

CARRIZO OIL & GAS INC  
Form DEF 14A  
April 29, 2011  
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**SCHEDULE 14A INFORMATION**

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

Filed by the Registrant  [ X ]

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))
- [ X ] Definitive Proxy Statement
- [ ] Definitive Additional Materials
- [ ] Soliciting Material under Rule 14a-12

**CARRIZO OIL & GAS, INC.**

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

- [ X ] 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):
  
  
  
  
  
  
  
  
  
  
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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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April 29, 2011

Dear Fellow Shareholder:

You are cordially invited to attend the Annual Meeting of Shareholders of Carrizo Oil & Gas, Inc. (the Company ) to be held at 9:00 a.m., Central Daylight Time, on Thursday, June 2, 2011, at the 1st Floor auditorium, 1000 Louisiana Street, Houston, Texas.

The enclosed notice of annual meeting and the proxy statement describe the matters to be acted upon during the meeting. The Company's 2010 Annual Report to Shareholders is also enclosed.

We hope you will find it convenient to attend in person. Whether or not you expect to attend, to assure representation at the meeting and the presence of a quorum, please date, sign and promptly mail the enclosed proxy in the return envelope provided.

Sincerely,

S.P. Johnson IV

*President and Chief Executive Officer*

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**CARRIZO OIL & GAS, INC.**

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

**To Be Held June 2, 2011**

To the Shareholders of

Carrizo Oil & Gas, Inc.:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders of Carrizo Oil & Gas, Inc. (the Company) will be held at 9:00 a.m., Central Daylight Time, on Thursday, June 2, 2011, at the 1st Floor auditorium, 1000 Louisiana Street, Houston, Texas, for the following purposes:

- (1) to elect six members to the Board of Directors for a one-year term;
- (2) to approve, in an advisory vote, the executive compensation of the Company's named executive officers;
- (3) to vote, on an advisory basis, on whether the advisory vote on the Company's executive compensation will take place every one, two or three years;
- (4) to ratify the appointment of KPMG LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2011;
- (5) to vote on a shareholder proposal, if properly presented at the meeting; and
- (6) to transact such other business as may properly come before the meeting.

The Company has fixed the close of business on April 11, 2011, as the record date for determining shareholders entitled to notice of, and to vote at, such meeting or any adjournment thereof.

You are cordially invited to attend the meeting in person. Even if you plan to attend the meeting, you are requested to read the enclosed proxy statement and to mark, sign, date and return the accompanying proxy as soon as possible.

By Order of the Board of Directors

Paul F. Boling

*Secretary*

April 29, 2011

1000 Louisiana Street, Suite 1500

Houston, Texas 77002

**Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting to be Held on June 2, 2011.**

**The proxy statement and annual report to shareholders are available at [www.crzo.net/uploads/proxy20110429.pdf](http://www.crzo.net/uploads/proxy20110429.pdf).**

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**CARRIZO OIL & GAS, INC.**

**1000 Louisiana Street, Suite 1500**

**Houston, Texas 77002**

**PROXY STATEMENT**

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors of Carrizo Oil & Gas, Inc., a Texas corporation (the Company), to be voted at the 2011 Annual Meeting of Shareholders (the Annual Meeting) to be held at 9:00 a.m., Central Daylight Time, on Thursday, June 2, 2011, at the auditorium, 1st Floor, 1000 Louisiana Street, Houston, Texas, and any and all adjournments thereof.

This statement and the accompanying form of proxy are first being mailed to shareholders on or about May 9, 2011.

**Voting Procedures**

Shareholders of record as of April 11, 2011, the record date for determining persons entitled to notice of, and to vote at, the Annual Meeting, are entitled to vote on all matters at the Annual Meeting and at any adjournments thereof. On March 31, 2011, the issued and outstanding capital stock of the Company consisted of 38,921,709 shares of common stock, par value \$0.01 per share (Common Stock). No other class of stock is outstanding. Each share of Common Stock is entitled to one vote on each matter submitted to a vote of shareholders. Cumulative voting is not allowed. The holders of a majority of the shares entitled to vote at the Annual Meeting, represented in person or by proxy, constitute a quorum for the transaction of business at the Annual Meeting.

