

TETON ENERGY CORP  
Form DEF 14A  
March 18, 2009

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**SCHEDULE 14A INFORMATION  
PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**Filed by the Registrant**

**Filed by a Party other than the Registrant**

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, For Use of the Commission Only (As Permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material under §240.14a-12

**TETON ENERGY 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

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

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

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**600 17th Street, Suite 1600 North  
Denver, Colorado 80202  
(303) 565-4600**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS  
TO BE HELD MAY 5, 2009**

TO THE STOCKHOLDERS OF TETON ENERGY CORPORATION:

You are cordially invited to attend the Annual Meeting of Stockholders (the Annual Meeting ) of Teton Energy Corporation (the Company ) to be held at the Dominion Towers, 600<sup>th</sup> Street, Suite 2310 South, Denver, Colorado 80202 on Tuesday, May 5, 2009, at 9:30 AM (local time). At the Annual Meeting, you will be asked to vote on the following:

1. To elect seven Directors to the Company s Board, to hold office until his successor is elected and qualified or until his earlier resignation or removal (Proposal No. 1); and
2. To consider and act upon any other business that may properly come before the meeting or any adjournments thereof.

BECAUSE OF THE SIGNIFICANCE OF THESE PROPOSALS TO THE COMPANY AND ITS STOCKHOLDERS, IT IS VITAL THAT EVERY STOCKHOLDER VOTES AT THE ANNUAL MEETING IN PERSON OR BY PROXY.

The foregoing items of business are more fully described in the Proxy Statement that is attached and made a part of this Notice. The Board has fixed the close of business on March 13, 2009 as the Record Date for determining the stockholders entitled to notice of and to vote at the Annual Meeting and any adjournment or postponement thereof.

All stockholders are cordially invited to attend the Annual Meeting in person. Your vote is important regardless of the number of shares you own. Whether or not you plan to attend the meeting, please take the time to vote in one of these ways:

*By mail* fill in, sign and date the enclosed proxy card and return it promptly in the enclosed postage-paid envelope.

*By telephone* call the toll-free telephone number on your proxy card to vote by phone.

*Via Internet* visit the website noted on your proxy card to vote via the Internet.

You may attend the meeting and vote in person even if you have previously voted by proxy in one of the three ways listed above. Your proxy is revocable in accordance with the procedures set forth in the Proxy Statement.

Under the Securities and Exchange Commission rules, we have elected to use the Internet for delivery of Annual Meeting materials to the majority of our stockholders, which allows us to provide our stockholders with the information they need, while lowering the costs of delivery and reducing the environmental impact of our Annual Meeting. The Annual Report to our remaining stockholders for the Company s fiscal year ended December 31, 2008, has been mailed with or prior to this Proxy Statement. This Proxy Statement and the enclosed proxy are expected to be mailed on or about March 31, 2008.

By Order of the Board of Directors,

James J. Woodcock  
*Chairman*

**IMPORTANT**

**WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING, PLEASE SIGN AND RETURN THE ENCLOSED PROXY CARD AS PROMPTLY AS POSSIBLE IN THE ENCLOSED POSTAGE-PREPAID ENVELOPE OR SUBMIT YOUR PROXY BY TELEPHONE OR THE INTERNET. IF A QUORUM IS NOT REACHED, THE COMPANY WILL HAVE THE ADDED EXPENSE OF RE-ISSUING THESE PROXY MATERIALS. IF YOU ATTEND THE MEETING AND SO DESIRE, YOU MAY WITHDRAW YOUR PROXY AND VOTE IN PERSON. THANK YOU FOR ACTING PROMPTLY.**

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**IMPORTANT:** Please SIGN, DATE, and RETURN the enclosed proxy or submit your proxy by telephone or the Internet immediately whether or not you plan to attend the Annual Meeting. A return envelope, which requires no postage if mailed in the United States, is enclosed for your convenience.

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**TETON ENERGY CORPORATION  
600 17th Street, Suite 1600 North  
Denver, Colorado 80202**

**PROXY STATEMENT  
FOR  
2009 ANNUAL MEETING OF STOCKHOLDERS**

**INFORMATION CONCERNING THE PROXY MATERIALS AND THE ANNUAL MEETING**

Our Board of Directors is soliciting proxies to be voted at the 2009 Annual Meeting of Stockholders to be held on May 5, 2009. Your vote is very important. For this reason, our Board of Directors is requesting that you permit your common stock to be represented at the meeting by the proxies named on the enclosed proxy card. This proxy statement contains important information for you to consider when deciding how to vote on the matters brought before the meeting. Please read it carefully.

We are pleased to take advantage of the Securities and Exchange Commission ( SEC ) e-proxy rules allowing us to furnish proxy materials through a notice and access model via the Internet. We believe the use of the SEC e-proxy rules will expedite stockholders receipt of this 2009 Proxy Statement and Form 10-K and lower the costs and reduce the environmental impact of our annual stockholders meeting. On or about March 26, 2009, we will furnish a Notice of Internet Availability (the Notice ) to a majority of our stockholders containing instructions on how to access the proxy materials and to vote online. In addition, instructions on how to request a printed copy of these materials may be found on the Notice.

Voting materials, which include this proxy statement, the proxy card and our annual report on Form 10-K for the fiscal year ended December 31, 2008, will be mailed to our remaining stockholders on or about March 31, 2008. Teton s principal executive offices are located at 600 17th Street, Suite 1600 North, Denver, Colorado 80202. Teton s main telephone number is (303) 565-4600. In this proxy statement, Teton Energy Corporation is referred to as the Company, Teton and we.

**QUESTIONS AND ANSWERS**

**Q: Who may vote at the meeting?**

A: You may vote your Teton stock if our records show that you owned your shares on March 13, 2009, which is referred to as the Record Date. On March 13, 2009, there were 23,920,518 shares of common stock outstanding. You may cast one vote for each share of common stock held by you on all matters presented, except for the election of the directors. Please see Vote required at the end of Election of Directors Proposal 1 below for further explanation.

**Q: What proposals will be voted on at the Annual Meeting?**

A: There is one proposal to be voted on at the Annual Meeting:

To elect the nominees named in the Proxy Statement as directors to serve terms of one year.

We will also consider other business that properly comes before the meeting.

**Q: How does the Board recommend that I vote?**

A: Our Board recommends that you vote FOR each of the nominees to the Board.

**Q: How can I vote my shares in person at the Annual Meeting?**

A: If your shares are registered directly in your name with our transfer agent, Computershare, you are considered the stockholder of record with respect to those shares. As the stockholder of record, you have the right to vote in person at the meeting. If you choose to do so, you can bring the enclosed proxy card or vote using the ballot provided at the meeting. Even if you plan to attend the Annual Meeting, we recommend that you vote your shares in advance as described below so that your vote will be counted if you later decide not to attend the



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Annual Meeting. Most stockholders of Teton hold their shares in street name through a stockbroker, bank or other nominee rather than directly in their own name. In that case, you are considered the beneficial owner of shares held in street name. As the beneficial owner, you are also invited to attend the Annual Meeting. Because a beneficial owner is not the stockholder of record, you may not vote these shares in person at the meeting unless you obtain a legal proxy from the broker, trustee or nominee that holds your shares, giving you the right to vote the shares at the meeting. You will need to contact your broker, trustee or nominee to obtain a legal proxy, and you will need to bring it to the meeting in order to vote in person.

**Q: How can I vote my shares without attending the Annual Meeting?**

A: Whether you hold shares directly as the stockholder of record or beneficially in street name, you may direct your vote without attending the Annual Meeting by Internet, telephone or completing and mailing your proxy card or voting instruction card in the enclosed pre-paid envelope. Please refer to the enclosed materials for details.

**Q: What happens if additional matters are presented at the Annual Meeting?**

A: Other than the one item of business described in this proxy statement, we are not aware of any other business to be acted upon at the Annual Meeting. If you grant a proxy, the persons named as proxy holders, Karl F. Arleth and Lonnie R. Brock, will have the discretion to vote your shares on any additional matters properly presented for a vote at the meeting.

**Q: What happens if I do not give specific voting instructions?**

A: If you hold shares in your name, and you sign and return a proxy card without giving specific voting instructions, your shares will be voted as recommended by our Board on all matters and as the proxy holders may determine in their discretion with respect to any other matters properly presented for a vote before the meeting. If you hold your shares through a broker, bank or other nominee and you do not provide instructions on how to vote, your broker or other nominee will have authority to vote your shares on all matters to be considered at the meeting.

**Q: What is the quorum requirement for the Annual Meeting?**

A: A majority of Teton's outstanding shares as of the record date must be present at the meeting (in person or represented by proxy) in order to hold the meeting and conduct business. This is called a quorum. Your shares will be counted for purposes of determining if there is a quorum, even if you wish to abstain from voting on some or all matters introduced at the meeting, if you:

are present and vote in person at the meeting; or

have properly submitted a proxy card or voted by telephone or by using the Internet.

**Q: How can I change my vote after I return my proxy card?**

A: You may revoke your proxy and change your vote at any time before the final vote at the meeting. You may do this by signing a new proxy card with a later date, vote on a later date by telephone or by using the Internet (only your latest telephone or Internet proxy submitted prior to the meeting will be counted), or by attending the meeting and voting in person. However, your attendance at the meeting will not automatically revoke your proxy unless you vote at the meeting or specifically request in writing that your prior proxy be revoked.

