

PETROLEUM DEVELOPMENT CORP

Form DEF 14A

April 30, 2010

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**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

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

**Petroleum Development Corporation**

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

No fee required.

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(1) Amount Previously Paid:

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(3) Filing Party:

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**PETROLEUM DEVELOPMENT CORPORATION**  
**1775 Sherman Street, Suite 3000**  
**Denver, Colorado 80203**

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**  
**June 4, 2010**

**Denver Financial Center**  
**Lobby Conference Room**  
**1775 Sherman Street**  
**Denver, Colorado 80203**

To the Shareholders:

Notice is hereby given that the Annual Meeting of Shareholders of Petroleum Development Corporation (the Company ) will be held at the Denver Financial Center, Lobby Conference Room, 1775 Sherman Street, Denver, Colorado 80203, on June 4, 2010, at 11:30 a.m., Mountain Time, for the following purposes, all as more fully described in the accompanying Proxy Statement:

- (1) To elect the three Director nominees identified in the accompanying Proxy Statement for a three-year term until the 2013 annual meeting of shareholders and until their successors are elected;
- (2) To approve the Company s 2010 Long-Term Equity Compensation Plan;
- (3) To ratify the selection of PricewaterhouseCoopers LLP as independent registered public accounting firm for the Company for the year ending December 31, 2010; and
- (4) To consider such other business as may properly come before the meeting and at any and all adjournments or postponements thereof.

The Board of Directors has fixed the close of business on April 7, 2010, as the record date for determining the shareholders having the right to vote at the annual meeting or any adjournment or postponement thereof. The presence in person or by proxy of the holders of a majority of the outstanding shares of the Company s common stock entitled to vote is required to constitute a quorum.

Each shareholder is cordially invited to attend and to vote at this meeting in person. Shareholders who do not expect to attend are requested to sign and date the accompanying proxy card and return it promptly in the enclosed postpaid envelope.

By Order of the Board of Directors,

Daniel W. Amidon,  
*Corporate Secretary*

*Denver, Colorado*

*April 30, 2010*

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**PETROLEUM DEVELOPMENT CORPORATION  
1775 Sherman Street, Suite 3000  
Denver, Colorado 80203**

**PROXY STATEMENT  
ANNUAL MEETING OF SHAREHOLDERS  
TO BE HELD JUNE 4, 2010**

**Denver Financial Center  
Lobby Conference Room  
1775 Sherman Street  
Denver, Colorado 80203**

The accompanying proxy is solicited by the Board of Directors ( Board ) of Petroleum Development Corporation ( PDC or the Company ) for use at the Annual Meeting of Shareholders of the Company to be held on June 4, 2010, at 11:30 a.m. Mountain Time, and at any and all adjournments or postponements of the meeting, for the purposes set forth in this Proxy Statement and the attached Notice of Annual Meeting of Shareholders. This Proxy Statement and the enclosed form of proxy are first being mailed to the shareholders of the Company on or about April 30, 2010.

The Company will bear the cost related to the solicitation of proxies. The Company will reimburse brokerage firms and other custodians, nominees and fiduciaries for reasonable and appropriate expenses incurred by them in sending proxy materials to the beneficial owners of the Company's common stock. In addition to solicitations by mail, Directors, officers and employees of the Company may solicit proxies by telephone and, to the extent necessary, other electronic communication, and personal interviews without additional compensation.

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**GENERAL INFORMATION**

**Who May Vote**

Shareholders of PDC, as recorded in the Company's stock register on April 7, 2010, may vote at the meeting. The outstanding voting securities of the Company as of April 7, 2010, consisted of 19,253,526 shares of common stock. Each share is entitled to one vote on each matter considered at the meeting.

**How Proxies Work**

The Board is asking for your proxy. Giving the Board your proxy means that you authorize the Board to vote your shares at the meeting in the manner you direct. You may vote for any or all Director Nominees, or you may withhold your vote from any or all of the Director Nominees. You may also vote for or against the other proposals, or abstain from voting. Cumulative voting is not permitted by the Company's By-Laws in the election of Directors.

If your shares are held in your name, you can vote by completing, signing and dating your proxy card and returning it in the enclosed envelope.

If you give the Board your signed proxy but do not specify how to vote, your shares will be voted in favor of the Director Nominees named on the proxy, in favor of approving the 2010 Long-Term Equity Compensation Plan, and in favor of the ratification of PricewaterhouseCoopers LLP as the Company's independent registered accounting firm for the year ending December 31, 2010.

If you hold shares through someone else, such as a stockbroker, you will receive material from that firm asking how you want to vote. Check the voting form used by that firm to see what voting options you have available and to determine what procedures you must follow.

**Revoking a Proxy**

You may revoke your proxy before it is voted by:

- Submitting a new signed proxy with a later date;
- Notifying PDC's Corporate Secretary in writing before the meeting that you wish to revoke your proxy; or
- Appearing at the meeting, notifying the Inspector of the Election that you wish to revoke your proxy, and voting in person at the meeting. Merely attending the meeting will not result in your revoking your proxy.

If you hold your shares through someone else, such as a stockbroker, you will need to follow the directions they give you to revoke a proxy or otherwise vote at the meeting.

**Quorum**

In order to carry on the business of the meeting, there must be a quorum. This means that at least a majority of the outstanding shares eligible to vote must be represented at the meeting, either by proxy or in person. Treasury shares, which are shares owned by PDC itself, are not voted and do not count for this purpose.

**Votes Needed**

The Director Nominees who receive the most votes will be elected to fill the available seats on the Board. There is no provision in the Company's By-Laws which requires Director Nominees to receive a majority of the votes cast to be elected. Approval of each of the other proposals requires the favorable vote of a majority of the votes cast. Only votes for or against a proposal count. Abstentions and broker non-votes will count for quorum purposes but not for voting purposes. Broker non-votes occur when a

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broker returns a proxy but does not have authority from the owner of the stock to vote on a particular proposal.

**Attending in Person**

Only shareholders or their proxy holders and PDC's guests may attend the annual meeting. For safety and security reasons, no cameras, audio or video recording equipment, large bags, briefcases or packages will be permitted in the meeting. In addition, each shareholder and guest may be asked to present valid, government-issued picture identification, such as a driver's license, before being admitted to the meeting.

If your shares are held in the name of your broker, bank, or other nominee, you must bring to the meeting an account statement or letter from the nominee indicating that you beneficially owned the shares on April 7, 2010, the record date for voting. Shareholders who do not present such information at the meeting will be admitted upon verification of ownership at the admissions counter.

**Conduct of the Meeting**

The Chairman has broad authority to conduct the annual meeting in an orderly and timely manner. This authority includes establishing rules for shareholders who wish to address the meeting. The Chairman may also exercise broad discretion in recognizing shareholders who wish to speak and in determining the extent of discussion on each item of business. In light of the need to conclude the meeting within a reasonable period of time, there can be no assurance that every shareholder who wishes to speak on an item of business will be able to do so. The Chairman may also rely on applicable law regarding disruptions or disorderly conduct to ensure that the meeting is conducted in a manner that is fair to all shareholders.

**Contact Information**

If you have questions or need more information about the annual meeting, write to or call:

Corporate Secretary  
Petroleum Development Corporation  
1775 Sherman Street, Suite 3000  
Denver, CO 80203  
(303) 860-5800

For information about shares registered in your name, call PDC at 1-800-624-3821. You are also invited to visit PDC's internet site at [www.petd.com](http://www.petd.com). Internet site materials are not part of this proxy solicitation.

**PROPOSALS REQUIRING SHAREHOLDER VOTE**

**PROPOSAL 1 ELECTION OF DIRECTORS**

**(ITEM 1 ON THE PROXY)**

As of the date of this proxy statement and as permitted by the Company's By-Laws, the Company's Board of Directors ( Board ) has nine members divided into three classes. Directors are usually elected for three-year terms. The terms for members of each class end in successive years.

The Board has nominated three continuing Directors, Larry F. Mazza, James M. Trimble and Richard W. McCullough, whose terms expire in 2010 at the annual meeting, to stand for election to the Board for a three-year

term expiring in 2013. Vincent F. D Annunzio has chosen not to stand for re-election. By resolution, the Board of Directors has decreased the size of the Board to eight members to be effective as of the date of the 2010 annual shareholder meeting. Mr. Mazza joined the Board in 2007 and currently serves on the Compensation Committee and the Nominating and Governance Committee. Mr. Trimble

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joined the Board in September 2009 and currently serves on the Planning and Finance Committee as well as the Compensation Committee.

The appointed proxies will vote your proxy in accordance with your instructions, and for the election of the three nominees unless you withhold your authority to vote for any of them. The Board does not contemplate that any of the nominees will become unavailable for any reason; however, if any Director is unable to stand for election, the Board may reduce its size or choose a substitute. Proxies cannot be voted for a greater number of persons than the number of nominees named or for a person who is not named in this Proxy Statement as a candidate for Director.

