR” the following resolution:

“RESOLVED, that the compensation paid to the Company’s Named Executive Officers pursuant to the compensation disclosure rules of the SEC (including Item 402 of Regulation S-K), as disclosed in the Company’s most recent proxy statement, including the Compensation Discussion and Analysis, the accompanying compensation tables and related narrative discussion, is hereby APPROVED.”

Recommendation of our Board of Directors

The Board of Directors unanimously recommends that stockholders vote “FOR” Proposal No 3: Advisory non-binding vote on executive compensation to approve the compensation of our named executive officers as disclosed in this proxy statement.

The management proxy holders will vote all duly submitted proxies “**FOR**” Proposal THREE unless duly instructed otherwise.

Our Compensation Program

In accordance with the requirements of Section 14A of the Exchange Act and the related rules of the SEC, we are required to conduct a separate stockholder advisory vote to approve the compensation of Named Executive Officers, commonly known as a “Say-on-Pay” proposal. Accordingly, we are asking our stockholders to approve, on an advisory, non-binding basis, the compensation paid to our Named Executive Officers, as described in the “Executive Compensation and Other Information” section of this Proxy Statement.

Executive Compensation Philosophy

We believe our compensation program is effective, appropriate and strongly aligned with the long-term interests of our stockholders and that the total compensation package provided to our Named Executive Officers are reasonable and not excessive.

Our Board of Directors recognizes that executive compensation is an important matter for our stockholders. As described in detail in the “Executive Compensation and Other Information—Compensation Discussion & Analysis” (the “CD&A”) section of this Proxy Statement, the Compensation Committee is tasked with the implementation of our executive compensation philosophy and the core of that philosophy is to pay our Named Executive Officers based on performance. In particular, the Compensation Committee strives to attract, retain and motivate exceptional executives, to properly incentivize future performance by rewarding the achievement of established goals, and to align executives’ long-term interests with the interests of our stockholders. To do so, the Compensation Committee uses a combination of short- and long-term incentive compensation to reward near-term excellent performance and to encourage our Named Executive Officers’ commitment to our long-range, strategic business goals. It is the intention of the Compensation Committee that our Named Executive Officers be compensated competitively as compared to other companies in the same and closely related industries while ensuring that our compensation programs are consistent with our strategy, sound corporate governance principles, and stockholder interests and concerns. The Compensation Committee retains complete discretion over the actual amounts paid to our executives.

Among the program features incorporated by the Compensation Committee to align the compensation program for our Named Executive Officers with our executive compensation philosophy are the following:

- Equity-based awards generally incorporate a multi-year vesting period to emphasize long-term performance and executive retention;

- Equity-based awards and our stock ownership guidelines align the interests of our Named Executive Officers with those of our stockholders and focus our executives on long-term stockholder value creation;

- Our annual performance-based cash awards incorporate numerous financial and/or strategic performance metrics to ensure that our Named Executive Officers are motivated to achieve excellence in a wide range of performance metrics; and

- Cash payments under our employment agreements with executive officers requires a double trigger (i.e., a termination of employment in connection with a change in control) rather than a single trigger (a change in control alone) to initiate payment upon a change in control.

EXECUTIVE
COMPENSATION

As an advisory vote, Proposal THREE is not binding on our Board of Directors or the Compensation Committee and will not require our Board of Directors or the Compensation Committee to take any specific action. Although the vote is non-binding, our Board of Directors and the Compensation Committee value the opinions of our stockholders, and will carefully consider the outcome of the vote when making future compensation decisions for our Named Executive Officers.

COMPENSATION COMMITTEE REPORT

The information contained in this Compensation Committee Report shall not be deemed to be “soliciting material” or to be “filed” with the SEC, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that the Company specifically incorporates such information.

The Compensation Committee of the Company has reviewed and discussed the foregoing Compensation Discussion and Analysis for 2017 required by Item 402(b) of Regulation S-K with management and, based on such review and discussions, the Compensation Committee recommended to the Board of Directors that the foregoing Compensation Discussion and Analysis be included in the Company’s proxy statement for the 2018 annual meeting of stockholders, and also incorporated by reference in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017.