**Q: Is my vote confidential?**

A: Proxy instructions, ballots and voting tabulations that identify individual stockholders are handled in a manner that protects your voting privacy. Your vote will not be disclosed either within Teton or to third parties, except:

1. as necessary to meet applicable legal requirements;
2. to allow for tabulation of voters and certification of the vote; and
3. to facilitate a successful proxy solicitation.

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Occasionally, stockholders provide written comments on their proxy card, which may be forwarded to Teton management.

**Q: Where can I find the voting results of the Annual Meeting?**

A: The preliminary voting results will be announced at the meeting. The final voting results will be tallied by our Transfer Agent and Inspector of Elections and published in our quarterly report on Form 10-Q for the fiscal quarter ended June 30, 2009. We will also make the results available on our website at [www.teton-energy.com](http://www.teton-energy.com). We will identify a link to the results on our website's home page.

**Q: How can I obtain a separate set of voting materials?**

A: To reduce the expense of delivering duplicate voting materials to our stockholders who may have more than one Teton stock account, we are delivering only one set of the proxy statement and the annual report on Form 10-K for the fiscal year ended December 31, 2008 to certain stockholders who share an address, unless otherwise requested. A separate proxy card is included in the voting materials for each of these stockholders. If you share an address with another stockholder and have received only one set of voting materials, you may write or call us to request to receive a separate copy of these materials at no cost to you. Similarly, if you share an address with another stockholder and have received multiple copies of our proxy materials, you may write or call us at the address and phone number below to request delivery of a single copy of these materials. For future Annual Meetings, you may request separate voting materials, or request that we send only one set of voting materials to you if you are receiving multiple copies, by writing or calling us at:

Teton Energy Corporation  
Attn: Mr. Ron Wirth, Investor Relations  
600 17th Street, Suite 1600 North  
Denver, CO, USA 80202  
Phone: 1.303.565.4600

**Q: Who pays for the cost of this proxy solicitation?**

A: The enclosed proxy and/or Voting Instruction Form is solicited by the Board of Directors of the Company. In addition to solicitation by mail, solicitation of proxies and Voting Instruction Forms may be made by certain officers and employees of the Company by mail, telephone or in person. The Company may engage Georgeson Shareholder Communications Inc. as our proxy solicitor to help us solicit proxies from brokers, bank nominees and other institutions. We may also reimburse brokerage firms and other persons representing beneficial owners of shares for expenses incurred in forwarding the voting materials to their customers who are beneficial owners and obtaining their voting instructions. All costs of the solicitation of proxies will be borne by the Company.

**Q: How can I obtain a copy of Teton's Annual Report on Form 10-K?**

A: If you wish to obtain a printed copy or an additional copy of our 2008 Annual Report on Form 10-K ( Form 10-K ), you may do so by sending a written request to the address listed above under How can I obtain a separate set of voting materials? We will furnish the Form 10-K without exhibits at no charge. If you prefer a copy of the 2008 Form 10-K including exhibits, you will be charged a fee (which will be limited to our reasonable expenses in furnishing such exhibits). Our Form 10-K is available in PDF format through our Investor Relations website at <http://www.teton-energy.com> and our Form 10-K with exhibits is available on the website of the Securities and Exchange Commission (the SEC ) at <http://www.sec.gov>.

**Q: What is the voting requirement to approve the proposal?**

A: In the election of directors, directors will be elected by a favorable vote of a plurality (meaning the largest number of votes cast) of those shares of capital stock present and entitled to vote, in person or by proxy, at the Annual Meeting. A stockholder may withhold votes from any or all nominees. If you hold shares beneficially in street name and do not provide your broker with voting instructions, your shares may constitute broker non-votes. Generally, broker non-votes occur when a beneficial owner fails to give voting instructions with respect to non-routine matters. In tabulating the voting result for any particular proposal, shares that constitute broker

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non-votes are not considered entitled to vote on that proposal. Thus, although broker non-votes are counted for purposes of determining a quorum, broker non-votes will not otherwise affect the outcome of any matter being voted on at the meeting. There are no votes scheduled that are considered non-routine.

**Q: How can I communicate with the non-employee directors on Teton's Board?**

A: The Board encourages stockholders who are interested in communicating directly with the non-employee directors as a group to do so by writing to the non-employee directors in care of the Company's Corporate Secretary. Stockholders can send communications by mail to Lonnie R. Brock, Secretary, Teton Energy Corporation, 600 17th Street, Suite 1600 North, Denver, Colorado 80202. Correspondence received that is addressed to the non-employee directors will be reviewed by our general counsel or his designee, who will regularly forward to the non-employee directors a summary of all such correspondence and copies of all correspondence that, in the opinion of our counsel, deals with the functions of the board or committees thereof or that the counsel otherwise determines requires their attention. Directors may at any time review a log of all correspondence received by Teton that is addressed to the non-employee members of the Board and request copies of any such correspondence.

A: You may seek answers to your question by call or emailing:

Mr. Ron Wirth  
Tel. (303) 565-4600  
[rwirth@teton-energy.com](mailto:rwirth@teton-energy.com)

or by writing or calling the Company at its principal executive offices:

Teton Energy Corporation  
Attn: Mr. Ron Wirth  
600 17th Street, Suite 1600 North  
Denver, Colorado 80202  
Tel. (303) 565-4600  
Fax. (303) 468-0118

**CORPORATE GOVERNANCE**

**Board of Directors**

The Board oversees our business affairs and monitors the performance of management. In accordance with our corporate governance principles, the Board does not involve itself in day-to-day operations. The Directors keep themselves informed through discussions with the Chief Executive Officer, other key executives and by reading the reports and other materials that we send them and by participating in Board and committee meetings. Our Directors hold office until their successors have been elected and duly qualified unless the director resigns or by reason of death or other cause is unable to serve in the capacity of director. Biographical information about our Directors is provided in Election of Directors Proposal No. 1 on page 7.

**Director Independence**

The Board has determined that all of the Directors and nominees who would serve after May 5, 2009 are independent except for Mr. Arleth, President and Chief Executive Officer of the Company, Mr. Bazile, Executive Vice President and Chief Operating Officer of the Company, and Mr. Bill I. Pennington, the Company's former Chief Financial

Officer. The Board's determinations of independence were made in accordance with NASDAQ listing standards, which requires that the Company have a majority of independent directors. The Board of Directors has determined that the following Directors are independent: Messrs. Woodcock, Connor, Conroy, Bailey and MacAluso.

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**Board Meetings and Attendance**

During 2008, the Board held 8 physical and telephonic meetings. No incumbent Director attended, either in person or via telephone, fewer than 75% of the aggregate of all meetings of the Board and committees, if any, on which each Director served. The Board also approved certain actions by unanimous written consent.

**Annual Meeting Attendance**

It is the Company's policy that Directors should make every effort to attend the Annual Meeting of stockholders. In 2008, five of the six Directors on the Board attended the Company's Annual Meeting in person.

**Code of Business Conduct and Ethics**

We have adopted a Code of Business Conduct and Ethics that applies to all of our Directors, officers and employees, including our principal executive officer, principal operating officer, and principal financial and accounting officer. A copy of the Company's Code of Business Conduct and Ethics is available on our website at <http://www.teton-energy.com>. We will post on our website any amendment to the Company's Code of Business Conduct and Ethics or waivers of the Company's Code of Business Conduct and Ethics for Directors and executive officers.

**Complaints Regarding Accounting Matters**

The Audit Committee has established procedures for (i) the receipt, retention and treatment of complaints regarding accounting, internal accounting controls, or auditing matters ( accounting matters ), and (ii) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

**Communications with Directors**

The Board has approved procedures for stockholders to send communications to individual Directors or the non-employee Directors as a group.

Written correspondence should be addressed to the Director or Directors in care of Lonnie R. Brock, Secretary of the Company, at the Company's primary address. Correspondence received that is addressed to the non-employee Directors will be reviewed by our general counsel or his designee, who will regularly forward to the non-employee Directors a summary of all such correspondence and copies of all correspondence that, in the opinion of our counsel, deals with the functions of the Board or committees thereof or that the counsel otherwise determines requires their attention. Directors may at any time review a log of all correspondence received by Teton that is addressed to the non-employee members of the Board and request copies of any such correspondence. You may also contact individual Directors by calling the Company's principal executive offices at (303) 565-4600.

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The Board has standing Audit, Compensation, and Governance and Nominating committees. Each committee has a written charter. The charters are included as appendices to this Proxy Statement and are available on the Company's website at <http://www.teton-energy.com>. Information concerning the membership and function of each committee is as follows:

**Board Committee Membership**

Name	Audit Committee	Compensation Committee	Governance and Nominating Committee
Mr. Arleth			
Mr. Bazile			
Mr. Bailey	X	X(1)	X
Mr. Connor	X	X	X
Mr. Conroy	X(1)	X	X
Mr. MacAluso(2)	X	X	X
Mr. Pennington			X(1)
Mr. Woodcock	X	X	X

(1) Chairman

(2) Mr. MacAluso was appointed as a Director in March 2009 to serve until standing for election at the annual meeting of the Company's shareholders to be held on May 5, 2009. He is expected to be appointed to serve on the Audit, Compensation and Governance and Nominating Committees.