**NOMINEES FOR A THREE-YEAR TERM EXPIRING IN 2013**

<b>Name, Principal Occupation for Past Five Years and Other Directorships</b>	<b>Age</b>	<b>Year First Elected Director</b>
LARRY F. MAZZA is President and Chief Executive Officer of MVB Bank, Inc. in Fairmont, West Virginia. He has been Chief Executive Officer since March 2005, and added the duties of President in January of 2009. Prior to 2005, Mr. Mazza served as Senior Vice President Retail Banking for BB&T and its predecessors in West Virginia, where he was employed from June 1986 to March 2005. A Certified Public Accountant for 26 years, Mr. Mazza also was previously an auditor with KPMG. Mr. Mazza brings to the Board extensive leadership and banking experience. Banking relationships and experience have become particularly important to the Company during the last few uncertain years. The Company benefits from Mr. Mazza's firsthand continuing experience as a chief executive officer, a specific attribute sought by the Board when Mr. Mazza initially became a Director in 2007. Mr. Mazza also provides an important link to community and employee stakeholders, demonstrating a continuing commitment to our largest workforce located in Bridgeport, West Virginia.	49	2007
JAMES M. TRIMBLE has served as Managing Director of Grand Gulf Energy, Limited (ASX:GGE), a public company traded on the Australian Exchange, since August 2006. In January 2005, Mr. Trimble founded and has since served as President and Chief Executive Officer of the U.S. subsidiary Grand Gulf Energy Company LLC, an exploration and development company focused primarily on drilling in mature basins in Texas, Louisiana and Oklahoma. From 2000 through 2004, Mr. Trimble was Chief Executive Officer of Elysium Energy and then Tex-Cal Energy LLC, both were privately held oil and gas companies that he was brought in to take through troubled workout solutions. Prior to this, he was Senior Vice President of Exploration and Production for Cabot Oil and Gas (NYSE:COG). From November 2002 until May 2006, he also served as a Director of Blue Dolphin Energy, an independent oil and gas company with operations in the Gulf of Mexico. Mr. Trimble is a Registered Professional Engineer who brings many years of broad oil and gas industry executive management experience to the Board, including experience as a chief operating officer, and knowledge of current developments and best practices in the industry.	61	2009

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RICHARD W. MCCULLOUGH was appointed Chief Executive Officer of the Company in June 2008 and Chairman of PDC's Board of Directors in November 2008. From November 2006 until November 2008, he served as Chief Financial Officer of the Company. Prior to joining PDC, Mr. McCullough served from July 2005 to November 2006 as an energy consultant. From January 2004 to July 2005, he was President and Chief Executive Officer of Gasource, LLC, a marketer of long-term, natural gas supplies in Dallas, Texas. From 2001 to 2003, Mr. McCullough served as an investment banker with J.P. Morgan Securities, Atlanta, Georgia, in the public finance utility group supporting bankers nationally in all natural gas matters. Additionally, Mr. McCullough has held senior positions with Progress Energy, Deloitte and Touche, and the Municipal Gas Authority of Georgia. He holds BS and MS degrees from the University of Southern Mississippi and was a practicing Certified Public Accountant for eight years. Mr. McCullough serves on the boards of several oil and gas trade industry associations and brings to the Board extensive and diverse oil and gas industry, public accounting and investment banking expertise, and strong leadership and management skills.

58 2007

**CONTINUING DIRECTORS WITH TERM EXPIRING IN 2011**

DAVID C. PARKE is a Managing Director in the investment banking group of Boenning & Scattergood, Inc., West Conshohocken, Pennsylvania, a full-service investment banking firm. Prior to joining Boenning & Scattergood in November 2006, he was a Director with investment banking firm Mufson Howe Hunter & Company LLC, Philadelphia, Pennsylvania, from October 2003 to November 2006. From 1992 through 2003, Mr. Parke was Director of Corporate Finance of Investec, Inc. and its predecessor Pennsylvania Merchant Group Ltd., both investment banking companies. Prior to joining Pennsylvania Merchant Group, Mr. Parke served in the corporate finance departments of Wheat First Butcher & Singer, now part of Wachovia Securities, and Legg Mason, Inc., now part of Stifel Nicolaus. Mr. Parke's extensive investment banking experience, including experience in the oil and gas area, allows him to contribute broad financial and investment banking expertise to the Board and to provide guidance on capital markets and acquisition matters.

43 2003

JEFFREY C. SWOVELAND is President and Chief Executive Officer of ReGear Life Sciences, Inc. in Pittsburgh, Pennsylvania (previously named Coventina Healthcare Enterprises), which develops and markets medical device products, where he was previously Chief Operating Officer. From 2000 until 2007, Mr. Swoveland served as Chief Financial Officer of Body Media, Inc., a life-science company specializing in the design and development of wearable body monitoring products and services. Prior thereto, Mr. Swoveland held various positions, including Vice-President of Finance, Treasurer and interim Chief Financial Officer with Equitable Resources, Inc., a diversified natural gas company, from 1994 to September 2000. Mr. Swoveland serves as a member of the Board of Directors of Linn Energy, LLC, a public, independent natural gas and oil company. Mr. Swoveland brings to the Board extensive corporate management, accounting and finance experience, and oil and gas industry expertise. Additionally, his service as a director of another public energy company provides leadership and knowledge of best practices that benefit the Company. His guidance and understanding of management processes of larger oil and gas companies benefits the Company as it grows.

55 1991

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JOSEPH E. CASABONA served as Executive Vice President and member of the Board of Directors of Denver-based Energy Corporation of America, a natural gas exploration and development company, from 1985 until his retirement in May 2007. Mr. Casabona's responsibilities included strategic planning as well as executive oversight of drilling operations in the continental U.S. and internationally. In 2008, Mr. Casabona became Chief Executive Officer of Paramax Resources Ltd, a junior public Canadian oil & gas company (PMXRF) engaged in the business of acquiring and exploration of oil and gas prospects, primarily in Canada and Idaho. Mr. Casabona brings to the Board extensive experience in all aspects of the oil and gas industry, including natural gas exploration, development, acquisitions, operations and strategic planning. Mr. Casabona has direct oil and gas knowledge and experience in the Company's two primary areas of operations, the Rocky Mountain Region and Appalachian Basin.

66 2007

**CONTINUING DIRECTORS WITH TERM EXPIRING IN 2012**

ANTHONY J. CRISAFIO, a Certified Public Accountant, has served as an independent business consultant for more than fifteen years, providing financial and operational advice to businesses in a variety of industries and stages of development. He also serves as an interim Chief Financial Officer and Advisory Board member for a number of privately held companies and has been a Certified Public Accountant for more than thirty years. Mr. Crisafio served as the Chief Operating Officer, Treasurer and member of the Board of Directors of Cinema World, Inc. from 1989 until 1993. From 1975 until 1989, he was employed by Ernst & Young and was a partner with Ernst & Young from 1986 to 1989. He was responsible for several Securities and Exchange Commission (SEC) registered client engagements and gained significant experience with oil and gas industry clients and mergers and acquisitions. Mr. Crisafio brings to the Board more than thirty years of financial accounting and management expertise, with demonstrated business management and accounting experience.

57 2006

KIMBERLY LUFF WAKIM, an attorney and a Certified Public Accountant, is a Partner with the Pittsburgh, Pennsylvania law firm Thorp, Reed & Armstrong LLP, where she serves as a member of the Executive Committee and is the Practice Group Leader for the Bankruptcy and Financial Restructuring Practice Group. Ms. Wakim has practiced law with Thorp, Reed & Armstrong LLP since 1990. Ms. Wakim was previously an auditor with Main Hurdman (now KPMG) and was Assistant Controller for PDC from 1982 to 1985. She has been a member of AICPA and the West Virginia Society of CPAs for more than fifteen years. Ms. Wakim brings to the Board a combination of strong legal background and expertise in accounting oversight.

52 2003

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For the 2009-2010 Board term, each non-employee Director was paid an annual fee of \$55,000 and received 4,000 shares of restricted stock of the Company. The Presiding Independent Director was paid an additional fee of \$27,500. Each Non-Employee Director received the following fees for services on each committee on which he or she served:

**2009-2010 Director Term Committee Fees**

<b>Standing Committees of the Board</b>	<b>Chair</b>	<b>Non-Chair Member</b>
Audit	\$ 27,500	\$ 10,000
Compensation	10,000	5,000
Executive		5,000
Nominating and Governance	7,500	2,500
Planning and Finance	7,500	2,500

In addition, a Special Committee consisting of Messrs. Crisafio, Mazza, Parke and Swoveland was created to consider the potential repurchase of certain of the partnerships for which the Company is the managing general partner. Each Special Committee member was paid a fee of \$3,500 for 2009.