Compensation Committee of the Board of Directors

Steven J. Pully, Chairman

Andrew L. Fawthrop

Michael Keane

A. John Knapp

Compensation Discussion and Analysis

Introductory note: The following discussion of executive compensation contains descriptions of various employee benefit plans and employment-related agreements. These descriptions are qualified in their entirety by reference to the full text or detailed descriptions of the plans and agreements, which are filed or incorporated by reference as exhibits to our Annual Report on Form 10-K for the year ended December 31, 2017.

In this Compensation Discussion and Analysis section, we discuss our compensation objectives and our decisions and the rationale behind those decisions relating to the 2017 compensation for our executive officers named in the Summary Compensation Table, whom we sometimes refer to as our “Named Executive Officers.” The Company

remains focused on achieving the appropriate compensation design that best achieves our compensation program objectives as further described below.

Objectives of Our Compensation Program

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

Value	· Appropriately reward executives for increasing stockholder value and align the interests of our executive officers and our stockholders.
Talent	· Attract and retain talented executive officers by providing reasonable total compensation levels competitive with peer organizations.
Individual Performance	· Overall compensation justified and impacted by individual performance.
Performance based compensation	· Balance rewards for short-term and long-term results tied to individual and company performance.

What Our Compensation Program is Designed to Reward – Pay for Performance

Our business strategy is to economically increase our oil and gas reserves and production through the exploitation of our existing oil and gas properties in West Africa. Additionally, our business is to grow through acquisitions that leverage our existing technical and operational expertise. We believe that executing this business strategy will translate directly into increased stockholder value.

EXECUTIVE
COMPENSATION

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 within the industry.

We also believe that we ask more of a smaller group of leaders, with each executive having a broader role and impact than they otherwise might at other companies.

Although our equity awards generally do not have explicit performance-vesting conditions, they are subject to fluctuations in our stock price and individual performance and contributions are considered in making the grants. Our Named Executive Officers, who receive a significant amount of their compensation in the form of equity awards, have been subject to the same downward pressure on their realized compensation as our stockholders. The granting of equity awards to our Named Executive Officers exposes them to the same risks that face our stockholders. Furthermore, a significant portion of the equity awards granted to our Named Executive Officers are in the form of stock options and stock appreciation rights, which we believe are inherently performance-based.

EXECUTIVE
COMPENSATION

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.

- Recognize unique value and historical contributions to our success.
- Competitive in light of salary norms in the industry and the general marketplace.

Base Salary

- Match competitors for executive talent.
- Provide executives with predictable, regularly-paid income.
- Reflect an executive's position and level of responsibility.
- Motivate management to achieve key corporate objectives.

Cash Bonus

- Competitive remuneration package aligned with peers.
- Compensation Committee maintains complete discretion on the pay-out of bonuses to the executive team.
- Aligns executives' interests with the interests of our stockholders.
- Rewards long-term performance.

**Long-term
Equity-based**

- Is required in order for us to be competitive from a total remuneration standpoint.
- Encourages executive retention.
- Gives executives the opportunity to share in our long-term performance.
- Utilize restricted stock, option awards and stock appreciation rights.
- 401(k) plan and match.

Benefits

- Payment of insurance premiums.

2017 Advisory Vote on Executive Compensation

At our annual meeting in 2017, we offered our stockholders an opportunity to vote for or against an advisory, non-binding proposal on our executive compensation through our "say on pay" proposal.

Of the total number of shares voted for or against this proposal, holders of approximately 74% of those shares voted in favor of approval of the compensation to our Named Executive Officers.

Based on the level of stockholder support demonstrated in 2017's "say on pay" vote, we further refined the central elements making up our incentive compensation, increasing the emphasis on long-term equity-based incentives and a targeted cash bonus component that is less than the amounts the Company had traditionally awarded. In addition, the Compensation Committee sought out and gave deference to the views and opinions of our two directors who represent two of our largest stockholders in setting compensation for our Named Executive Officers to address concerns of our stockholders. The Compensation Committee will continue to consider the outcome for our "say-on-pay" votes and stockholder views when making future compensation decisions for our executive officers.