**Audit Committee**

*Thomas F. Conroy* Chairman, *Robert F. Bailey*, *John T. Connor*, and *James J. Woodcock*

The Audit Committee is responsible for determining the adequacy of the Company's internal accounting and financial controls, reviewing the results of the audit of the Company performed by the independent public accountants, and recommending the selection of independent public accountants. The functions of the Audit Committee and its activities during 2008 are described in more detail under "Report of the Audit Committee" on page 26 as well as in the Committee's charter, which is attached as Appendix A to this proxy statement and can be found at our website, <http://www.teton-energy.com>. During the year, the Board examined the composition of the Audit Committee in light of the relevant NASDAQ listing standards governing audit committees. Based upon this examination, the Board has determined that each of the members of the Audit Committee is unrelated, is an outside member with no other current affiliation with the Company, and is independent as defined by listing standards. The Board has determined that Mr. John Connor is an "audit committee financial expert" as that term is defined by the SEC and NASDAQ, and is independent from the Company's management as that term is defined under Item 7(d) of Schedule 14A promulgated under the 1934 Act. Mr. Connor will not stand for re-election at the Annual Meeting of the stockholders to be held on



May 1, 2009. Mr. Thomas F. Conroy will replace Mr. Connor as the audit committee financial expert. During 2008, the Audit Committee held 3 meetings in person or by teleconference.

**Compensation Committee**

*Robert F. Bailey Chairman, John T. Connor, Thomas F. Conroy and James J. Woodcock*

The Compensation Committee primarily determines matters pertaining to the compensation of the Chief Executive Officer of the Company and administers the Company's stock and cash incentive compensation programs. During 2008, the Compensation Committee held 8 meeting by teleconference and held an executive session during all regularly scheduled board meetings to discuss compensation. The Committee's report can be found on page 19. The Committee's charter is attached as Appendix B to this proxy statement and reproduced on our website at <http://www.teton-energy.com>.

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**Governance and Nominating Committee**

*Bill I. Pennington Chairman, Robert F. Bailey, John T. Connor, Thomas F. Conroy and James J. Woodcock*

The Board has established a Governance and Nominating Committee for purposes of nominating Directors and for all other purposes outlined in the Governance and Nominating Committee charter, including nominees submitted to the Board by stockholders. The Board has determined that each of the members of the Governance and Nominating Committee, with the exception of Mr. Pennington, is unrelated, is an outside member with no other affiliation with the Company, and is independent as defined by the NASDAQ listing standards. Mr. Pennington is not independent as a result of his former position as the Company's Chief Financial Officer. The Company determined that it would be in the best interest of the Company and its stockholders to have Mr. Pennington serve in such capacity. Director nominees are selected or recommended by a majority of its independent directors in accordance with Rule 4350 (c)(4)(A) of the NASDAQ listing standards. The Committee's charter is attached as Appendix C to this proxy statement and reproduced on our website at <http://www.teton-energy.com>.

**Nomination of Directors**

As provided in the Governance and Nominating Committee's charter and our Company's corporate governance principles, the Governance and Nominating Committee is responsible for identifying individuals qualified to become Directors. The Governance and Nominating Committee seeks to identify director candidates based on input provided by a number of sources, including (1) the Governance and Nominating Committee members, (2) our other Directors, (3) our stockholders, (4) our Chief Executive Officer or Chairman, and (5) third parties such as professional search firms. In evaluating potential candidates for director, the Governance and Nominating Committee considers the entirety of each candidate's credentials. Qualifications for consideration as a director nominee may vary according to the particular areas of expertise being sought as a complement to the existing composition of the Board. However, at a minimum, candidates for director must possess:

high personal and professional ethics and integrity;

the ability to exercise sound judgment;

the ability to make independent analytical inquiries;

a willingness and ability to devote adequate time and resources to diligently perform Board and committee duties; and

appropriate and relevant business experience and acumen.

In addition to these minimum qualifications, the Governance and Nominating Committee also takes into account when considering whether to nominate a potential director candidate the following factors:

whether the person possesses specific industry expertise and familiarity with general issues affecting our business;

whether the person's nomination and election would enable the Board to have a member that qualifies as an audit committee financial expert as such term is defined by the SEC;

whether the person would qualify as an independent director under the rules of the SEC and NASDAQ listing standards;

the importance of continuity of the existing composition of the Board to provide long-term stability and experienced oversight; and

the importance of diversified Board membership, in terms both of the individuals involved and their various experiences and areas of expertise.

The Governance and Nominating Committee will consider director candidates recommended by stockholders provided such recommendations are submitted in accordance with the procedures set forth below. In order to provide for an orderly and informed review and selection process for director candidates, the Board has determined

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that stockholders who wish to recommend director candidates for consideration by the Governance and Nominating Committee must comply with the following:

the recommendation must be made in writing to the attention of the Chairman of the Company’s Governance and Nominating Committee;

the recommendation must include the candidate’s name, home and business contact information, detailed biographical data and qualifications, information regarding any relationships between the candidate and the Company within the last three years and evidence of the recommending person’s ownership of the Company’s Common Stock;

the recommendation shall also contain a statement from the recommending stockholder in support of the candidate; professional references, particularly within the context of those relevant to Board membership, including issues of character, judgment, diversity, age, independence, expertise, corporate experience, length of service, other commitments, and personal references; and

a statement from the stockholder nominee indicating that such nominee wants to serve on the Board and could be considered independent under SEC rules and NASDAQ listing standards, as in effect at that time.

All candidates submitted by stockholders will be evaluated by the Governance and Nominating Committee according to the criteria discussed above and in the same manner as all other director candidates.

**ELECTION OF DIRECTORS**

**PROPOSAL NO. 1**

The Board proposes the election of the current Directors of the Company, with the exception of John Connor who will not stand for re-election, for an additional term of one year. The following is information about each nominee, including biographical data for at least the last five years. Should one or more of these nominees become unavailable to accept nomination or election as a director, the individuals named as proxies on the enclosed proxy card will vote the shares that they represent for the election of such other persons as the Board may recommend, unless the Board reduces the number of Directors.

The Board adheres to corporate governance principles designed to assure the continued vitality of the Board and excellence in the execution of its duties. The Board is responsible for supervision of the overall affairs of the Company. Following the Annual Meeting, the Board will consist of seven Directors. All Directors are U.S. citizens. The term of each director continues until the next Annual Meeting or until successors are elected. The nominees for director are:

<b>Name</b>	<b>Biographical Information and Current Directorships</b>	<b>Age</b>
<b>James J. Woodcock</b>	James J. Woodcock has been a Director since 2002 and our Non-Executive Chairman since February 2005. Mr. Woodcock served as Chairman of the Company’s Compensation Committee between 2003 and May 2007. Since 1981, Mr. Woodcock has been the owner and CEO of Hy-Bon Engineering Company, based in Midland, Texas. From 1997 to 2002, Mr. Woodcock was the chairman of Transrepublic Resources, a private oil and gas exploration firm. From 1996 until	70

2003, Mr. Woodcock was a board member and Chairman of the Board of Renovar Energy, a private waste-to-energy firm located in Midland, Texas.

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Name	Biographical Information and Current Directorships	Age
<b>Karl F. Arleth</b>	Karl F. Arleth has been President and Chief Executive Officer since May 2003 and a Director since 2002. From March 2002 to May 2003, Mr. Arleth was the Chief Operating Officer and Director of Sefton Resources, Inc., a UK based oil and gas exploration and production company. From 1999 to 2002, Mr. Arleth served on the board of a Canadian E&P Company and was the Chief Executive Officer of a London based oil and gas Company. Ending in 1999, Mr. Arleth spent 22 years with Amoco and BP-Amoco, domestic and international, in various technical, management and executive positions.	60
<b>Dominic J. Bazile II</b>	Dominic J. Bazile II was appointed as a director in July 2008 to serve until standing for election at the annual meeting of the Company's stockholders to be held on May 5, 2009. Mr. Bazile has served as the Company's Executive Vice President and Chief Operating Officer since February 2007. From February 2002 to August 2006, Mr. Bazile served as Senior Vice President, Operations & Engineering for Bill Barrett Corporation. From 1996 to 2002, Mr. Bazile was Drilling Manager for Barrett Resources Corporation. Prior to 1996, Mr. Bazile served in a variety of positions for Plains Petroleum Operating Company and Gulf Oil Corporation/Chevron USA.	50
<b>Thomas F. Conroy</b>	Thomas F. Conroy, a Certified Public Accountant, has been a director since 2002. Since August 2004, Mr. Conroy has been the Chairman of Mann-Conroy-Eisenberg & Assoc. LLC, a life insurance and reinsurance consulting firm. Since 2001, Mr. Conroy has been a managing principal of Strategic Reinsurance Consultants International LLC, a life reinsurance consulting and brokerage firm. Ending in 2001, Mr. Conroy, spent 27 years with ING and its predecessor organizations, serving in various financial positions and leading two of its strategic business units as President. Mr. Conroy briefly served as our interim CFO and secretary from April 2002 until April 2003 and as an interim CFO from March 2006 until June 2006, the latter term without compensation.	70
<b>Bill I. Pennington</b>	Bill I. Pennington has been a Director since September 2007. From June 2006 through August 2007, Mr. Pennington served as our CFO. Between 1994 and August 2004, Mr. Pennington served in several roles for Inland Resources Inc. and its predecessors, including as President, Chief Financial Officer, and as a director.	57
<b>Robert F. Bailey</b>	Robert F. Bailey became a Director in 2006. Since 2002, he has been president of R.F. Bailey Investments, and since 2003 he has been a partner in B&J Exodus, Ltd., a private investment partnership. From 1992 to 2002, he was President and CEO of TransRepublic Resources, Inc., an oil and gas E&P concern. From 1994 until 2006, he was a board member of Cabot Oil and Gas Corp. He is currently an Advisory Director at the University of Texas of the Permian Basin and serves as a director of the School for Advanced Research in Santa Fe, New Mexico.	76