As of the date of each annual shareholders meeting of the Company, each non-employee Director will be awarded a specified number of shares of restricted stock as determined by the Board. In 2009, Directors receiving restricted stock under the 2005 Non-Employee Director Restricted Stock Plan ( 2005 Plan ) had all of the rights of a shareholder including the right to vote the shares and receive cash dividends and other cash distributions. Restricted stock will be subject to the restrictions for the restricted period commencing on the date the stock is awarded.

Each non-employee Director may also choose to defer a portion or all of his/her annual cash compensation by participating in the Non-Employee Director Deferred Compensation Plan. The plan's trustee invests all cash deposits received exclusively in the common stock of the Company.

On April 19, 2010, the Board of Directors approved compensation for the 2010-2011 Board year. The annual compensation for the Chairs and members of the Planning and Finance Committee, Compensation Committee and Nominating and Governance Committee was raised to \$12,000 and \$6,000, respectively. The equity compensation was determined to be twice the retainer, or \$110,000, for 2010-2011.

**2009 Director Compensation**

<b>Name</b>	<b>Fees Earned or Paid in Cash(1)</b>	<b>Stock Awards(2)</b>	<b>Total</b>
Jeffrey C. Swoveland	\$ 103,500	\$ 61,520	\$ 165,020
Vincent F. D Annunzio	72,500	61,520	134,020



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Kimberly Luff Wakim	77,500	61,520	139,020
David C. Parke	76,000	61,520	137,520
Anthony J. Crisafio	88,500	61,520	150,020
Joseph E. Casabona	70,000	61,520	131,520
Larry F. Mazza	66,000	61,520	127,520
James M. Trimble	17,344	51,360	68,704
Steven R. Williams	30,000	16,710	46,710

(1) Compensation paid to Mr. McCullough for his services as an executive officer is shown in the Summary Compensation Table below; no additional compensation was received for his services as a

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Director while serving concurrently as an executive officer. Mr. Williams did not stand for reelection to the Board of Directors at the 2009 Annual Shareholders meeting.

Mr. Swoveland deferred 20% of his 2009 fees pursuant to the stock purchase election under the Company's Non-Employee Deferred Compensation Plan.

- (2) Awards reflect the grant date fair value as computed in accordance with FASB ASC Topic 718. Messrs. Williams and Trimble each received restricted stock awards representing the *pro rata* portion of the 2009-2010 Board term non-employee Director restricted stock award.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR EACH OF THE NOMINEES TO THE BOARD OF DIRECTORS SET FORTH IN THIS PROPOSAL #1. PROXIES SOLICITED BY THE BOARD WILL BE SO VOTED UNLESS SHAREHOLDERS SPECIFY A CONTRARY VOTE. THE PROXIES WILL BE VOTED IN ACCORDANCE WITH THE SHAREHOLDERS' SPECIFICATIONS. DIRECTORS ARE ELECTED BY A PLURALITY OF THE VOTE.**

**PROPOSAL 2 APPROVE 2010 LONG-TERM EQUITY COMPENSATION PLAN**

**(ITEM 2 ON THE PROXY)**

**Purpose of this Proposal**

The purpose of this proposal is to seek shareholder approval of the Company's 2010 Long-Term Equity Compensation Plan, effective April 1, 2010. We refer to this plan as the 2010 Plan. The 2010 Plan authorizes the issuance to employees and directors of up to 1,400,000 total shares of equity, in various forms, including but not limited to options, restricted stock and stock appreciation rights.

The Board of Directors proposes that you approve the 2010 Plan. The following is a substantive summary of the material provisions of the 2010 Plan. This summary is qualified in its entirety by reference to the full text of the 2010 Plan which appears as Exhibit A to this Proxy Statement.

**Description of the 2010 Plan**

In submitting the 2010 Plan to the shareholders for their consideration and approval, the Board is proposing to continue its program of equity incentives to key employees of the Company (currently through the Company's 2004 Long-Term Equity Compensation Plan (the "2004 Plan")) and its program of equity incentives to the Company's non-employee Directors (currently through the 2005 Non-Employee Director Restricted Stock Plan (the "2005 Plan")). The Company's shareholders have previously considered and approved each of these earlier plans. As of April 20, 2010, the 2004 Plan currently has only 144 shares available for award and grant to key employees, while the 2005 Plan has only 27,144 shares available for award to non-employee Directors. In aggregate, there were 67,588 options and SARs outstanding as of April 20, 2010 with a weighted average exercise price of \$27.10 and a weighted average term of 9.34 years. Also, as of April 20, 2010 there were 455,349 full value awards outstanding under all plans. The Board has determined that it is advisable for the Company to authorize, subject to shareholder approval, additional shares for issuance to the Company's key employees and non-employee Directors in order to continue to further incentivize them in their management of the Company and to encourage them to own Company stock to further align their interests with those of the Company's shareholders. For ease of administration, the Board has determined further that it is advisable to continue these programs in one new plan, the 2010 Plan, instead of two new freestanding plans. In this regard, the Board has determined to allocate and reserve a total of 1,400,000 shares of the Company's common stock for future issuance, grant and award under the 2010 Plan. Awards may not be amended to reduce the exercise

price of outstanding options or SARs or cancel outstanding options or SARs in exchange for cash, other awards or options or SARs with an exercise price that is less than the exercise price of the original options or SARs without shareholder approval.

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**The Board's Reasons for the 2010 Plan**

The success of the Company depends, in large measure, upon its ability to recruit and retain key employees with outstanding ability and experience. The Board also believes there is a need to align shareholder and employee interests by encouraging employee ownership of Company stock and to motivate employees with compensation conditioned upon achievement of the Company's financial goals. Additionally, the Company's Board plays a key role in setting the direction of the Company and representing the shareholders' interests. Recent changes in rules and regulations governing public corporations and the general business environment have greatly increased the time and effort required of all directors of publicly traded companies, including the Company's non-employee Directors. The Board believes that it is necessary to (1) compensate its non-employee Directors in a manner that will help attract qualified candidates to serve as non-employee Directors, and (2) induce incumbent non-employee Directors to continue to serve if the Board desires that they remain on the Board. At the same time, the Board desires to provide a vehicle by which non-employee Directors can increase their stock ownership and proprietary interest in the Company and enhance their identification with the interests of the Company's shareholders through awards of shares of common stock.

In order to accomplish these objectives, the Board has adopted the 2010 Plan. The 2010 Plan is being presented to the shareholders for their approval as required by listing standards of the NASDAQ Stock Market. The affirmative vote of a majority of the shares of common stock cast at the annual meeting represented in person or by proxy and entitled to vote at the annual meeting is required for approval of the 2010 Plan.

**Summary Description of the 2010 Plan**

The following summary of the material terms of the 2010 Plan is qualified in its entirety by reference to the text of the 2010 Plan, which is attached as Exhibit A to this Proxy Statement. The 2010 Plan was adopted by the Board of Directors effective as of April 1, 2010, subject to your approval. The 2010 Plan requires the participant to enter into an award agreement at the time the Committee makes an award. The award agreement will describe the terms and conditions of the particular grant.

**Administration**

The 2010 Plan is administered by the Compensation Committee of the Board of Directors (the "Committee"). As permitted by law, the Committee may delegate its authority.

**Eligibility**

Officers, key salaried employees and Directors who are employees of the Company and its subsidiaries are eligible to participate in all forms of awards in the 2010 Plan. Approximately 159 employees of the Company and its subsidiaries are presently eligible to participate. However, because the 2010 Plan provides for broad discretion by the Committee in selecting participants and in making awards, the total number of persons who will participate and the respective benefits to be accorded to them cannot be determined at this time.

Directors who are not employees of the Company or its subsidiaries are eligible to participate in all forms of award in the 2010 Plan, except for incentive stock options, performance shares and performance units. Currently, seven non-employee Directors of the Company are eligible to participate. However, because the size of the Board could change or other non-employee Directors could be elected, the total number of persons who will be eligible to participate in the future and the respective benefits to be accorded to them likewise cannot be determined at this time.

**Stock Available for Issuance Through the 2010 Plan**

The 2010 Plan provides for a number of forms of stock-based compensation, as further discussed below. Up to 1,400,000 shares of the Company's common stock are authorized for issuance through the

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2010 Plan. Shares issued under the 2010 Plan may be either authorized but unissued shares, treasury shares, or any combination thereof. Provisions in the 2010 Plan permit the reuse or reissuance by the 2010 Plan of shares of common stock for numerous reasons including shares of common stock underlying canceled, expired, or forfeited awards of stock-based compensation and stock appreciation rights ( SARs ) paid out in the form of cash. On April 26, 2010, the closing price for a share of the Company's common stock on the NASDAQ Stock Market was \$26.21. Stock-based compensation will typically be awarded in consideration for the future performance of services to the Company.

## **Description of Awards Under the 2010 Plan**

*Awards to Company Employees.* The Committee may award to eligible employees incentive and nonqualified stock options, SARs, restricted stock, restricted stock units, performance units and performance shares.