How We Determine Each Element of Compensation

In determining the elements of compensation, we consider various measures of Company and industry performance including total stockholder return, capital expenditures, additions to reserves of oil and gas, operating costs, safety performance, production and other measures discussed herein. We aim to offer a competitive compensation package for a company of our size and in our industry, consisting of base salary, bonus and annual long-term incentive awards. The actual compensation amounts are determined annually at the discretion of the Compensation Committee. The Compensation Committee did not retain a compensation consulting firm for 2017.

EXECUTIVE COMPENSATION

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 stock performance, long- and short-term financial and strategic goals. We believe this compensation philosophy can provide a competitive, attractive cash bonus opportunity for our executives while also more closely aligning their interests with those of our stockholders. In 2016, in an effort to minimize share dilution while still providing equity-based incentive compensation that we believe is competitive with the market for executives, we adopted the VAALCO Energy, Inc. 2016 Stock Appreciation Rights Plan (the “SAR Plan”) to issue cash settled stock appreciation rights. Other than as noted above, our Compensation Committee has not adopted any formal or informal policies or guidelines for allocating compensation between long-term and yearly paid-out compensation, between cash and non-cash compensation, or among different forms of non-cash compensation.

We feel that ultimately many of the compensation decisions are qualitative and not quantitative, and take into consideration the unique international nature of our operations, competitive conditions in our industry, competitive conditions for executive talent and other factors discussed below. Our current compensation structure has a good mix of both quantitative and qualitative elements, while the qualitative aspects are what the Company considers most important.

Base Salary

The Compensation Committee meets at least annually to review the base salaries of our executive officers.

In setting base salaries, the Compensation 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 Compensation 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.

In connection with his appointment to Chief Executive Officer in December 2016, and pursuant to the terms of his employment agreement, which was reviewed and approved by the Compensation Committee, the annual base salary of Mr. Bounds was increased from \$340,000 to \$400,000. Mr. Patman joined in April 2017 as the Chief Financial Officer with a base salary of \$325,000. Ms. Prochnow’s base salary was increased from \$195,000 to \$200,000 at the end of 2017.

Bonus

Our 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 and the Board of Directors approves the payment of bonuses.

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. At a meeting in the first quarter of the following year, the Compensation Committee establishes bonus compensation for the previous year. Additionally, the Compensation Committee formally sets various targets for financial and non-financial measures such as oil and gas production levels, operating expenses, safety performance, resource additions and total stockholder return for the current year.

In determining the incentive bonuses earned, the Compensation Committee gives substantial weight to our achievement of the Company goals and objectives set out in our budget for the preceding year, in addition to individual goals and objectives for each executive. In addition, the Compensation Committee can evaluate additional factors in its determination of the approved bonus levels, including operating income and stockholder return. The Compensation Committee maintains complete discretion on the final determination of bonuses for the executive team. Typically, approximately 50% of the target bonus for each executive officer is based on corporate goals while approximately 50% of the target bonus is based on individual performance and accomplishments. The target bonus percentages, as a percentage of an individual's annual base salary, established for our Named Executive Officers for 2017 was as follows: Mr. Bounds – 100%; Mr. Patman – 75%; and Ms. Prochnow – 30%.

EXECUTIVE
COMPENSATION

The Compensation Committee established the following corporate performance goals in March 2017 for the fiscal year 2017 bonus program for the Company as a whole:

Goals	Actual Results	Percentage impact
Achieve a Total Recordable HSE Incident Rate of 0.47 or less	0.69 (Three incidents on the Nautipa FPSO)	0%
Maintain operating costs below \$34.5 million	\$36.1 million	0%
Meet or exceed average net production of 3,975 barrels of oil per day	4,159	18%
Limit workover expenses to \$4 million	\$3.5 million	6.2%
Proved reserve additions of 1.4 million barrels net or more	Reserves grew year over year by replacing 127% of production, or 1.9 million barrels net	15%
Achieve Total Shareholder Return in the second quartile of the Company's Peer Group	4th Quartile	0%
Maintain Corporate general and administrative expenses below \$11.2 million	\$9.8 million	10.9%

Under the formulaic application of the Company's results as measured against the corporate performance goals, a payout of 50.1% of target was achieved under the corporate performance component of the 2017 bonus program.