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Name	Biographical Information and Current Directorships	Age
<b>Marc MacAluso</b>	Marc MacAluso was appointed as a Director in March 2009, as recommended by one of the non-employee directors, to serve until standing for election at the annual meeting of the Company's stockholders to be held on May 5, 2009. Mr. MacAluso also serves on the Board of Directors for Calgary-based Trident Resource Corporation. From 2005 to 2007, he was a partner and investor in Destiny Oil & Gas, LLC. From 2001 through 2004, Mr. MacAluso served as the Chief Executive Officer and Chief Operating Officer of Inland Resources Inc. Mr. MacAluso spent seven years as Senior Vice President at TCW Asset Management Company, four years at American Exploration Company and prior to American Exploration, he spent seven years at Shell Oil Company in various technical assignments. Mr. MacAluso graduated with a B.S. in Petroleum Engineering from Texas A&M University.	48

All directors hold office until the first meeting of the Board after the Annual Meeting of stockholders next following his election or until his successor is elected and qualified. A director or officer may also resign at any time. Messrs. Bailey, Conroy, MacAluso and Woodcock have been determined by the Board to be Independent Directors within the meaning set forth in the NASDAQ listing standards. There are no family relationships among directors or executive officers of Teton.

**Vote Required**

The seven nominees receiving the highest number of votes of the shares of the Company cast at the Annual Meeting in person or by proxy and entitled to vote shall be elected as directors.

THE BOARD RECOMMENDS A VOTE FOR THE ELECTION OF ALL THE ABOVE NOMINEES.

**CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS****Transactions Involving Mr. Arleth**

On December 4, 2008, the Compensation Committee of the Board of Directors voted to approve an amended employment agreement with Mr. Arleth, the Company's President and Chief Executive Officer. Language was added to Mr. Arleth's employment agreement, originally dated September 1, 2006, to include a modified severance benefit, in the event of a change of control of the Company, equal to 3.0 times the sum of his current annual base salary plus bonus.

**Transactions Involving Mr. Bazile**

On December 4, 2008, the Compensation Committee of the Board of Directors voted to approve an amended employment agreement with Mr. Bazile, the Company's Executive Vice President and Chief Operating Officer. Language was added to Mr. Bazile's employment agreement, originally dated February 1, 2007, to include a modified severance benefit, in the event of a change of control of the Company, equal to 2.5 times the sum of his current annual base salary plus bonus.



**Transactions Involving Mr. Brock**

On December 4, 2008, the Compensation Committee of the Board of Directors voted to approve an amended employment agreement with Mr. Brock, the Company's Executive Vice President and Chief Financial Officer. Language was added to Mr. Brock's employment agreement, originally dated January 1, 2008, to include a modified severance benefit, in the event of a change of control of the Company, equal to 2.5 times the sum of his current annual base salary plus bonus.

**Table of Contents****DIRECTOR COMPENSATION**

Directors who are not also executive officers of the Company are compensated as follows: During 2008, non-employee Directors were paid \$14,000 in cash for each quarter served and the Chairman was paid \$28,000 in cash for each quarter served. These amounts were pro-rated if less than a full quarter was served. Cash retainer payments are made in arrears based on service for the previous quarter. In addition, members of the Board are eligible to participate in the Company's 2005 Long Term Incentive Plan (the 2005 LTIP).

In light of the current economic crisis, the 2006 and 2007 LTIP programs, beginning with the awards that were scheduled to vest at December 31, 2008, have all been terminated, with such awards being non-vested and forfeited and the related stock awards were also permanently waived by all directors who participated in these plans. In addition, all outside directors agreed to forfeit the service-based restricted stock awards which were awarded in 2008, pursuant to the 2005 LTIP, and would have vested on December 31, 2008. The Directors are not eligible to participate in future LTIP programs.

In addition to these fees, Directors are reimbursed for reasonable travel expenses and are covered by the Company's directors and officers insurance. The table below shows the total 2008 compensation of the Company's non-employee Directors:

	Fees Earned or Paid in in Cash	Stock Awards(1)	Options Award	Incentive Plan Compensation	Deferred Compensation Earnings	Change in Pension Value and Non-qualified Non-Equity	All Other Compensation	Total
James J. Woodcock, Non-Executive Chairman(2)	\$ 112,000	\$ 242,400	\$	\$	\$	\$	\$ 152,890	\$ 507,290
John T. Connor, Jr.(3)	\$ 56,000	\$	\$	\$	\$	\$	\$	\$ 56,000
Thomas F. Conroy(4)	\$ 56,000	\$	\$	\$	\$	\$	\$	\$ 56,000
Robert F. Bailey(5)	\$ 56,000	\$ 174,267	\$	\$	\$	\$	\$	\$ 230,267
Bill I. Pennington(6)	\$ 56,000	\$ 73,600	\$	\$	\$	\$	\$	\$ 129,600

(1) The amount shown in the table reflects the dollar amount of expense recognized for fiscal 2008 financial statement reporting purposes of the outstanding stock awards held by the Directors, in accordance with Statement of Financial Accounting Standard No. 123R ( FAS 123R ).

(2) For the period ended December 31, 2008, Mr. Woodcock received a total of 3,700 shares awarded pursuant to the exercise of warrants at \$3.48 per shares which expired on June 23, 2008 and 40,000 shares of restricted stock that vested on December 31, 2008. The aggregate number of stock awards outstanding for Mr. Woodcock at

December 31, 2008 includes (i) 83,334 shares underlying warrants exercisable with an exercise price of \$3.24 per share, expiring December 15, 2012, and (ii) 410,148 shares underlying options, exercisable with exercise prices ranging from \$3.48 to \$3.60 per share, expiring April 8, 2013 to March 30, 2014. All Other Compensation reflects amounts paid to Mr. Woodcock to cover his tax liability related to awards which vested on December 31, 2007 under the 2005 and 2006 plan years of the LTIP.

- (3) Mr. Connor did not receive any awards during fiscal 2008. The aggregate number of stock awards outstanding for Mr. Connor at December 31, 2008 includes (i) 175,000 shares underlying options, with exercise prices ranging from \$3.60 to \$3.71 per share, expiring August 3, 2013 to March 30, 2014. Mr. Connor announced in March 2009, that he will not stand for re-election at the Annual Meeting of the Company's stockholders to be held on May 5, 2009.
- (4) Mr. Conroy did not receive any awards during fiscal 2008. The aggregate number of stock awards outstanding for Mr. Conroy at December 31, 2008 includes (i) 25,000 shares underlying warrants, exercisable at \$3.24 per share, expiring December 15, 2012, and (ii) 103,658 shares underlying options, with exercise prices ranging from \$3.48 to \$3.60 per share, expiring April 8, 2013 to March 30, 2014.
- (5) For the period ended December 31, 2008, Mr. Bailey received a total of 16,000 stock awards, granted to him under the 2007 grant under the LTIP and 18,333 restricted shares that vested during the year. The aggregate

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number of stock awards outstanding for Mr. Bailey at December 31, 2008 includes (i) 8,333 restricted shares that vest on December 31, 2009.

- (6) For the period ended December 31, 2008, Mr. Pennington received a total of 16,000 stock awards, granted to him under the 2007 grant under the LTIP. Mr. Pennington has no stock awards outstanding at December 31, 2008.

**INFORMATION ABOUT STOCK OWNERSHIP**

The following tables set forth certain information as of March 13, 2008, available to the Company with respect to the shares of the Company (i) held by those persons known to the Company to be beneficial owners (as determined under the rules of the SEC) of more than 5% of the Common Stock then outstanding and (ii) held by each of the Directors, each of the executive officers named in the Summary Compensation Table below, and by all of the Directors and such executive officers as a group. Unless otherwise indicated, the beneficial owner has sole voting and dispositive power over the shares shown in the table as beneficially owned. The business address for all Directors and executive officers is c/o Teton Energy Corporation, 600 17th Street, Suite 1600 North, Denver, Colorado 80202.