*Awards to Non-Employee Directors.* The Committee may award to non-employee Directors non-qualified stock options, SARs, restricted stock and restricted stock units.

## **Stock Options**

The Committee has discretion to award incentive stock options ( ISOs ), which are intended to comply with Section 422 of the Internal Revenue Code (the Code ), or nonqualified stock options ( NQSOs ), which are not intended to comply with Section 422 of the Code. The exercise price of an option may not be less than the fair market value of the underlying shares of common stock on the date of grant. If an award of stock options is intended to qualify as performance-based compensation under Section 162(m) of the Code, the maximum number of shares which may be subject to stock options granted in any calendar year to any one participant is 200,000. Options granted to employees under the 2010 Plan will expire at such times as the Committee determines at the time of the grant; provided, however, that no option will be exercisable later than ten years after the date of grant. Subject to the specific terms of the 2010 Plan, the Committee will have discretion to set such additional limitations on such grants as it deems appropriate; the award agreement will reflect these limitations.

Each option award agreement will set forth the extent to which the participant will have the right to exercise the option following termination of the participant's employment with the Company. The termination provisions will be determined within the discretion of the Committee, might not be uniform among all participants and might reflect distinctions based on the reasons for termination of employment.

Upon the exercise of an option granted under the 2010 Plan, the option price is payable in full to the Company, either: (a) in cash or its equivalent, (b) if permitted in the award agreement, by tendering shares having a fair market value at the time of exercise equal to the total option price (provided that such shares have been held by the optionee for at least six months prior to their tender) or (c) by any combination of the foregoing methods of payment. The Committee may also allow options granted under the 2010 Plan to be exercised by a cashless exercise through a broker, as permitted under Federal Reserve Board Regulation T, or any other means the Committee determines to be consistent with the 2010 Plan's purpose and applicable law, including by cashless exercise directly with the Company whereby the Company would withhold the proper number of shares which would have a fair market value on the date of exercise equal to the option exercise price.

## **SARs**

The Committee may award SARs under the 2010 Plan upon such terms and conditions as it may establish. The Committee may award either freestanding SARs or SARs in tandem with stock options (a tandem SAR ); a tandem SAR may not be granted to a non-employee Director unless the related option is a NQSO. The exercise price of a freestanding SAR will equal the fair market value of a share of common stock on the date of grant, whereas the

exercise price of a tandem SAR issued in connection with a stock option will equal the option price of the related option. If an award of SARs is intended to

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qualify as performance-based compensation under Section 162(m) of the Code, the maximum number of shares which may be subject to SARs awarded in any calendar year to any one participant is 200,000. At the discretion of the Committee, the payment upon SAR exercise may be in cash, in shares of Company common stock of equivalent value, or in some combination thereof.

If granted other than in tandem, the Committee will determine the number of shares of common stock covered by and the exercise period of the SAR. Upon exercise of a freestanding SAR, the participant will receive an amount equal to the excess of the fair market value of one share of common stock on the date of exercise over the grant price, multiplied by the number of shares of stock exercised under the SAR. In the case of a tandem SAR, the Committee may determine the exercise period of the SAR except that the exercise period may not exceed that of the related option. The participant may exercise the tandem SAR when the option is exercisable, surrender the option and receive on exercise an amount equal to the excess of the fair market value of one share of common stock on the date of exercise over the option purchase price, multiplied by the number of shares of stock covered by the surrendered option. Each award agreement will set forth the extent to which the participant will have the right to exercise the SAR following termination of the participant's employment with the Company. The termination provisions will be determined by the Committee in its sole discretion, need not be uniform among all participants and may reflect distinctions based on the reasons for termination of employment.

**Restricted Stock**

The Committee may impose restrictions and conditions as to awards of shares of restricted stock as it deems advisable. With certain exceptions, all awards of restricted stock that are based on the passage of time may vest no more rapidly than over a three year period from the date of award; awards of restricted stock that are based on the achievement of specific measures may vest no more rapidly than one year from the date of award.

*Awards to Key Employees.* The Committee may choose to award shares of restricted common stock under the 2010 Plan upon such terms and conditions as it may establish. If an award of restricted stock is intended to qualify as performance-based compensation under Section 162(m) of the Code, the maximum number of shares which may be granted in the form of restricted stock in any one calendar year to any one participant is 100,000. The award agreement will specify the period(s) of restriction, the number of shares of restricted stock granted, requirements that a participant pay a stipulated purchase price for each share, restrictions based upon the achievement of specific performance objectives and/or restrictions under applicable federal or state securities laws. Recipients may have the right to vote these shares from the date of grant, as determined by the Committee on the date of award. As determined by the Committee on the date of award, participants may receive dividends on their shares of restricted stock. Dividends accrued on restricted stock will be paid only if the restricted stock vests.

Each award agreement for restricted stock will set forth the extent to which the participant will have the right, if any, to retain unvested restricted stock following termination of the participant's employment with the Company. The Committee will in its sole discretion make these determinations; these provisions need not be uniform among all shares of restricted stock issued under the 2010 Plan and may reflect distinctions based on reasons for termination of employment. Except in the case of terminations by reason of death or disability, the vesting of restricted stock, which qualifies for performance-based compensation under Section 162(m) and which are held by covered employees under Section 162(m), will occur at the time it otherwise would have vested, but for the employment termination.

*Awards to Non-Employee Directors.* The Committee may award to non-employee Directors non-qualified stock options, SARs, restricted stock and restricted stock units. Restricted stock awards to non-employee Directors will be subject to the restrictions for a period (the Restricted Period) which will





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commence upon the date when the restricted stock is awarded and will end on the earliest of the first to occur of the following:

the retirement of the non-employee Director from the Board in compliance with the Board's retirement policy as then in effect;

the termination of the non-employee Director's service on the Board as a result of the non-employee Director's not being nominated for reelection by the Board;

the termination of the non-employee Director's service on the Board because of the non-employee Director's resignation or failure to stand for reelection with the consent of the Board (which means approval by at least 80% of the Directors voting, with the affected non-employee Director abstaining);

the termination of the non-employee Director's service on the Board because the non-employee Director, although nominated for reelection by the Board, is not reelected by the shareholders;

the termination of the non-employee Director's service on the Board because of (i) the non-employee Director's resignation at the request of the Nominating and Governance Committee of the Board, (ii) the non-employee Director's removal by action of the shareholders or by the Board, or (iii) a Change in Control of the Company, as defined in the 2010 Plan;

the termination of the non-employee Director's service on the Board because of disability or death; or

the vesting of the award.

As of the date specified by the Committee, each non-employee Director will be awarded that number of shares of restricted stock as determined by the Board, after consideration of the recommendations of the Committee. A non-employee Director who is first elected to the Board on a date subsequent to the date so specified will be awarded that number of shares of restricted stock as determined by the Board, after consideration of the recommendations of the Committee. The amount of the award for the upcoming plan year will be disclosed in the Company's proxy statement for the Company's annual meeting of shareholders. The 2010 Plan provides that non-employee Directors receiving restricted stock may have, subject to the provisions of the 2010 Plan, all of the rights of a shareholder with respect to the shares of restricted stock, including the right to vote the shares and receive cash dividends and other cash distributions thereon. Non-employee Directors receiving restricted stock units will have no voting rights during the restrictive period, but will be credited with an amount equal to the dividends paid on a share of common stock between the date of grant and the date the restricted stock unit is paid to the participant, if at all. If a non-employee Director ceases to be a member of the Board for any other reason, including removal or resignation for Cause, as defined in the 2010 Plan, the non-employee Director will forfeit to the Company all restricted stock awarded to him or her for which the Restricted Period has not ended.

**Restricted Stock Units**

The Committee may award restricted stock units ( RSUs ) to key employees and non-employee Directors upon such terms and conditions as the Committee determines. Each RSU will have a value equal to the fair market value of a share of the Company's common stock on the date of grant. The maximum aggregate award of RSUs to any one participant during any one fiscal year will be equal to the fair market value of 100,000 shares; provided, further, that the maximum aggregate award of restricted stock and RSUs for any one fiscal year will be coordinated so that in no event will any one participant be awarded more than the fair market value of 100,000 shares taking into account all such awards. In its discretion, the Committee may impose conditions and restrictions on RSUs, as specified in the

RSU award agreement, including restrictions based upon the achievement of specific performance goals and time-based restrictions on vesting following the attainment of the performance goals. As determined by the Committee at the time of the award, settlement of vested RSUs may be made in the form of cash,

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shares of Company stock, or a combination of cash and Company stock. Settlement of vested RSUs will be solely in a lump sum as soon as practicable after the vesting date. The amount of the settlement will equal the fair market value of the RSUs on the vesting date. Each RSU will be credited with an amount equal to the dividends paid on a share of Company stock between the date of award and the date the RSU is paid to the participant, if at all. Dividends will vest, if at all, upon the same terms and conditions governing the vesting of the RSU under the 2010 Plan. Payment of the dividend equivalent will be paid at the same time as payment of the RSU. The holders of RSUs will have no voting rights.