All duly executed proxies received prior to the Annual Meeting will be voted in accordance with the choices specified thereon and, in connection with any other business that may properly come before the meeting, in the discretion of the persons named in the proxy. As to any matter for which no choice has been specified in the proxy, the shares represented thereby will be voted by the persons named in the proxy, to the extent applicable, (1) for the election as a director of each nominee listed in this proxy statement; (2) to approve, on an advisory basis, the compensation of the Company's named executive officers; (3) in favor of holding an advisory vote on executive compensation annually; (4) for the appointment of KPMG LLP (KPMG) as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2011; (5) against the shareholder proposal; and (6) in the discretion of the persons named in the proxy in connection with any other business that may properly come before the meeting. A shareholder giving a proxy may revoke it at any time before it is voted at the Annual Meeting by delivering written notice to the Secretary of the Company or by delivering a properly executed proxy bearing a later date. A shareholder who attends the Annual Meeting may, if he or she wishes, vote by ballot at the Annual Meeting and that vote will cancel any proxy previously given. Attendance at the Annual Meeting will not in itself, however, constitute the revocation of a proxy.

Proxies indicating shareholder abstentions will be counted for purposes of determining whether there is a quorum at the Annual Meeting, but will not be voted on any matter and therefore will have the same effect as a vote against a matter, except in the case of director elections, which are determined by a plurality of votes cast, as to which those abstentions will have no effect. Shares represented by broker non-votes (*i.e.*, shares held by brokers or nominees for which instructions have not been received from the beneficial owners or persons entitled to vote and for which the broker or nominee does not have discretionary power to vote on a particular matter) will be counted for purposes of determining whether there is a quorum at the Annual Meeting, but will not be voted on any matter for which the broker or nominee does not have discretionary power to vote, and thus will be disregarded in the calculation of votes cast with respect to that matter (even though those shares may be considered entitled to vote or be voted on other matters). Votes cast by proxy or in person at the Annual Meeting will be counted by the persons appointed as election inspectors for the Annual Meeting.

**Table of Contents****Security Ownership of Management and Certain Beneficial Owners**

The table below sets forth information concerning (1) the only persons known by the Company, based solely on statements filed by such persons pursuant to Section 13(d) or 13(g) of the Securities Exchange Act of 1934, as amended (the Exchange Act), to own beneficially in excess of 5% of our Common Stock as of December 31, 2010, and (2) the number of shares of our Common Stock beneficially owned as of March 31, 2011 by each director, the Chief Executive Officer, the Chief Financial Officer and three other executive officers whose names appear in the Summary Compensation Table, and by all executive officers and directors collectively. Except as indicated, each individual has sole voting power and sole investment power over all shares listed opposite his name. As of March 31, 2011, the Company had 38,921,709 shares of Common Stock issued and outstanding.

Name and Address of Beneficial Owner(1)	Amount and Nature of Beneficial Ownership	
	Number of Shares(2)	Percent of Common Stock (rounded)
<b>Directors and Named Executive Officers:</b>		
S. P. Johnson IV	736,805	1.9%
J. Bradley Fisher	91,899	*
Paul F. Boling	87,902	*
Gregory E. Evans	70,535	*
Richard H. Smith	31,551	*
Steven A. Webster	2,494,490	6.4%
Thomas L. Carter, Jr.	24,625	*
F. Gardner Parker	85,878	*
Roger A. Ramsey	39,500	*
Frank A. Wojtek	28,458	*
<b>Directors and Executive Officers as a Group (11 persons)</b>		
	3,696,233	9.5%
Piper Jaffray Companies <sup>(3)</sup>	3,019,923	7.8%
Frontier Capital Management Co., LLC <sup>(4)</sup>	2,675,785	6.9%
BlackRock, Inc. <sup>(5)</sup>	2,507,529	6.4%

\* Less than 1%.