**BENEFICIAL OWNERS**

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Karl F. Arleth	1,491,311(1)	6.23%
BMI Capital Corporation	2,052,776(2)	8.58%
First New York Securities LLC	1,559,635(3)	6.52%
Wellington Management Company, LLP	2,215,050(4)	9.26%
Whitebox Advisors, LLC	2,307,692(5)	9.65%

- (1) Includes (i) 697,639 shares of common stock, held directly, (ii) 83,334 shares underlying warrants, with an exercise price of \$3.24 per share, expiring December 15, 2012, (iii) 410,338 shares underlying options, currently exercisable at \$3.48 per share, expiring April 8, 2013, and (iv) 300,000 shares underlying options, currently exercisable at \$3.60 per share, expiring March 30, 2014.
- (2) According to a Schedule 13G filed with the SEC on February 18, 2009, BMI Capital Corporation, a registered investment adviser located at 570 Lexington Avenue, New York, NY, in its capacity as investment advisor, may be deemed to beneficially own 2,052,776 shares, which are held of record by its clients.
- (3) According to a Schedule 13D/A Amendment No. 3 filed with the SEC on November 3, 2008, First New York Securities LLC, a registered investment adviser located at 90 Park Avenue, 5<sup>th</sup> Floor, New York, New York, BATL Management LP, Thomas F. Donino and Lee Higgins, together referred to as the Reporting Persons, collectively may be deemed to beneficially own 1,559,635 shares, which are held of record by its clients.
- (4) According to a Schedule 13G/A filed with the SEC on February 17, 2009, Wellington Management Company, LLP, a registered investment adviser located at 75 State Street, Boston, MA, in its capacity as investment advisor, may be deemed to beneficially own 2,215,050 shares, which are held of record by its clients.
- (5)

According to a Schedule 13G filed with the SEC on February 17, 2009, Whitebox Advisors, LLC, a registered investment advisor located at 3033 Excelsior Boulevard, Minneapolis, MN, Whitebox Advisors, LLC, Whitebox Combined Advisors, LLC, Whitebox Combined Fund, L.P., Whitebox Convertible Arbitrage Advisors, LLC, Whitebox Convertible Arbitrage Fund, L.P., Whitebox Hedged High Yield Advisors, LLC, Whitebox Hedged High Yield Fund, L.P., Whitebox Intermarket Advisors, LLC, Whitebox Intermarket Fund, LP, Whitebox Special Opportunities Advisors, LLC, and Whitebox Special Opportunities Fund, LP and located at Trident Chambers P.O. Box 146, Waterfront Drive, Wickhams Cay Road Town, Tortola, British Virgin Islands, Whitebox Combined Partners, L.P., Whitebox Combined Fund, Ltd., Whitebox Convertible Arbitrage Partners, L.P., Whitebox Convertible Arbitrage Fund, Ltd., Whitebox Hedged High Yield Partners, L.P., Whitebox Hedged High Yield Fund, Ltd., Whitebox Intermarket Partners, L.P., Whitebox Intermarket Fund,

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Ltd., Whitebox Special Opportunities Partners, L.P. and Whitebox Special Opportunities SPC Fund, Ltd., collectively may be deemed to beneficially own 2,307,692 shares, which are held of record by its clients.

**DIRECTORS AND OFFICERS**

The following table sets forth, as of March 13, 2008, the number of and percent of our common stock beneficially owned by (a) all Directors and nominees, naming them, (b) the named executive officers, and (c) our Directors and executive officers as a group, without naming them:

Name and Address of Beneficial Owners	Amount and Nature of Beneficial Ownership	Percent of Class
<b>Officer and Director:</b>		
Karl F. Arleth 600 17th Street, Suite 1600 North Denver, Colorado 80202	1,491,311(1)	6.23%
Dominic J. Bazile II 600 17th Street, Suite 1600 North Denver, Colorado 80202	177,339(2)	*
<b>Directors:</b>		
James J. Woodcock 600 17th Street, Suite 1600 North Denver, Colorado 80202	923,907(3)	3.86%
John T. Connor, Jr. 600 17th Street, Suite 1600 North Denver, Colorado 80202	422,279(4)	1.77%
Thomas F. Conroy 600 17th Street, Suite 1600 North Denver, Colorado 80202	193,629(5)	*
Robert Bailey 600 17th Street, Suite 1600 North Denver, Colorado 80202	110,712(6)	*
Bill I. Pennington 600 17th Street, Suite 1600 North Denver, CO 80202	54,048(7)	*
Marc MacAluso 600 17th Street, Suite 1600 North Denver, CO 80202	1,200(8)	*
<b>Officers:</b>		
Lonnie Brock 600 17th Street, Suite 1600 North Denver, Colorado 80202	142,505(9)	*
Richard F. Boshier 600 17th Street, Suite 1600 North Denver, CO 80202	77,235(10)	*
Steve Godfrey	29,905(11)	*

600 17th Street, Suite 1600 North  
Denver, CO 80202

All executive officers and Directors as a group (11 persons)	3,624,070	15.15%
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\* Less than one percent.

(1) Includes (i) 697,639 shares of common stock owned by Mr. Arleth directly, (ii) 83,334 shares underlying warrants, with an exercise price of \$3.24 per share, expiring December 15, 2012, (iii) 410,338 shares

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underlying options, currently exercisable at \$3.48 per share, expiring April 8, 2013, and (iv) 300,000 shares underlying options, currently exercisable at \$3.60 per share, expiring March 30, 2014.

- (2) Represents 177,339 shares of common stock owned by Mr. Bazile directly.
- (3) Includes (i) 430,425 shares of common stock owned by Mr. Woodcock directly, (ii) 83,334 shares underlying warrants exercisable with an exercise price of \$3.24 per share, expiring December 15, 2012 (iii) 410,148 shares underlying options, exercisable with exercise prices ranging from \$3.48 to \$3.60 per share, expiring April 8, 2013 to March 30, 2014.
- (4) Includes (i) 247,279 shares of common stock owned by Mr. Connor directly, and (ii) 175,000 shares underlying options, with exercise prices ranging from \$3.60 to \$3.71 per share, expiring August 3, 2013 to March 30, 2014. Mr. Connor announced in March 2009, that he will not stand for re-election at the Annual Meeting of the Company's stockholders to be held on May 5, 2009.
- (5) Includes (i) 64,971 shares of common stock owned by Mr. Conroy directly, (ii) 25,000 shares underlying warrants, exercisable at \$3.24 per share, expiring December 15, 2012, and (iii) 103,658 shares underlying options, with exercise prices ranging from \$3.48 to \$3.60 per share, expiring April 8, 2013 to March 30, 2014.
- (6) Represents 110,712 shares of common stock owned by Mr. Bailey directly.
- (7) Represents 54,048 shares of common stock owned by Mr. Pennington directly.
- (8) Represents 1,200 shares of common stock owned by Mr. MacAluso directly.
- (9) Represents 142,505 shares of common Stock owned by Mr. Brock directly.
- (10) Represents 77,235 shares of common stock owned by Mr. Boshier directly.
- (11) Represents 29,905 shares of common stock owned by Mr. Godfrey directly.

**INFORMATION ABOUT EXECUTIVE OFFICERS**

The Chairman, the Chief Executive Officer, and other corporate officers are elected annually by our Board. Each holds office until their successors are elected and duly qualified or until their resignation. The current executive officers of the Company are as follows:

<b>Name</b>	<b>Age</b>	<b>Position</b>
Karl F. Arleth	60	Chief Executive Officer, President and Director
Dominic J. Bazile II	50	Executive Vice President and Chief Operating Officer and Director
Lonnie Brock	58	Executive Vice President and Chief Financial Officer
Richard F. Boshier	52	Vice President Business Development
Steve Godfrey	53	Vice President Operations

*Karl F. Arleth* has been President and Chief Executive Officer since May 2003 and a Director since 2002. From March 2002 to May 2003, Mr. Arleth was the Chief Operating Officer and Director of Sefton Resources, Inc., a UK



based oil and gas exploration and production company. From 1999 to 2002, Mr. Arleth served on the board of a Canadian E&P Company and was the Chief Executive Officer of a London based oil and gas Company. Ending in 1999, Mr. Arleth spent 22 years with Amoco and BP-Amoco, domestic and international, in various technical, management and executive positions.

*Dominic J. Bazile II* has been our Executive Vice President and Chief Operating Officer since February 2007 and was appointed as a Director in July 2008, to serve until standing for election at the Annual Meeting of the Company's stockholders to be held in May 2009. From February 2002 to August 2006, Mr. Bazile served as Senior Vice President, Operations & Engineering for Bill Barrett Corporation in Denver, Colorado. From 1996 to 2002, Mr. Bazile was Drilling Manager for Barrett Resources Corporation. Prior to 1996, Mr. Bazile served in a variety of positions for Plains Petroleum Operating Company in Midland, Texas and Gulf Oil Corporation/Chevron USA.

*Lonnie R. Brock* has been our Executive Vice President and Chief Financial Officer since January 1, 2008. From 2006 until he joined the Company, Mr. Brock was the Chief Financial Officer of Double Eagle Petroleum

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Company, a NASDAQ-listed oil and gas exploration and development company located in Denver, Colorado. From 1996 to 2006, Mr. Brock owned and managed his own business outside of the oil and gas industry. From 1994 to 1995, Mr. Brock was Senior Vice President of Acquisitions and Finance for Gerrity Oil & Gas Corporation in Denver, Colorado, and from 1985 to 1994, Mr. Brock served with Western Gas Resources in Denver, Colorado in a number of positions including Controller, Vice President of Finance, and Vice President and Chief Financial Officer.