## **Performance Units/Performance Shares**

The Committee has the discretion to award performance units and performance shares under the 2010 Plan upon such terms and conditions as it may establish. If an award of performance units or performance shares is intended to qualify as performance-based compensation under Section 162(m) of the Code, the maximum aggregate payout for awards of performance shares which may be granted in any one calendar year to any one participant will be the fair market value of 100,000 shares, whereas the maximum aggregate payout for awards of performance units which may be granted in any one calendar year to any one participant will be \$1,500,000. Performance units will have an initial value as determined by the Committee, whereas performance shares will have an initial value equal to one share of common stock on the date of award. The payout on the number and value of the performance units and performance shares will be a function of the extent to which corresponding performance goals are met. Payment of performance shares and performance units will be made in a single lump sum following the close of the applicable performance period. In its discretion, the Committee may pay earned performance shares or performance units in cash, in shares of Company stock or in a combination of cash and stock, which will have an aggregate fair market value equal to the value of the earned performance share or performance unit at the close of the applicable performance period. Participants will not be entitled to dividend or voting rights with respect to any performance shares or performance units earned but not yet distributed to a participant. Unless otherwise determined by the Committee, in the case of death or disability during the performance period, the participant, or his or her estate, will not be entitled to receive any payout of the performance shares or performance units. In the case of any other termination of the participant's employment during the performance period, all performance shares and performance units intended to qualify as performance-based compensation will be forfeited by the participant.

## **Performance Measures**

The Committee may grant awards under the 2010 Plan to eligible employees and to non-employee Directors, subject to the attainment of certain specified performance measures. The number of performance-based awards granted to an officer, key employee or non-employee Director in any year is determined by the Committee in its sole discretion, subject to the maximum awards set forth in the 2010 Plan and as summarized above.

The value of each performance-based award will be determined solely upon the achievement of certain pre-established objective performance goals during each performance period. The duration of a performance period will be established by the Committee. The Committee will establish, in writing, the objective performance goals applicable to the valuation of performance-based awards granted in each performance period, the performance measures which will be used to determine the achievement of those performance goals, and any formulas or methods to be used to determine the value of the performance-based awards. Under the 2010 Plan, the Committee may utilize any of the following measures of performance: net income either before or after income taxes, including adjusted net income; share price; earnings per share (basic or diluted); total shareholder return; return on assets; return on equity; operating income; return on capital or investment; cash flow or adjusted cash flow from operations; economic value added or adjusted cash flow per share of Company stock (net income plus or minus change in operating assets and liabilities); debt level; cost reduction targets; equity ratios; capital efficiency (adjusted EBITDA divided by production and divided by average finding and development cost per unit); operating and general and administrative expense per

Mcf (the sum of total lease

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operating expense, exploration general and administrative expense and corporate general and administrative expense divided by Mcfe (mcf equivalent for gas and oil)); average reserve replacement ratio (the sum of extensions and discoveries, revisions in previous estimates and purchase of reserves divided by the sum of the same); and production (actual production volume for a specified period of time); amount of the Company's oil and natural gas reserves; oil and gas reserve additions; and costs of finding for oil and gas reserves. The value of performance-based awards may be based on absolute measures or on a comparison of the Company's financial measures during a performance period to the financial measures of a group of competitors.

Following the end of a performance period, the Committee will determine the value of the performance-based awards granted for the period based on the attainment of the pre-established objective performance goals. The Committee will also have discretion to reduce (but not to increase) the value of a performance-based award. The Committee will certify, in writing, that the award is based on the degree of attainment of the pre-established objective performance goals. As soon as practicable thereafter, payment of the awards to participants will be made in the form of shares of Company common stock and/or cash, as applicable.

## **Conditions to Award Payments**

With respect to participants who are employees, if such participant terminates employment with the Company for any reason other than death while any award under the 2010 Plan remains outstanding, that participant will receive such shares or benefit only if, during the entire period from his or her date of termination to the date of such receipt, the participant (i) consults and cooperates with the Company on matters under his or her supervision during the participant's employment, and (ii) refrains from engaging in any activity that is directly or indirectly in competition with any activity of the Company for a one-year period. If a participant fails to comply with this requirement, the participant's rights under any outstanding award will be forfeited unless otherwise waived by the Committee.

## **Adjustment and Amendments**

The 2010 Plan provides for appropriate adjustments in the number of shares of Company stock subject to awards and available for future awards in the event of changes in outstanding common stock by reason of a merger, stock split, stock dividend, or certain other events.

The 2010 Plan may be modified or amended by the Board at any time and for any purpose which the Board deems appropriate. However, no such amendment may adversely affect any outstanding awards without the affected holder's consent. NASDAQ listing standards require shareholder approval for all material amendments of the 2010 Plan.

## **Change in Control**

In the event of a change in control, as defined in the 2010 Plan, generally all options and SARs granted under the 2010 Plan will become immediately exercisable; restriction periods and other restrictions imposed on restricted stock and RSUs which are not performance-based will lapse; and the target payout opportunities attainable under all outstanding awards of performance-based restricted stock, RSUs, performance shares and performance units will be deemed to have been fully earned for the entire performance period as of the effective date of the change in control. The vesting of such awards will be accelerated as of the effective date of the change in control.

## **Nontransferability**

No award under the 2010 Plan may be sold, assigned or otherwise transferred in any manner by a participant except by will or by the laws of descent and distribution; and any award will be exercisable during a participant's lifetime only by the participant or by the participant's guardian or legal representative. These limitations may be waived by the

Committee, subject to restrictions imposed under the SEC's short-swing trading rules and federal tax requirements relating to incentive stock options.

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**Duration of the Plan**

The 2010 Plan will remain in effect until all shares subject to the 2010 Plan have been purchased or acquired under the terms of the 2010 Plan, and all performance periods for performance-based awards granted under the 2010 Plan have been completed. However, in no event will an award be granted under the 2010 Plan on or after April 1, 2020.

**Certain Federal Income Tax Consequences**

The following description of the material federal income tax consequences of awards under the 2010 Plan is a general summary. State, local, and other taxes may also be imposed in connection with awards. This discussion is intended for the information of shareholders considering how to vote at the annual meeting and not as tax guidance to individuals who participate in the 2010 Plan.

**Options**

With respect to options which qualify as ISOs, a 2010 Plan participant will not recognize income for federal income tax purposes at the time options are granted or exercised, and the Company will not be entitled to a deduction with respect to the granting or exercise of such an option except in the limited circumstances discussed below. However, for purposes of the alternative minimum tax, in the year in which an ISO is exercised, the amount by which the fair market value of the shares acquired upon exercise exceeds the exercise price will be treated as an item of adjustment and included in the computation of the recipient's alternative minimum tax. If the participant disposes of shares acquired by exercise of an ISO either before the expiration of two years from the date the options are granted or within one year after the issuance of shares upon exercise of the ISO (the holding periods), the participant will recognize in the year of disposition: (a) ordinary income, to the extent the lesser of either (1) the fair market value of the shares on the date of option exercise or (2) the amount realized on disposition, exceeds the option price; and (b) capital gain, to the extent the amount realized on disposition exceeds the fair market value of the shares on the date of option exercise. In addition, if the holding periods are not met, the Company will be entitled to a deduction corresponding to the ordinary income amount recognized by the participant. If the shares are sold after expiration of the holding periods, the participant generally will recognize long-term capital gain or loss equal to the difference between the amount realized on disposition and the option price.

With respect to NQSOs, the participant will not recognize any income and the Company will not be entitled to a deduction upon grant of the option. Upon exercise, the participant will recognize ordinary income, and the Company will be entitled to a corresponding deduction, in an amount equal to the excess of the fair market value of the shares on the date of option exercise over the amount paid by the participant for the shares. Upon a subsequent disposition of the shares received under the option, the participant generally will recognize capital gain or loss to the extent of the difference between the fair market value of the shares at the time of exercise and the amount realized on the disposition.

**SARs**

The recipient of a grant of SARs will not realize taxable income and the Company will not be entitled to a federal income tax deduction with respect to such grant on the date of such grant. Upon the exercise of an SAR, the recipient will realize ordinary income, and the Company will generally be entitled to a corresponding deduction, equal to the amount of cash received.

**Restricted Stock**



A participant holding restricted stock will realize, at the time the shares vest, ordinary income in an amount equal to the fair market value of the shares and any cash received attributable to credited dividends at the time of vesting, and the Company will generally be entitled to a corresponding deduction for federal income tax purposes.