- (1) Except as otherwise noted and pursuant to applicable community property laws, each shareholder has sole voting and investment power with respect to the shares beneficially owned. None of the shares beneficially owned by our executive officers or directors are pledged as security, except for 50,000 shares that Mr. Parker has pledged as collateral for a line of credit and 14,500 shares that Mr. Ramsey has pledged as collateral for a line of credit. The business address of each director and executive officer is c/o Carrizo Oil & Gas, Inc., 1000 Louisiana Street, Suite 1500, Houston, Texas 77002.
- (2) The table includes shares of Common Stock that can be acquired through the exercise of options within 60 days of March 31, 2011 as follows: Mr. Johnson 111,668, Mr. Fisher none, Mr. Boling 14,250, Mr. Evans 13,333, Mr. Smith none, Mr. Webster 168,334, Mr. Carter 3,334, Mr. Parker 22,500, Mr. Ramsey 13,500, Mr. Wojtek 2,500, and all directors and executive officers as a group 349,419. The table includes shares of Common Stock related to restricted stock units that vest within 60 days of March 31, 2011 as follows: Mr. Johnson none, Mr. Fisher 30,217, Mr. Boling 23,340, Mr. Evans 14,835, Mr. Smith 10,846, Mr. Webster none, Mr. Carter 2,500, Mr. Parker 5,000, Mr. Ramsey 3,500, Mr. Wojtek 1,000, and all directors and executive officers as a group 93,553. The percent of the class owned by each person has been computed assuming the exercise of all options deemed to be beneficially owned by that person, and assuming that no options held by any other person have been exercised.





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- (3) Based solely on a Schedule 13G filed with the SEC on February 11, 2011, Piper Jaffray Companies ( Piper Jaffray ) reported sole voting power and sole dispositive power over 3,019,923 shares through the beneficial ownership of such shares by its wholly-owned subsidiary Advisory Research, Inc. ( ARI ), an investment adviser. Piper Jaffray disclaims beneficial ownership of such shares. The address of the principal business office of Piper Jaffray is 800 Nicollet Mall, Suite 800, Minneapolis, Minnesota 55402. The address of the principal business office of ARI is 180 N. Stetson, Chicago, Illinois 60601.
  
- (4) Based solely on a Schedule 13G filed with the SEC on February 14, 2011, Frontier Capital Management Co., LLC ( Frontier ). reported sole voting power over 1,918,377 shares and sole dispositive power over 2,675,785 shares. The address of the principal business office of Frontier is 99 Summer Street, Boston, MA 02110.
  
- (5) Based solely on a Schedule 13G/A filed with the SEC on February 3, 2011, BlackRock, Inc. reported sole voting power and sole dispositive power over 2,507,529 shares. The address of the principal business office of BlackRock, Inc. is 40 East 52nd Street, New York, New York 10022.

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**PROPOSAL 1**

**ELECTION OF DIRECTORS**

The persons designated as proxies on the enclosed proxy card intend, unless the proxy is marked by shareholders with contrary instructions, to vote for the following nominees as directors to serve until the 2012 Annual Meeting of Shareholders and until their successors have been duly elected and qualified or until their resignation or removal: Mr. S.P. Johnson IV, Mr. Steven A. Webster, Mr. Thomas L. Carter, Jr., Mr. F. Gardner Parker, Mr. Roger A. Ramsey and Mr. Frank A. Wojtek. The Board of Directors has no reason to believe that any nominee for election as a director will not be a candidate or will be unable to serve, but if for any reason one or more of these nominees is unavailable as a candidate or unable to serve when election occurs, the persons designated as proxies on the enclosed proxy card, in the absence of contrary instructions by shareholders, will in their discretion vote the proxies for the election of any of the other nominees or for a substitute nominee or nominees, if any, selected by the Board of Directors. Mr. Johnson's current employment agreement with the Company provides that he will be a director. For more information regarding his employment agreement, please read Executive Compensation-Employment Agreements.

The affirmative vote of a plurality of the votes cast by holders entitled to vote in the election of directors at the Annual Meeting is required for the election of each nominee for director. If you hold your shares through a broker and do not provide instructions as to how to vote your shares, your shares will not be voted on this proposal. We recommend that you contact your broker to provide voting instructions. However, because the Company has a plurality voting standard for the election of directors, broker non-votes are not expected to affect the outcome of an uncontested election of directors.

**Nominees**

The following sets forth information concerning the six nominees for election as directors at the Annual Meeting, including information as to each nominee's age as of March 31, 2011, position with the Company and business experience during the past five years. All nominees are currently serving as directors and are standing for re-election.