The executive's individual performance was further evaluated on the following additional criteria to determine their final bonus amount.

Goals	Actual Results	Percentage impact
Corporate Performance Goals	A payout of 50.1% of target was achieved, as described above	10%
Transformational Growth	A number of alternatives were evaluated and considered by management and the Board	15%
Etame License Extension	Significant progress was achieved	15%
Angola Exit	Management is still in discussions with Sonangol to reduce penalty payments associated with undrilled obligation wells	0%
Capital Funding	There were no capital projects approved in 2017	0%
Total		40%
Total Shareholder Return Modifier ⁽¹⁾	Stock price declined and VAALCO performance was fourth quarter relative to peers	75% reduction of Total

The total shareholder return was calculated based on the performance of our peer group of small to midsize (1) companies with international offshore exposure, specifically, Bowleven plc, Cairn Energy plc, Eland Oil & Gas, FAR Ltd., Kosmos Energy Ltd., Ophir Energy plc, Sterling Energy plc and Tullow Oil plc.

Based on the executive's performance results, as measured against their performance goals, a payout of 10% of target was achieved for the executive's corporate performance for the 2017 bonus program.

Bonuses were paid to the employees in March 2018 under this formula with individual performance and corporate performance, each accounting for 50% of the final payments made.

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Long-Term Equity-Based Incentives

We believe formal long-term equity incentive programs are valuable compensation tools and are consistent with the compensation programs of the companies in our peer group. We maintain (i) the VAALCO Energy, Inc. 2014 Long-Term Incentive Plan (the “2014 LTIP”), which permits the grant of stock, options, restricted stock, restricted stock units, phantom stock, stock appreciation rights and other awards, any of which may be designated as performance awards or be made subject to other conditions and (ii) the SAR Plan, which permits the grant of cash settled stock appreciation rights (“SARs”). We believe that long-term equity-based incentive compensation is an important component of our overall compensation program because it:

- balances short- and long-term objectives;
- aligns our executives’ interests with the long-term interests of our stockholders and the creation of stockholder value;
- makes our compensation program competitive from a total remuneration standpoint;
- encourages executive retention; and
- gives executives the opportunity to share in our long-term value creation.

The Compensation Committee administers our long-term incentive plans and performs 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 considers recommendations from our Chief Executive Officer. Typically, awards vest over multiple years, but the Compensation Committee maintains the discretionary authority to vest the equity grant immediately if the individual situation merits. In the event of a change of control, all outstanding equity-based awards will immediately vest.

Beginning in 2014, in order to more closely align the interests of stockholders and our executive officers, the Compensation Committee determined to increase long-term equity-based incentives as a percentage of total compensation. While historically the Company had exclusively used stock options to incentivize its senior executives, starting in 2014 and based on recommendations from an independent compensation consulting firm, the Company issued a combination of stock options and restricted stock. In March 2014, the Compensation Committee approved the 2014 LTIP in order to ensure availability of equity incentive awards and the 2014 LTIP was approved by the Company’s stockholders in June 2014. In March 2016, the Compensation Committee approved the SAR Plan to issue cash settled SARs in order to ensure availability of equity incentive awards that were not dilutive to the Company’s existing stockholders. In 2017, the Compensation Committee determined that SAR awards best reflect the risk borne by our stockholders by setting the exercise price higher than the current stock price and requiring that the stock price reach predetermined levels to vest, in addition to the typical three year vesting schedule.

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.

Mr. Bounds received 185,185 shares of restricted stock and 375,039 stock options in connection with his promotion to Chief Executive Officer, which were also considered part of his 2017 LTIP awards. One-third of the awarded options vested immediately on the date of grant, with the remainder vesting equally on the first and second anniversaries of the date of grant. The restricted stock awards vest in three equal tranches on the first, second and third anniversaries of the date of grant. In April 2017, Mr. Bounds received 754,717 SARs with an exercise price above the grant date closing price for the Company's Common Stock and vesting limited by time and increases in stock prices.

As an inducement for Mr. Patman to join the Company he was issued 186,706 stock options and 105,794 shares of restricted stock in April 2017. The stock options and restricted stock awards vest in three equal tranches on the first, second and third anniversaries of the date of grant.