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**RSUs**

A participant holding RSUs will, at the time the participant receives a distribution, realize ordinary income in an amount equal to the distribution (which will be a single lump sum payment in cash or stock equal to the fair market value of the units held by the participant) and the Company will be entitled to a corresponding deduction for federal income tax purposes.

**Performance Units and Performance Shares**

The recipient of an award of performance units or performance shares will not realize taxable income and the Company will not be entitled to a deduction with respect to such grant on the date of such grant. Upon the payout of such award, the recipient will realize ordinary income and the Company will generally be entitled to a corresponding deduction, equal to the amount of cash or stock received.

**Section 409A**

Notwithstanding any contrary provision in the 2010 Plan, each provision in the 2010 Plan that otherwise relates to nonqualified deferred compensation benefits will be interpreted to permit the deferral of compensation and the payment of deferred amounts in accordance with Section 409A of the Code, to the extent applicable.

**Section 162(m)**

Under Section 162(m) of the Code, compensation paid by the Company in excess of \$1 million for any taxable year to a Covered Employee generally is not deductible by the Company or its affiliates for federal income tax purposes unless an exemption from such limitation exists. One such exemption is if the subject compensation is based on the attainment of performance goals, is paid pursuant to a plan approved by shareholders of the Company, and meets certain other requirements. Generally, Covered Employee under Section 162(m) means the chief executive officer and the three other highest paid executive officers of the Company other than the Chief Executive Officer as of the last day of the taxable year. The Committee will at all times consist of outside directors as required for purposes of Section 162(m), and that the Committee will take the effect of Section 162(m) into consideration in structuring 2010 Plan awards.

Prospective awards of equity compensation under the 2010 Plan, if approved by the shareholders, are not currently determinable. As disclosed in the Company's Current Report on Form 8-K, filed with the SEC on April 23, 2010, the Compensation Committee has made various awards of restricted shares and SARs to the Company's CEO and each of the named executive officers with respect to 2010 compensation. The 2004 Plan had sufficient remaining shares of common stock to fulfill these equity awards. At the date of this Proxy Statement, there are no current plans for additional equity awards to the CEO and named executive officers during 2010.

Also disclosed in the Form 8-K referenced in the previous paragraph is the determination by the Committee to award to each of the Company's continuing non-employee Directors shares of restricted stock with a value of \$110,000. These shares will be awarded to these Directors as of July 1, 2010 and will be priced on the basis of the average closing price on the NASDAQ Stock Market for the fifteen business days beginning ten days prior to the date of the Annual Meeting on June 4, 2010. Consequently, as of the date of this Proxy Statement, the Company is unable to determine the total number of restricted shares that each non-employee Director will receive as a result of this award. As of the date of this Proxy Statement, the Company anticipates that the 27,144 shares remaining in the Company's 2005 Non-Employee Director Restricted Stock Plan will be issued under this award to the subject Directors. The remaining indeterminable number of shares of restricted stock under the award will be issued to the subject Directors from the 2010 Plan, if approved by the shareholders at the annual meeting.



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**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THIS PROPOSAL #2 TO APPROVE THE 2010 LONG-TERM EQUITY COMPENSATION PLAN. PROXIES SOLICITED BY THE BOARD WILL BE SO VOTED UNLESS SHAREHOLDERS SPECIFY A CONTRARY VOTE. THE PROXIES WILL BE VOTED IN ACCORDANCE WITH THE SHAREHOLDERS SPECIFICATIONS. THE AFFIRMATIVE VOTE OF A MAJORITY OF THE SHARES OF COMMON STOCK CAST AT THE MEETING REPRESENTED IN PERSON OR BY PROXY AND ENTITLED TO VOTE AT THE MEETING IS REQUIRED FOR APPROVAL OF THIS PROPOSAL #2.**

**PROPOSAL 3 RATIFICATION OF SELECTION OF AN INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Audit Committee and the Board have ratified the engagement of PricewaterhouseCoopers LLP ( PwC ) as the Company s independent registered public accounting firm with respect to its year ending December 31, 2010. The Board is submitting the appointment of PwC to the shareholders for ratification. If the appointment of PwC is not ratified, the Board will require the Audit Committee to reconsider its selection. A representative of PwC is expected to be present at the meeting, will have an opportunity to make a statement if he or she so desires, and will also be available to respond to appropriate questions.

**Principal Accountant Fees and Services**

	<b>2009</b>	<b>2008</b>
Audit fees <sup>(1)</sup>	\$ 2,496,000	\$ 3,110,000
Audit related fees <sup>(2)</sup>	1,706,384	2,192,650
Tax fees <sup>(3)</sup>	550,867	961,491
Other fees <sup>(4)</sup>	237,500	1,067,505
Total fees	\$ 4,990,751	\$ 7,331,646

- (1) Audit fees consist of the aggregate fees billed for professional services rendered for audit procedures performed with regard to the Company s annual consolidated financial statements and the report on management s assessment of internal control over financial reporting and the effectiveness of the Company s internal controls over financial reporting, including reviews of the consolidated financial statements included in our Quarterly Reports on Form 10-Q, and services that are normally provided by the independent registered public accounting firm in connection with statutory and regulatory filings or engagements.
- (2) Audit-related fees consist of the aggregate fees billed for assurance and related services that are reasonably related to the performance of the audit or review of the Company s annual consolidated financial statements and are not reported under Audit Fees. Fees billed primarily represent our proportionate share of amounts billed for the audits of the annual financial statements of the Company-sponsored drilling partnerships.
- (3) Tax fees consist of the aggregate fees billed for professional services rendered for tax compliance, tax advice and tax planning for the Company and the Company-sponsored drilling partnerships.
- (4) All other fees consist of aggregate fees billed for products and services other than the services reported above. Fees billed in 2009 were primarily related to the formation of PDC Mountaineer, LLC and the Company s equity

offering and, in 2008, were primarily related to potential acquisition projects.

**Audit Committee Pre-Approval Policies and Procedures**

The Sarbanes-Oxley Act of 2002 requires that all services provided to the Company by its independent registered public accounting firm be subject to pre-approval by the Audit Committee or authorized Audit Committee members. The Audit Committee has adopted policies and procedures for pre-approval of all audit services and non-audit services to be provided by the Company's independent registered public accounting firm. Services necessary to conduct the annual audit must be pre-approved

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by the Audit Committee annually. Permissible non-audit services to be performed by the independent accountant may also be approved on an annual basis by the Audit Committee if they are of a recurring nature. Permissible non-audit services, which are not eligible for annual pre-approval, to be conducted by the independent accountant must be pre-approved individually by the full Audit Committee or by an authorized Audit Committee member. Actual fees incurred for all services performed by the independent accountant will be reported to the Audit Committee after the services are fully performed. The duties of the Committee are described in the Audit Committee Charter, which is available at the Company's website under Corporate Governance.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THIS PROPOSAL #3. PROXIES SOLICITED BY THE BOARD WILL BE SO VOTED UNLESS SHAREHOLDERS SPECIFY A CONTRARY VOTE. THE PROXIES WILL BE VOTED IN ACCORDANCE WITH THE SHAREHOLDERS SPECIFICATIONS. THE AFFIRMATIVE VOTE OF A MAJORITY OF THE SHARES OF COMMON STOCK CAST AT THE MEETING REPRESENTED IN PERSON OR BY PROXY AND ENTITLED TO VOTE AT THE MEETING IS REQUIRED FOR APPROVAL OF THIS PROPOSAL #3.**

**REPORT OF THE AUDIT COMMITTEE**

The Audit Committee of the Board is composed of four Directors (five prior to August 2009) and operates under a written charter adopted by the Board. Each member of the Audit Committee meets the independence requirements of Rule 5605(a)(2) of the NASDAQ listing standards. The duties of the Audit Committee are summarized in this Proxy Statement under Committees of the Board of Directors and are more fully described in the charter, which is available at the Company's website under Corporate Governance.

Management is responsible for the Company's internal controls and preparation of the consolidated financial statements in accordance with generally accepted accounting principles. The Company's independent registered public accounting firm is responsible for performing an independent audit of the Company's consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB) and issuing a report thereon. The Committee's responsibilities include monitoring and overseeing these processes.

The Committee met eight times during 2009 and the subcommittee related to the partnerships operated by the Company met an additional seven times. The Committee has continued to meet frequently during 2010.

The Committee reviewed and discussed the Company's audited consolidated financial statements for the year ended December 31, 2009 (the audited financial statements) with management and the Company's independent registered public accounting firm, PricewaterhouseCoopers LLP (PwC). The Committee also discussed with PwC the matters required to be discussed by Statement of Auditing Standards No. 61, as amended, and PwC directly provided reports on significant matters to the Committee.

The Committee has received the written disclosures and the letter from PwC required by PCAOB Rule 3526 and has discussed with PwC its independence from the Company.

The Committee has discussed with management and PwC such other matters and received such assurances from them as the Committee deemed appropriate.

Based on the foregoing review and discussions and relying thereon, the Committee recommended that the Board include the audited financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.