*Richard F. Boshier* has been our Vice President of Business Development since August 2006. Mr. Boshier has 28 years of oil and gas experience. From 1999 to 2006, Mr. Boshier previously served as Partner and Vice President of Sales for Transzap and the Oildex service line, a leading provider of software to the oil and gas community. Mr. Boshier served as a negotiator in the Business Development Group for Amoco Canada in Calgary, Canada from 1997 to 1999. Between 1993 and 1997, Mr. Boshier was Director of Business Development for Amoco Poland in Warsaw, Poland. From 1987 to 1993, he was a Senior Staff Geophysicist in Amoco's Houston Exploration group, where he was responsible for East Africa exploration, as well as exploration plays in Indonesia, Romania, the Former Soviet Union and Africa. Mr. Boshier began his career with Amoco in 1981 as an exploration geophysicist.

*Steve Godfrey* has been our Vice President of Operations since March 2008. Mr. Godfrey has over 27 years of oil and gas experience with a major emphasis on drilling, production and completion operations. Previously, Mr. Godfrey worked for Forest Oil for seven years, serving in various capacities including Director of Drilling, US-Onshore Drilling Manager and Gulf Coast Onshore Drilling Manager. Prior to Forest Oil, Mr. Godfrey spent 21 years with Texaco and held several positions including Senior Drilling/Asset Manager, North America West Area Drilling and Completion Manager and various engineering positions.

## **EXECUTIVE COMPENSATION**

### **COMPENSATION DISCUSSION & ANALYSIS**

#### **Overview**

The Compensation Committee (the Compensation Committee or the Committee) of the Board administers our executive compensation program. Each member of the Committee is a non-employee and an independent director. The Compensation Committee is primarily responsible for establishing salaries, administering our incentive programs, and determining the total compensation for our Chief Executive Officer. The Committee also reviews and approves recommendations made by the Chief Executive Officer with respect to the other executive officers. The Compensation Committee seeks to achieve the following goals with our executive compensation programs: to attract, motivate and retain key executives and to reward executives for value creation. The Compensation Committee seeks to foster a performance-oriented environment by tying a significant portion of each executive's cash and equity compensation to the achievement of performance targets that are important to the Company and its stockholders. Our executive compensation program has three principal elements: base salary, cash bonuses and equity incentives under the Teton Energy Corporation 2005 Long-term Incentive Plan (the LTIP).

As a result of the current economic crisis, we have no current plans to pay bonuses or raise existing salaries. The 2006 and 2007 LTIP programs, prior to vesting were forfeited the plans have been terminated, and the rights to any vesting of the related stock awards have been permanently waived. None of the awards under the 2008 LTIP program are expected to vest in 2009.

#### **Compensation Philosophy**

The Compensation Committee has designed our compensation program based on the philosophy that all of our employees are important to our success, with our executive officers and other senior personnel setting the direction of

our business and having overall responsibility for our results. As with other oil and gas companies, we operate in a highly competitive and challenging economic environment. Although our current size results in our being referred to as a micro-cap company, we do not believe that we compete with other micro-cap companies for our executives and key personnel. Instead, we see our competition for key personnel as large independent E&P companies. Accordingly, the Compensation Committee has structured the compensation program to accomplish several goals:

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(a) attract and retain not just very talented individuals, but individuals who have worked, are working, or have the opportunity to work in organizations which have grown to be significantly larger than ours, (b) reward creativity in maximizing business opportunities and (c) enhance stockholder value by achieving our short-term and long-term business objectives. We believe we are achieving success in this endeavor as we have a senior management team and others with the expertise, talent and track record of a large multi-billion dollar independent E&P company rather than a micro-cap company. The Committee believes that having such experienced personnel is critical since the Committee has set considerable and aggressive growth expectations for our senior personnel indeed for our entire Company. Although the current economic environment has delayed such growth, the expectations for the future are still valid.

At the senior-most levels, we design the incentive compensation to reward company-wide performance through tying awards primarily to factors that we believe represent lasting value creation for our stockholders, including reserve and production growth, increases in net asset value or NAV, stock appreciation and the measurement of a focus toward the efficiently run organization. We are currently in the midst of reshaping our Company's focus toward operating oil and gas properties rather than simply the ownership of minority non-operated interests. At lower levels, we design the incentive compensation to reward the achievement of specific operational goals within areas under the control of the relevant employees, although company-wide performance is also an important factor.

### **Compensation Principles**

As noted, the Committee has designed our compensation program to attract, motivate, and retain highly talented individuals to drive business success. Although the current economic environment has not allowed for bonus payments or stock awards at the end of 2008, we believe the program is properly designed and will function when, and if, the economy and our industry recover. The economic environment has not altered the central goals of our compensation program of attracting and retaining talented leaders. Our program reflects the following principles:

#### ***Compensation should be related to performance***

Our compensation program reinforces the Company's business and financial objectives. Employee compensation will vary based on Company and individual performance. When the Company performs well against the objectives that our Compensation Committee and Board set, employees will receive greater incentive compensation. To the extent the business does not achieve or meet these objectives, incentive awards will be reduced or eliminated. An employee's individual compensation will also vary based on the person's performance, contribution, and overall value to the business. Additionally, we believe that employees with sustained high performance should be rewarded more than those in similar positions with lesser or inconsistent performance.

#### ***Our employees should think like stockholders***

We believe that our employees should act in the interests of the Company's stockholders and we further believe that the best way to encourage them to do that is through an equity interest in the Company. We do this in a number of ways. We have, over time, granted equity-based awards, such as stock options and/or restricted stock or performance share units, to most employees. Beginning in 2005 we moved away from a traditional stock option plan and have focused almost exclusively on performance share units, which convert into stock upon the achievement of certain performance-based milestones, as well as performance-based restricted stock grants. We believe that as our employees earn more stock (as opposed to profiting on options) they will think more like stockholders. Several of our senior executives and board members have made significant personal investments in our stock. We believe that when all employees become owners, they think and behave like owners.

#### ***Incentive compensation should be a greater part of total compensation for more senior positions***

The proportion of an individual's total compensation that varies with individual and Company performance objectives should increase as the individual's business responsibilities increase. Our cash bonuses and LTIP form

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the overwhelmingly dominant portion of overall compensation for our senior employees and the milestones for payouts on those plans for our senior employees are based entirely on corporate results.

### ***Compensation should enable us to attract the quality of individual necessary to enable us to exceed our objectives and transform the Company***

Traditionally we have been considered a micro-cap E&P company, managing minority non-operated working interests. We believe that in order to achieve lasting value for our stockholders we needed to begin to operate our own properties and grow our asset base in order to achieve certain economies of scale in our operations, as well as to achieve the stability to weather the cyclical aspects inherent in the oil and gas business. We have begun to add operated properties to our portfolio and intend to continue to do so. To achieve these objectives, if not exceed them, we are dependent on our ability to hire personnel away from larger companies or hire people who may be or become attractive candidates to larger companies within the E&P segment of our industry. Since larger companies have greater cash resources and more sophisticated compensation structures than our size will permit, we have structured our compensation programs to focus on performance-based equity rewards. Since so much of a senior employee's compensation is at risk, we believe that providing the opportunity for meaningful wealth accumulation upon the achievement of objectives that create value for our stockholders enables us to compete for top talent with larger organizations. We believe the most capable professionals will be inclined to work for a company focused on performance-based compensation where the awards are meaningful (if the targets are met) rather than simply accepting the greater amount of current cash compensation that most larger companies offer their employees.

### ***Other goals***

We have designed our compensation program to balance short and long-term financial objectives, with an emphasis on the longer-term picture, to encourage building stockholder value and to reward individual performance (at the more junior levels) and company performance (for all employees, with an emphasis for senior employees). When we determine compensation levels for executive officers, we conduct exhaustive research as to compensation trends within and outside of our industry, among companies that are our size as well as those which are both larger as well as smaller than we are. While we do consider the advice of independent, outside consultants retained by the Compensation Committee, we limit their input under the theory that the Compensation Committee is ultimately responsible for these decisions. We rely on independent consultants generally to assist us in benchmarking our compensation to our peers within our industry, in particular, providing us with information about what our peers pay their executives.

In addition, we also review compensation survey data from a variety of sources that we believe are independent to us and any consultants that we may retain to ensure that our total compensation program is competitive and that the amounts and types of compensation that we pay our senior employees as well as our more junior employees are appropriate. We target overall compensation opportunities to be competitive less with our current micro-cap industry comparison group and more with the type of company we seek to become. This is especially important inasmuch as we have had larger companies within our industry segment solicit our employees to join their organizations from time to time. In addition, we consider the compensation level of each of our officers and attempt to maintain appropriate relationships between the compensation of the different officers.

### ***Deductibility of Compensation Paid under Section 162(m) of the Internal Revenue Code***

It is our policy to have the incentive compensation paid to our five most highly compensated executive officers qualify as performance-based and be deductible for federal income tax purposes under Section 162(m) of the Internal Revenue Code unless there is a valid compensation reason that would justify paying non-deductible amounts. That law provides that compensation paid to those individuals in excess of \$1 million per year is not deductible for federal

income tax purposes unless it is performance-based and a number of other requirements are met. Further, we recognize no current net tax benefit as the Company is in a Net Operating Loss carry forward position and is not recognizing any Deferred Tax benefits as future tax recovery is uncertain.