*S.P. Johnson IV*, age 55, has served as our President and Chief Executive Officer and a director since December 1993. Prior to that, he worked for Shell Oil Company for 15 years. Mr. Johnson is also a director of Basic Energy Services, Inc. (a well servicing contractor) and served as a director of Pinnacle Gas Resources, Inc. (a coalbed methane exploration and production company) from 2003 to January 2011. Mr. Johnson is a Registered Petroleum Engineer and holds a B.S. in Mechanical Engineering from the University of Colorado. Mr. Johnson brings to the Board of Directors extensive experience in oil and gas exploration and production and the energy industry through his roles at the Company and other energy companies. He also brings to the Board extensive knowledge of the Company by virtue of his being a co-founder and long-time director and President and Chief Executive Officer of the Company.

*Steven A. Webster*, age 59, has been the Chairman of our Board of Directors since June 1997 and has been a director since 1993. Mr. Webster has served as Co-Managing Partner of Avista Capital Partners, a private equity firm focused on investments in the energy, media and healthcare sectors, since he co-founded the firm in July 2005. From January 2000 until June 2005, Mr. Webster served as the Chairman of Global Energy Partners, Ltd., an affiliate of CSFB Private Equity, which made private equity investments in the energy business. From December 1997 to May 1999, Mr. Webster was the Chief Executive Officer and President of R&B Falcon Corporation, an offshore drilling contractor, and prior to that, was Chairman and Chief Executive Officer of Falcon Drilling Company, which he founded in 1988. Mr. Webster is also a director of SEACOR Holdings, Inc. (a marine transportation and service provider), Geokinetics, Inc. (a seismic data acquisition and geophysical services company), Basic Energy Services, Inc. (where he serves as the non-executive chairman) and Hercules Offshore, Inc. (an offshore drilling contractor), a trust manager of Camden Property Trust (a real estate investment trust), and a director of several private companies. Mr. Webster served as a director of Pinnacle Gas

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Resources, Inc. (2003-2009), Encore Bancshares (a bank holding company) (2000-2009), Solitario Exploration & Royalty Corp. (formerly Solitario Resources Corp.) (a precious metal exploration company) (2006-2008), Brigham Exploration Company (an oil and gas exploration and production company) (2000-2007), Goodrich Petroleum Corporation (an oil and gas exploration and production company) (2004-2007), Seabulk International, Inc. (an offshore energy services company) (2002-2006), Grey Wolf, Inc. (a land driller) (1996-2008) and Crown Resources Corporation (a precious metal exploration company) (1988-2006). Mr. Webster holds an M.B.A. from Harvard Business School where he was a Baker Scholar. He also holds a B.S. in Industrial Management and an Honorary Doctorate in Management from Purdue University. Mr. Webster brings to the Board of Directors (a) experience in, and knowledge of, the energy industry, (b) knowledge of the Company as a co-founder and long-time director, (c) business leadership skills from his tenure as chief executive officer of publicly traded companies and his over 30-year career in private equity and investment activities, and (d) experience as a director of several other public and private companies.

*Thomas L. Carter, Jr.*, age 59, has been a director since March 2005. He has been Chairman and Chief Executive Officer of Black Stone Minerals Company, L.P., a privately-owned Delaware limited partnership located in Houston, Texas, since its formation in 1998. Mr. Carter has also served as Managing General Partner of Black Stone Energy Company from 1980 to the present. Prior to the formation of Black Stone Energy Company, Mr. Carter served as Managing General Partner of W.T. Carter & Bros. from 1987 through 1992. From 1975 to 1979, Mr. Carter was with Texas Commerce Bank in Houston, Texas. Mr. Carter holds an M.B.A. and B.B.A. from The University of Texas. Mr. Carter brings to the Board of Directors extensive knowledge of the oil and gas exploration and production business and knowledge of accounting and finance.

*F. Gardner Parker*, age 69, has been a director since 2000. He has been a private investor since 1984 and a trust manager of Camden Property Trust since 1993, where he also served as the Lead Independent Trust Manager from 1998 to 2008. Mr. Parker also serves on the boards of directors of Sharps Compliance Corp. (a waste management services provider), Hercules Offshore, Inc. and as chairman of the board of directors of Triangle Petroleum Corporation (an oil and gas exploration and development company). He also served on the boards of Pinnacle Gas Resources, Inc. from 2003 to January 2011 and Blue Dolphin Energy Company (an energy transmission company) from 2004 to 2006. Mr. Parker worked with Ernst & Ernst (now Ernst & Young LLP) for 14 years, seven of which he served as a partner. He is a graduate of The University of Texas and is board certified by the National Association of Corporate Directors. Mr. Parker brings to the Board of Directors an extensive background in accounting and tax matters, experience as a director on the boards and audit committees of numerous public and private companies, and financial experience through his involvement in structuring private and venture capital investments for the past 25 years.