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The Board approved the Committee's recommendation to appoint PwC to serve as the Company's independent registered public accounting firm for 2010. In connection therewith, the Audit Committee considered whether the provision of non-audit services by PwC prior to their engagement was compatible with maintaining the independent registered public accounting firm's independence. This appointment is subject to ratification by the Company's shareholders.

Anthony J. Crisafio, Chair  
Joseph E. Casabona  
Jeffrey C. Swoveland  
Kimberly Luff Wakim

*AUDIT COMMITTEE  
of the Board of Directors*

**ALL OTHER BUSINESS THAT MAY COME BEFORE THE 2010 ANNUAL MEETING**

As of the date of this Proxy Statement, the Board is not aware of any matters to be brought before the 2010 Annual Meeting other than the matters set forth in this Proxy Statement. However, if other matters properly come before the meeting, it is the intention of the proxy holders named in the enclosed form of proxy to vote in accordance with their discretion on such matters pursuant to such proxy.

**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS**

The following table sets forth certain information regarding ownership of the Company's common stock as of April 1, 2010, by (a) each person known by the Company to own beneficially more than 5% of the outstanding shares of common stock; (b) each Director of the Company; (c) each executive officer; and (d) all Directors and executive officers as a group. As of April 1, 2010, 19,253,526 common shares of the Company were issued and outstanding. Except as otherwise indicated, the address for each of the named security holders is 1775 Sherman Street, Suite 3000, Denver, Colorado 80203.



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Name and Address of Beneficial Owner	Number of Shares Beneficially Owned	Percent of Shares Beneficially Owned
<b>FMR LLC</b> 82 Devonshire Street Boston, MA 02109	1,937,167 <sup>(1)</sup>	10.1%
<b>BlackRock, Inc.</b> 55 East 52nd Street New York, NY 10022	1,443,293 <sup>(2)</sup>	7.5%
<b>Wellington Management Company, LLP</b> 75 State Street Boston, MA 02109	1,116,800 <sup>(3)</sup>	5.8%
<b>Dimensional Fund Advisors LP</b> 6300 Bee Cave Road Building One Austin, Texas 78746	990,690 <sup>(4)</sup>	5.1%
<b>Richard W. McCullough</b>	15,180 <sup>(5)</sup>	*
<b>Gysle R. Shellum</b>	1,745 <sup>(6)</sup>	*
<b>Barton R. Brookman, Jr.</b>	25,553 <sup>(7)</sup>	*
<b>Daniel W. Amidon</b>	6,051 <sup>(8)</sup>	*
<b>Lance A. Lauck</b>	361 <sup>(9)</sup>	*
<b>Vincent F. D Annunzio</b>	20,483 <sup>(10)</sup>	*
<b>Kimberly Luff Wakim</b>	8,728 <sup>(11)</sup>	*
<b>David C. Parke</b>	9,719 <sup>(12)</sup>	*
<b>Jeffrey C. Swoveland</b>	12,533 <sup>(13)</sup>	*
<b>Anthony J. Crisafio</b>	7,900	*
<b>Joseph E. Casabona</b>	6,955	*
<b>Larry F. Mazza</b>	6,013	*
<b>James M. Trimble</b>	6,200	*
All Directors and executive officers as a group (13 persons)	127,421 <sup>(14)</sup>	*

\* Represents less than 1% of the outstanding shares of common stock

(1) According to the Schedule 13G/A filed by FMR LLC with the SEC on February 16, 2010.

(2) According to the Schedule 13G filed by BlackRock, Inc. with the SEC on January 29, 2010.

(3) According to the Schedule 13G filed by Wellington Management Company, LLP with the SEC on February 12, 2010.

(4) According to the Schedule 13G/A filed by Dimensional Fund Advisors LP with the SEC on February 8, 2010.

(5) Excludes 32,400 restricted shares subject to vesting greater than 60 days after April 1, 2010; includes 2,499 shares subject to options exercisable within 60 days of April 1, 2010.

- (6) Excludes 9,180 restricted shares subject to vesting greater than 60 days after April 1, 2010.
- (7) Excludes 15,326 restricted shares subject to vesting greater than 60 days after April 1, 2010; includes 1,091 restricted shares subject to vesting within 60 days of April 1, 2010.
- (8) Excludes 12,531 restricted shares subject to vesting greater than 60 days after April 1, 2010.
- (9) Excludes 26,701 restricted shares subject to vesting greater than 60 days after April 1, 2010.
- (10) Excludes 5,335 common shares purchased pursuant to the Non-Employee Director Deferred Compensation Plan.

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- (11) Excludes 1,046 common shares purchased pursuant to the Non-Employee Director Deferred Compensation Plan.
- (12) Excludes 571 common shares purchased pursuant to the Non-Employee Director Deferred Compensation Plan.
- (13) Excludes 1,321 common shares purchased pursuant to the Non-Employee Director Deferred Compensation Plan.
- (14) Excludes 96,138 restricted shares subject to vesting greater than 60 days after April 1, 2010, and 8,273 common shares purchased pursuant to the Non-Employee Director Deferred Compensation Plan; includes 2,499 shares subject to options exercisable within 60 days of April 1, 2010 and 1,091 restricted shares subject to vesting within 60 days of April 1, 2010.

## **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934 ( Exchange Act ) requires the Company s officers and Directors, and persons who own more than 10% of the Company s equity securities, to file reports of ownership and changes in ownership with the SEC. Officers, Directors and holders of more than 10% of the common stock are required by regulations promulgated by the SEC pursuant to the Exchange Act to furnish the Company with copies of all Section 16(a) forms they file. The Company assists officers and Directors, and will assist beneficial owners, if any, of more than 10% of the common stock, in complying with the reporting requirements of Section 16(a) of the Exchange Act.

Based solely on its review of the copies of such forms received by it, the Company believes that for the year ended December 31, 2009, all Section 16(a) filing requirements applicable to its Directors, officers and greater than 10% beneficial owners were met, with the following exceptions: Form 4s were filed one day late for Messrs. Brookman, Mazza and Swoveland due to administrative delay.

## **CORPORATE GOVERNANCE**

### **Corporate Governance Guidelines**

The Board has adopted Corporate Governance Guidelines that govern the structure and functioning of the Board and establish the Board s policies on a number of corporate governance issues. The Guidelines are posted under Governance Policies in the Corporate Governance section of the Company s internet site at [www.petd.com](http://www.petd.com). They are also available to any shareholder on request; see Contact Information above.

### **Board of Directors**

The Company s By-Laws provide that the number of members of the Board shall be designated from time to time by a resolution of the Board. Currently, the designated number of Directors is nine, but with the decision by Vincent D Annunzio not to stand for re-election, the Board has reduced the number of Directors to eight, effective on the date of the 2010 annual shareholders meeting. The By-Laws provide that the Board shall be divided into three separate classes of directors which are required to be as nearly equal in number as practicable. At each annual meeting of shareholders one class of Directors, whose term expires, will be elected to a term of three years. The classes are staggered so that the term of one class expires each year. There is no family relationship between any Director or executive officer and any other Director or executive officer of the Company. There are no arrangements or understandings between any Director or officer and any other person pursuant to which the person was selected as an

officer.

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### **Director Independence**

Subject to some exceptions and transition provisions, the NASDAQ listing standards generally provide that a Director will not be independent if:

(A) the Director is, or at any time during the past three years was, employed by the Company;

(B) the Director or a member of the Director's immediate family has received from the Company compensation of more than \$120,000 during any period of 12 consecutive months within the three years preceding the determination of independence other than for service as a Director; compensation paid to a family member who is an employee of the Company (other than an executive officer); or benefits under a tax-qualified retirement plan;

(C) the Director is a family member of an individual who is, or at any time during the past three years was, an executive officer of the Company;

(D) the Director or a member of the Director's immediate family is a partner in, or a controlling person of, or an executive officer of any organization to which PDC made, or from which PDC received, payments for property or services in the current or any of the past three fiscal years that exceed 5% of the recipient's consolidated gross revenues for that year, or \$200,000, whichever is more;

(E) the Director or a member of the Director's immediate family is employed as an executive officer of another entity where at any time during the past three years any of the Company's executive officers serves on the compensation committee of the other entity; or

(F) the Director or a member of the Director's immediate family is a current partner of PwC or during the past three years was a partner or employee of PwC.

Audit Committee members are subject to additional, more stringent NASDAQ and Exchange Act requirements.

The Board has reviewed business and charitable relationships between the Company and each non-employee Director to determine compliance with the NASDAQ listing standards described above and to evaluate whether there are any other facts or circumstances that might impair a Director's independence. The Board has determined that all non-employee Directors are independent under NASDAQ Listing Rule 5605 and the Exchange Act.

### **Board Meetings and Attendance**

The Board met ten times in 2009. Each of PDC's Directors attended at least 75% of the aggregate Board and committee meetings (on which he or she served) during 2009.