**Table of Contents*****Compensation Targets***

Under our compensation structure, the mix of base salary, bonus and equity compensation varies depending upon the level of seniority within our company:

	<b>Typical Base Salary</b>	<b>Typical Target Bonus</b>	<b>Typical Equity Incentive Target</b>
Chief Executive Officer	15%	30%	55%
All Other Officers	25%	25%	50%
Senior Staff	40%	20%	40%
Junior Staff/All Other Employees	70%	20%	10%

All percentages based on total compensation.

In allocating compensation among these elements, we believe that the compensation of our senior-most levels of management – those persons having the greatest ability to influence our company’s performance – should be predominantly performance based, while more junior employees should receive a greater portion of their compensation based on their base salary.

***Elements of Compensation*****Target Total Cash Compensation**

Target total cash compensation for each senior employee, including our most senior executives (also known as our Named Executive Officers or NEOs) is established primarily based on the Compensation Committee’s view of the skills and experience that each senior employee brings to our Company, the Compensation Committee’s expectations for performance for that individual during the course of the year, and, to a lesser extent, on peer group data. While we believe it is important to benchmark the compensation of our employees – particularly our senior employees – to other companies within as well as outside our peer group, we engage in this exercise less because we require assistance in setting targets for our employees and more because we wish to understand how the nature of compensation (and components thereof) may be changing in our industry and how we need to incentivize our employees to achieve ambitious goals. The Compensation Committee firmly believes that cash compensation for our employees should be based on what is fair and reasonable given the size of the Company, its resources and the expectations we have in terms of value creation for our stockholders.

The basic compensation system and components of compensation for each of our senior executives is established by a contract that provides for a minimum annual base salary, the right to a bonus, if declared by our Compensation Committee, and the right to participate in our equity-based plans. Each executive has the same form of agreement, with the only differences being the levels of compensation per executive and severance provisions.

**Base Salary and Cash Incentive**

Total cash compensation is divided into a base salary portion and a cash incentive bonus portion. The Committee establishes our Chief Executive Officer’s targeted cash compensation first and then works with our CEO to set the cash compensation for other officers accordingly, based on the function served by that officer, that officer’s experience, the



expected individual performance and impact on company-wide results. Generally, the higher the level of responsibility of the executive within the Company the greater the portion of that executive's target total cash compensation that consists of the cash incentive component. Similarly, the Committee believes that the higher the executive's level of responsibility within the Company, the greater the percentage of the executive's compensation that should be tied to the Company's performance. Target cash incentive ranges from approximately 33% to 50% of targeted total cash compensation, which translates to 100% to 200% of base salary for our senior executive officers.

Our Compensation Committee, upon the recommendation of the Chief Executive Officer, has the authority to award discretionary bonuses to our executive officers. The incentive bonuses are intended to compensate officers for achieving financial and operational goals and for achieving individual annual performance objectives. These objectives vary depending on the individual executive, and the Committee's assessment of the Company's

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development and what constitute appropriate objectives in a given year in relation to the long-range plan, but relate generally to strategic factors such as EBITDAX, increases in reserves and/or production, and increases in NAV. As long as the current economic crisis exists, we have no intention of paying bonuses or raising existing salaries for officers, directors and employees. We continue to monitor our development and growth as a company and will revisit, at least annually, and modify compensation as appropriate.

**Equity Incentive**

We believe that long-term performance is achieved through an ownership culture that encourages such performance by our executive officers through the use of stock and stock-based awards. Our stock compensation plans have been established to provide certain of our employees, particularly our executive officers, with incentives to help align those employees' interests with the interests of stockholders. The Committee believes that the use of stock and stock-based awards offers the best approach to achieving our compensation goals particularly on goals that are tied to increases in stockholder value. We have not adopted stock ownership guidelines and our stock compensation plans have provided the principal method for our executive officers to acquire equity or equity-linked interests in our Company.

We have structured our equity-based compensation plans in order to give our key personnel line of sight with respect to our long-term objectives and the consequences for them if they achieve those objectives that inure to the stockholders' benefit. We believe that highly capable personnel are better able to focus on objectives necessary to create and maintain stockholder values when they are stockholders and are permitted to appreciate the economic consequences to them over the long-term if our stockholders benefit from their achievements. Our Committee identifies each key person's responsibilities within the entire framework of our organization and establishes equity-based compensation targets assuming personal and corporate-wide objectives are achieved. We believe that we are better able to attract and retain the type of talent we need to achieve our objectives if we can recruit such individual by articulating long-term corporate objectives at the outset of their employment and explaining the impact on such success to the individual.

Our executive officers are eligible to receive performance-based performance share units and restricted stock awards granted under the LTIP. If executive officers receive grants under the LTIP, they are generally (but not always) awarded annually by the Committee usually during the 1<sup>st</sup> quarter, and proximate to when we file our annual report. Newly hired executive officers may receive sign-on grants of restricted stock upon their commencing employment with us, if approved by the Committee. In addition, the Committee may, in its discretion, issue additional equity incentive awards to executive officers if the Committee determines the awards are necessary for retention. All restricted grants to executive officers have a minimum vesting period of three years.

The Committee and the Company's stockholders believed that by offering the opportunity to participate in a pool of equity in the Company of as much as 35% of its total outstanding equity, it would help attract and retain qualified professionals, while the condition precedent of the Company's achieving established and meaningful milestones would provide stockholders with the reasonable expectation that any potential dilution would only come with an increase in stockholder value over time. In other words, if the milestones were not met or exceeded, potential incentive awards would not be earned and the stockholders would not be diluted.

The LTIP allows for awards in the form of stock options, stock, restricted stock, and performance share units. To date, only performance share units and restricted stock have been awarded. The program enables but does not require the Company to sell sufficient shares from the earned awards to meet the required tax withholding and, where requested, estimated tax payments of the participants. If shares are not sold, shares are withheld and amounts are paid in cash.

While not required by the LTIP, the Committee has, prior to 2008, established multiple targets or goals each year, with various weightings which in the aggregate total 100%. Each goal is measured separately, then multiplied by its

respective weighting. The sum of the weighted goals determines the payout to vest in a given year.

Awards prior to 2008 under the LTIP established three basic milestones for each goal in each grant: Threshold, Base, and Stretch. Threshold Objectives provide for a 50% payout if met and generally require attainment of 75%-80% of the Base Objective. The Base Objective is the targeted objective to be reached and, if met, will result in

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100% of any given, vested award to be paid out. The Stretch Objective is the over-achievement performance objective and results in a payout, if achieved, of up to 200%. Typically the Stretch Objective is set at approximately 120% of the Base Objective. Since achievements between the Threshold and Base, and between the Base and Stretch milestones are arithmetically interpolated, awards under each grant will vary from 0 to 200% in each year. These milestone relationships may change as the Company grows.

Grants of performance share units vest over a three-year period. Thus far, the vesting schedule has been 20% in year one of a grant, 30% in year two of a grant, and 50% in year three of a grant. The vesting schedule is designed to encourage long-term thinking and planning on behalf of management and recognizes that long-term objectives can be difficult to measure or achieve in the short term. Director and Executives' payout(s) are based 100% on corporate objectives, while less senior employees are paid out based in part on corporate objectives but more so based on individual and team objectives. Participants in the plan must be employed by us or providing services to us on the vesting date to receive awards.

As grants may be made each year, with goals and vesting over 3 years, it is possible that in any given year, up to three separate grants, with three separate sets of goals and milestones, may affect some or all participants.

In early 2008, the Committee made an award of PSUs utilizing a slightly different structure to the grant. Unlike prior PSU awards, the 2008 award contains a single metric—increases in NAV, or net asset value, per share—targeting 40%, 100%, and 200% growth as measured from December 31, 2007. Although the 20%, 30%, 50% vesting structure of prior grants remains, awards vest at each of the attainment of the NAV per share milestones, which may occur at any time over a three-year period beginning on January 1, 2008. The Company achieved a 40% increase over the December 31, 2008 NAV per share, which was certified by the Compensation Committee of the Board of Directors in August of 2008. The final tranche of the award for our executives, if achieved, will vest on December 31, 2010.

The Committee is mindful not to establish aggressive objectives which could have the effect of encouraging management to pursue transactions for the sake of completing a transaction that may not be in our long-term best interests. Although the Compensation Committee believes that the Management Efficiency and Effectiveness objective is sufficient to prevent such an occurrence it has reserved the discretionary ability to provide management with periodic, limited equity grants in order to assure that management has some modest level of equity participation. The Committee noted, for instance, that while the objectives in each of the 2005 and 2006 grants emphasized growth, management, even when faced with considerable pressure to achieve an acquisition, did not attempt to rush to consummate an acquisition for acquisition's sake. The Committee believes that this level of professionalism is a reflection of the tone established at the top as led by its Chief Executive Officer coupled with modest restricted stock grants to management with periodic vesting.

In light of the current economic crisis, the Board of Directors elected not to certify the achievement of the 2006 and 2007 LTIP Plans, which, prior to vesting were forfeited, the plans have been terminated and the rights to any vesting of the related stock awards have been permanently waived by all officers who participated in these plans. Additionally, none of the awards under the 2008 LTIP are expected to vest in 2009.