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In April 2017, Ms. Prochnow received 68,930 stock options. Starting with the award in 2017, the stock options now vest in three equal tranches on the first, second and third anniversaries of the date of grant.

Benefits

We provide company benefits that we believe are standard in the industry to all of our employees, including the Named Executive Officers. These benefits consist of a group medical and dental insurance program for employees and their qualified dependents, the majority of which is currently paid for by the Company, and a 401(k) employee savings plan. We also currently make matching contributions of up to 6% of each participant's salary. The Company pays all administrative costs to maintain the 401(k) plan. We do not provide employee life insurance amounts surpassing the Internal Revenue Service maximum.

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 at their discretion.

Accounting and Tax Considerations

In conducting the compensation programs for 2017 applicable to our executive officers, the Compensation Committee considered the effects of Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), which under prior law denied publicly held companies a tax deduction for annual compensation in excess of \$1.0 million paid to their chief executive officer or generally their three other most highly compensated corporate officers who are employed on the last day of a given year, unless that compensation is based on performance criteria that are established by a committee of outside directors and approved, as to their material terms, by that company's stockholders. Pursuant to tax law changes made effective for 2018, our CEO, CFO and other Named Executive Officers will be included in the executives whose compensation is subject to the \$1.0 million limit imposed by Section 162(m). Further to this rule, should any of our current Named Executive Officers no longer meet the statutory guidelines for being considered a "covered person" as that term is defined in the Code, such executive will remain subject to the deductibility limitation of Section 162(m). The exception previously afforded to performance criteria has been eliminated with the result that all of our CEO, CFO and other Named Executive Officer compensation will be subject to the \$1.0 million limit on deductibility. Our performance-based restricted stock awards, stock options and SAR awards granted prior to November 3, 2017 under the 2014 LTIP and SAR Plan will continue to be deductible, so long as those awards are not materially modified in the future.

For awards granted in 2018 and beyond, all taxable compensation paid to our Named Executive Officers, including compensation expense generated in connection with the exercise of options and performance-based restricted stock

awards, stock options and SAR awards granted under our stock incentive plan are not exempt from the Section 162(m) deduction limit. We may from time to time in the future pay compensation amounts to our executive officers that are not deductible. Although we consider tax deductibility in the design and administration of our executive compensation plans and programs, we believe that our interests are best served by providing competitive levels of compensation to our Named Executive Officers even if it results in the non-deductibility of certain amounts under the Code.

If an executive is entitled to certain “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.

Stock option and restricted stock 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 ASC Topic 718. Awards of SARs to our employees, including executive officers, have been granted and reflected in our consolidated financial statements, based upon the applicable accounting guidance, at fair market value on the grant date and each subsequent reporting date in accordance with ASC Topic 718

Termination of Employment Arrangements

Our employment agreements with Mr. Bounds and Mr. Patman, and the employment agreements with certain of our expatriate employees working in West Africa, require more than 30 days’ notice of termination. Employment contracts with expatriates typically require a longer notice period, such as 90 days, and the payment of the cost to relocate the expatriate back to their home base, along with their personal effects. Additionally, our local Gabonese and Angolan employees work under contracts complying with the respective local labor codes, which may in certain circumstances require the payment of post-termination severance.

The Company also adopted a Severance Plan in August 2015 that covers employees based in our corporate headquarters in Houston, Texas who are not executive officers. The Severance Plan provides for a benefit of one week of base salary for every year of eligible service (a minimum of four weeks and a maximum of twelve weeks base salary), an additional two weeks of base salary for those employees over the age of forty, and the payment of extended health insurance premiums for a period of three months.

Stock Ownership Requirements

The Board of Directors believes that it is in the best interest of the Company and its stockholders to align the financial interests of the officers of the Company and non-employee members of the Board with those of the Company’s stockholders. In this regard, in December 2014, as amended in September 2015, the Board adopted minimum stock ownership guidelines.

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The guidelines require that the individuals covered by the policy must hold an interest in the Company's shares equal to the following:

- Chief Executive Officer—five times annual base salary;