### **Annual Meeting Attendance**

As specified in the Company's Corporate Governance Guidelines, Directors are strongly encouraged to attend the annual meeting of shareholders. All Directors attended last year's meeting, except for Ms. Wakim, who was ill.

**Table of Contents****Committees of the Board**

The following table identifies the current membership and chairs of the five standing committees of the Board.

<b>Name</b>	<b>Audit</b>	<b>Compensation</b>	<b>Executive</b>	<b>Nominating and Governance</b>	<b>Planning and Finance</b>
Joseph E. Casabona	Member				Chair
Anthony J. Crisafio	Chair	Member			
Vincent F. D Annunzio <sup>(1)</sup>		Member	Member	Chair	
Larry F. Mazza		Member		Member	
Richard W. McCullough			Chair		Member
David C. Parke		Member		Member	Member
Jeffrey C. Swoveland	Member		Member		Member
James M. Trimble		Member			Member
Kimberly Luff Wakim	Member	Chair		Member	

(1) Mr. D Annunzio has notified the Board that he will not stand for re-election as a Director at the Annual Meeting.

The non-employee Directors generally meet in executive session without the presence of employee Directors at their discretion in connection with each regularly scheduled Board meeting. Mr. Swoveland serves as Presiding Independent Director at these sessions; however, the other non-employee Directors may, in the event of his absence, select another Director to preside over a particular session.

**Audit Committee**

The Audit Committee, which met 15 times in 2009, is composed entirely of persons whom the Board has determined to be independent under NASDAQ Listing Rule 5605(a)(2), Section 301 of the Sarbanes-Oxley Act of 2002 and Section 10A(m)(3) of the Exchange Act. Mr. Crisafio chairs the Audit Committee; other members are Ms. Wakim and Messrs. Casabona and Swoveland. The Board has determined that all four members of the Audit Committee qualify as financial experts as defined by SEC regulations and that all of the Audit Committee members are independent of management. The Audit Committee's purpose is to assist the Board in monitoring the integrity of the financial reporting process, systems of internal controls and financial statements of the Company, and compliance by the Company with legal and regulatory requirements. Additionally, the Committee is directly responsible for the appointment, compensation and oversight of the independent auditors employed by the Company for the purpose of preparing or issuing an audit report or related work and to assess the need for an internal audit function and recommend its establishment when deemed appropriate.

In performing its responsibilities, the Audit Committee monitors the integrity of the Company's financial reporting process and systems of internal controls regarding finance, accounting and legal compliance; monitors the independence of the independent registered public accounting firm; and provides an avenue of communications among the independent registered public accounting firm, management and the Board. The Board has adopted a Charter of the Audit Committee which is posted on the Company's website. The Board continues to assess the adequacy of the Charter and will revise it as necessary.

**Compensation Committee**

The Board has determined that all members of the Compensation Committee are independent of the Company under Rule 5605(a)(2) of the NASDAQ listing standards. The Compensation Committee met eight times in 2009. The Board has adopted a Compensation Committee Charter which is posted on the Company's website.

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The purpose and functions of the Compensation Committee are to (1) oversee the development of a compensation strategy for the Company; (2) oversee the administration of the Company's compensation programs; (3) evaluate the performance of and set compensation for the Chief Executive Officer; (4) review and approve the elements of compensation for other executive officers of the Company; (5) negotiate the terms of employment agreements with executive officers of the Company; (6) review and recommend to the full Board compensation of the Company's Directors and changes in compensation levels to the Board; (7) approve equity grants and recommend equity-based incentive plans necessary to implement the Company's compensation strategy; and (8) administer all equity-based incentive programs of the Company.

### **Compensation Committee Interlocks and Insider Participation.**

There are no Compensation Committee interlocks.

### **Executive Committee**

The purpose and functions of the Executive Committee are to exercise the powers and duties of the Board between Board meetings and, while the Board is not in session, implement the policy decisions of the Board. The Board has adopted an Executive Committee Charter which is posted on the Company's website.

### **Nominating and Governance Committee**

The Board has determined that all members of the Nominating and Governance Committee are independent of the Company under Rule 5605(a)(2) of the NASDAQ listing standards. The Nominating and Governance Committee met six times in 2009. The purpose of and functions performed by the Committee are to (1) assist the Board by identifying individuals qualified to become Board members and to recommend to the Board nominees for the next annual meeting of shareholders or fill any vacancies; (2) recommend to the Board corporate governance guidelines applicable to the Company; (3) lead the Board in its annual review of the Board's performance; and (4) recommend to the Board Director nominees for each committee. The Board has adopted a Charter for the Nominating and Governance Committee. The Charter has been posted on the Company's website.

As noted in the Corporate Governance Guidelines, the Board believes it is appropriate and efficient to combine the offices of Chairman and Chief Executive Officer, provided that a Lead Director is in place to preside at executive sessions of the independent Directors and otherwise provide leadership for the independent Directors. Particularly at a small business, such as the Company, the Board believes that separation of these roles is not necessary. In addition, the Board currently consists of eight independent Directors and only one management Director, further mitigating any risks associated with combining the offices of Chairman and Chief Executive Officer. The Committee reviews this position of combined offices, as well as the other Governance Guidelines, on an annual basis.

### ***Director Qualifications and Selection***

The Board has adopted Director Nomination Procedures that prescribe the process the Nominating and Governance Committee will use to select the Company's nominees for election to the Board. The Nominating and Governance Committee evaluates each candidate based on the candidate's level and diversity of experience and knowledge (specifically within the industry and relevant industries in which the Company operates, as well as his or her general overall experience and knowledge), skills, education, reputation and integrity, professional stature and other factors that may be relevant depending on the particular candidate.

Additional factors considered by the Committee include the size and composition of the Board at a particular time, and allowing the Company to benefit from having a broad mixture of skills, experience and perspectives on the Board.



Accordingly, one or more of these factors may be given more weight in a particular case at a particular time, no single factor would be viewed as determinative, and the

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Committee has not specified any minimum qualifications that it believes must be met by any particular nominee. The Company's Director Nomination Procedures are posted on the Company's website.

The Committee identifies Director candidates primarily through recommendations made by the non-employee Directors. These recommendations are developed based on the Directors' own knowledge and experience in a variety of fields, and research conducted by PDC staff at the Committee's direction. The Committee also considers recommendations made by the employee Directors, employees, shareholders, and others, including search firms. All recommendations, regardless of the source, are evaluated on the same basis against the criteria contained in the guidelines. The Committee has the authority to engage consultants to help identify or evaluate potential Director nominees but has not done so recently. Mr. Trimble, appointed in 2009, was recommended by several non-employee Directors.

### ***Diversity Consideration***

In addition to qualities of intellect, integrity and judgment, the Nominating and Governance Committee takes into consideration diversity of background, senior management experience, education, and an understanding of some combination of oil and gas marketing, finance, technology, government regulation, and public policy. The Committee makes its determination in the context of an assessment of the perceived needs of the Board at that point in time. The Committee evaluates all nominees for Director considering these criteria, including nominees recommended by shareholders. The new director nomination process specifically includes disclosure of the diversity provided by each candidate, but the Nominating and Governance Committee does not make the recommendations of nominees based solely on any such criteria, nor does it have any official or unofficial goals for any specific group.

### ***Shareholder Recommendations***

The Company's Nominating and Governance Committee will consider Director candidates recommended by shareholders of the Company. Any shareholder who wishes to recommend a prospective Board nominee to the Committee should notify the Nominating and Governance Committee of the recommendation by writing to the Committee at the Company's headquarters, or by sending the information via email to [board@petd.com](mailto:board@petd.com). All recommendations will be received by the Nominating and Governance Committee.

A submission recommending a candidate should include:

Sufficient biographical information to allow the Committee to evaluate the candidate in light of the Director Nomination Guidelines;

An indication as to whether the proposed candidate will meet the requirements for independence under the NASDAQ guidelines;

Information concerning any relationships between the candidate and the shareholder recommending the candidate; and

Material indicating the willingness of the candidate to serve if nominated and elected.

### ***Shareholder Nominations***

Shareholders who wish to may nominate candidates for election to the Board. The Company's By-Laws require shareholders who wish to submit nominations of persons for election to the Board of Directors at the annual meeting of shareholders to follow certain procedures. The shareholder must give written notice to the Corporate Secretary at

Petroleum Development Corporation, 1775 Sherman Street, Suite 3000, Denver, Colorado 80203 or may email notice to [board@petd.com](mailto:board@petd.com) not later than 80 days nor more than 90 days prior to the first anniversary of the preceding year's annual meeting or, if the date of the annual meeting is more than 30 days before or more than 60 days after that anniversary date, notice by such shareholder to be timely, not later than 80 days before such annual meeting, or within 10 days following the Company's public announcement of the date of its annual shareholder meeting. The

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