***Rationale for Paying each Element***

Base compensation and participation in benefit plans are established to provide employees with appropriate industry competitive terms. Directors' retainers are paid partially to compensate Directors for their considerable time investment and to assist Directors in covering their indirect operating expenses as independent contractors. Annual incentive cash bonuses are paid to reward employees for performance and stockholder value enhancement in the current year, based upon targets set by the Board for the CEO and his direct reports, with the CEO establishing the individual targets for all other employees.

LTIP awards are designed to reward the building of long-term stockholder value, while providing modest, intermediate rewards in the pursuit of such longer-term objectives.

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### ***Determination of Amounts to Pay***

Base salaries, benefits and potential cash bonuses are established based upon current market conditions. Where needed, outside consultants may be retained to assist in this process. Benefit plan structures may be evaluated periodically to determine market competitiveness with similar companies.

LTIP awards to be granted are evaluated based upon projected total compensation levels for participants assuming the Base Objective is achieved. Since the majority of the total potential compensation is based upon performance, our expectation is that the total projected compensation level be well above average, because the at risk compensation levels generally exceed 2/3 of anticipated compensation under the assumption that Bonus targets are met and the LTIP payout is at the 100% Base milestone or similar objective that may be set. The Committee, taking into consideration management's recommendations and with sign off from all independent Directors, sets each year's goals and milestones, their weightings and the formulas for award calculation. Although the structure of the awards made in February 2008 is somewhat different than past PSU awards, the effect on performance is unchanged.

For accounting purposes, cash elements are expensed as earned. LTIP awards are expensed as provided for under FAS 123R and are further described in the footnotes to the December 31, 2008 Financial Statements (audited).

### ***How the Elements Interact***

While each element is set with certain needs in mind, the Committee also looks at the total compensation package for each individual, assuming that bonus and LTIP targets are met at the Base or 100% milestone, to determine that the total payout is appropriate to the level of responsibility attributable to each participant.

### ***Stock Options***

Our Compensation Committee is the administrator of our stock option plan, the 2003 Employee Stock Compensation Plan. Certain former and existing officers, directors, and employees who were employed by or affiliated with us between 2003 and 2005 have stock options that were awarded under this plan. Both incentive stock options and nonqualified stock options were granted, as applicable. We terminated this plan (but not existing grants) in June 2005 when our stockholders approved our LTIP. As previously stated, we are now focusing our stock-based compensation on performance share units, which we believe to be a superior method for aligning the interests of our employees with the interests of our stockholders.

### ***Chief Executive Officer Compensation***

The same factors used by the Compensation Committee to determine the compensation of our Chief Executive Officer applies to the other senior officers. Our Chief Executive Officer's base salary for the fiscal year ended December 31, 2008, was \$250,000. The Chief Executive Officer received other compensation as indicated in the Summary Compensation Table. As long as the current economic crisis exists, the CEO's salary will be frozen. We continue to monitor our development and growth as a company and will revisit, at least annually, and modify compensation as appropriate.

### ***Severance Benefits***

Each officer's contract contains severance benefit for that officer if he or she is terminated other than for cause, the officer leaves the Company after a change in control, or they leave for good reason. The severance benefit generally ranges from twelve (12) months benefit to two (2) years benefit for our Chief Executive Officer. We provide this benefit because we want executives to focus on the Company's business and enhancing stockholder value without

undue concern about any possible loss of their job.

Retirement Plans

We do not offer retirement plans for our officers. We do offer a SIMPLE IRA plan, allowing for the deferral of employee income. The plan provides for the Company to match employee contributions up to 3% of gross pay.

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During the fiscal year ended December 31, 2008, the Company contributed \$79,000 to that plan to match employee contributions. As of January 1, 2009, the SIMPLE IRA plan has been frozen for any future contributions. The Company put in place a 401(K) plan, effective January 1, 2009, to replace the SIMPLE IRA plan. The new 401(K) plan provides for the Company to match employee contributions at 100% up to 3% of gross pay and up to 50% of the next 2% of gross pay, up to a total of 4% of gross pay.

### **Change in Control**

Each officer's contract was modified, by the Compensation Committee of the Board of Directors, on December 4, 2008 for changes to the previous standard provisions surrounding a change in control that had not been approved by our Board of Directors. Language was added to each of the officer's contracts, to include a modified severance benefit, in the event of a change of control of the Company, whether or not approved by our Board of Directors, equal to 1.75 to 3.0 times the sum of each officer's annual base salary plus bonus.

In addition, our stock option plan and our long-term incentive plan each provide for acceleration of vesting for all participants in the event of such a change in control. The precise terms and conditions of each executive contract and of each plan are contained in each of our contracts or plans, which have been filed with the Securities and Exchange Commission. If you wish to learn more about these plans, you may review our list of exhibits at the end of our annual report on Form 10-K, which will identify the plan and when it was filed with the Securities and Exchange Commission.

### **Perquisites**

We offer limited perquisites for our executives. We cover the costs of the rent on our Chief Executive Officer's apartment, as his primary residence is not within a practical commute of our headquarters. The annual cost of that apartment is approximately \$17,000 and is a provision in his contract. We also maintain a \$3 million split-benefit term life insurance policy that names us and a beneficiary of our CEO's choosing as equal beneficiaries, as well as similar plans for the Chief Operating and Chief Financial Officers in the amount of \$2 million each.

### **Director Compensation**

During fiscal 2008, directors who were not officers of the Company received a quarterly retainer of \$14,000, except for the Chairman of the Board of Directors who received a quarterly retained of \$28,000. Directors are not paid for meeting attendance, nor for committee chairs. Each member of the Board also was eligible to participate in the Company's 2005 Long-term Incentive Plan either through PSUs or restricted stock grants. Although our directors have participated in our LTIP programs in the past, they will not participate in the future and will remain independent of the LTIP programs.

Our directors did not participate in the 2008 LTIP Program inasmuch as there are a greater number of employees that make up the pool of participants in the LTIP program and the need to ensure that awards are made primarily to those persons whose performance will drive our success. We continue to monitor our development and growth as a company and will revisit and modify directors' compensation as appropriate.

### **Board Process**

The primary role of the Compensation Committee of the Board of Directors is to approve compensation and awards to the Chief Executive Officer and to set milestones and general compensation principles for the rest of the Company. The Compensation Committee also reviews and approves recommendations by the Chief Executive Officer with respect to compensation for the Chief Financial Officer and Chief Operating Officer. For the remaining officers, the



Chief Executive Officer makes recommendations to the Compensation Committee that generally, with whatever adjustments deemed necessary or appropriate, are approved. With respect to equity-based compensation awarded to others, the Compensation Committee grants restricted stock, generally based upon the recommendation of the Chief Executive Officer, and has delegated equity-based granting authority to the Chief Executive Officer.

The Compensation Committee believes that objectives cannot be established in a vacuum and thus invites management's input into the establishment of milestones. Although Committee meetings are held in executive

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session, without management's presence, the Committee (and from time to time individual members of the Committee) routinely meets with senior officers of the Company to discuss objectives, explain the rationale for certain objectives or milestones, and to assure that it has management's input in assessing the consequences of decisions made in Committee, for instance, the impact that its decisions may have on our financial statements. The Committee's interactions with management seek to achieve a balance between receiving management's buy-in for objectives and assuring that management is not, in effect, establishing the terms and parameters for its own compensation. In certain instances, where management has proposed objectives that are more aggressive than those proposed by the Committee, the Committee may elect to utilize management's milestones rather than its own.

## **Forward-Looking Statements**

Disclosures in this Compensation Discussion & Analysis may contain certain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended. All statements, other than statements of historical fact, are or may be forward-looking statements. For example, statements concerning projections, predictions, expectations, estimates or forecasts, and statements that describe our objectives, future performance, plans or goals are, or may be, forward-looking statements. These forward-looking statements reflect management's current expectations concerning future results and events and can generally be identified by the use of the words may, will, should, could, would, likely, predict, potential, future, estimate, believe, expect, anticipate, assume, intend, plan, project, foresee and other similar terms, as well as statements in the future tense. Without limiting the generality of the foregoing, forward-looking statements contained in this report include the matters discussed regarding the expectation of compensation plans, strategies, objectives, and growth and anticipated financial and operational performance of the company and its subsidiaries. A variety of factors could cause the company's actual results to differ materially from the anticipated results or other expectations expressed in the company's forward-looking statements. The risks and uncertainties that may affect the operations, performance and results of the Company's business and forward-looking statements include, but are not limited to, those set forth in the Company's Form 10-K for the year ended December 31, 2008.

Any forward-looking statement speaks only as of the date on which such statement is made and the company does not intend to correct or update any forward-looking statements, whether as a result of new information, future events or otherwise.

## **COMPENSATION COMMITTEE REPORT**

*The Report of the Compensation Committee (the "Compensation Report") does not constitute soliciting material and should not be deemed filed or incorporated by reference into any other Company filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent the Company specifically incorporates this Compensation Report by reference therein.*

### **Recommendations of the Compensation Committee.**

We have reviewed and discussed the Compensation Discussion & Analysis ( "CD&A" ) with the Company's management. Based on this review and these discussions, we recommended to the Board of Directors that the CD&A be included in the Company's 2008 Annual Report on Form 10-K and Proxy Statement for 2009.

**This report has been furnished by the Compensation Committee of the Board of Directors.**

Robert F. Bailey, Chairman  
John T. Connor  
Thomas F. Conroy

James J. Wood