*Roger A. Ramsey*, age 72, has been a director since 2004. He has served as Managing Partner of Ramjet Capital Ltd. (a private investment firm) since 1999. He served as the Chairman and Chief Executive Officer of MedServe, Inc., a privately held corporation, from 2004 through December 2009. He served as Chairman of the Board of Allied Waste Industries, Inc. from October 1989 through his retirement in December 1998, and Chief Executive Officer of that company from October 1989 through July 1997. Beginning in 1960, Mr. Ramsey, a certified public accountant, was employed by the international accounting firm of Arthur Andersen LLP. In 1968, Mr. Ramsey co-founded Browning-Ferris Industries, Inc. and served as its Vice President and Chief Financial Officer until 1977. Mr. Ramsey is also a director of WCA Waste Corporation (a waste management company). Mr. Ramsey is also a member of the Board of Trustees at Texas Christian University. Mr. Ramsey brings to the Board of Directors experience and perspective as chief executive officer of several publicly traded and private companies and knowledge of accounting and finance as a director of several public and private companies.

*Frank A. Wojtek*, age 55, has been a director since 1993. He is currently the President and Director of A-Texian Compressor, Inc. (a natural gas compression services company) and has served in various capacities with that company since July 2004. Mr. Wojtek served as our Chief Financial Officer, Vice President, Secretary and Treasurer from 1993 until August 2003. From 1992 to 1997, Mr. Wojtek was the Assistant to the Chairman of the Board of Reading & Bates Corporation (an offshore drilling company). Mr. Wojtek has also held the

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positions of Vice President and Secretary/Treasurer of Loyd & Associates, Inc., a private financial consulting firm, since 1989. Mr. Wojtek held the positions of Vice President and Chief Financial Officer of Griffin-Alexander Drilling Company from 1984 to 1987, Treasurer of Chiles-Alexander International Inc. from 1987 to 1989, and Vice President and Chief Financial Officer of India Offshore Inc. from 1989 to 1992, all of which were companies in the offshore drilling industry. Mr. Wojtek holds a B.B.A. in Accounting with Honors from The University of Texas. Mr. Wojtek brings to the Board of Directors knowledge of the Company and the energy industry by virtue of his service as an executive officer or director of the Company since its founding, experience in accounting and experience in financial executive positions at public and private companies.

### **Director Independence**

The Board has determined that Messrs. Carter, Parker, Ramsey and Wojtek are independent directors within the meaning of Listing Rule 5605(a)(2) of the Nasdaq Stock Market. In making this determination, the Board took into account the transactions between the Company and Mr. Carter described in Certain Transactions Certain Matters Regarding Mr. Carter. The Board determined that these transactions did not result in a relationship that interferes with the exercise of Mr. Carter's independent judgment in carrying out the responsibilities of a director of the Company and therefore did not preclude a finding that Mr. Carter was independent. The Board also determined that Mr. Paul B. Loyd, Jr., who served as a director during 2010 until his retirement effective at the 2010 Annual Meeting of Shareholders, was an independent director within the meaning of Nasdaq Listing Rule 5605(a)(2) during the time he served as a director in 2010.

### **Committees of the Board of Directors**

The Board of Directors held six meetings during 2010 and transacted business on 11 occasions during the year by unanimous written consent.

During 2010, each director attended at least 75% of the aggregate of the total number of Board of Directors meetings and of meetings of committees of the Board of Directors on which he served held during his service on the Board of Directors. The Board of Directors has a Nominating Committee, an Audit Committee and a Compensation Committee.

The Board of Directors has a Nominating Committee, which currently consists of Messrs. Carter (chairman) and Wojtek. Mr. Loyd was a member of the Nominating Committee during 2010 prior to his retirement from the Board of Directors effective at the 2010 Annual Meeting of Shareholders, and Mr. Wojtek was not a member of the Nominating Committee during that time. The primary responsibilities of the Nominating Committee include identifying, evaluating and recommending, for the approval of the entire Board of Directors, potential candidates to become members of the Board of Directors and recommending membership on standing committees of the Board of Directors. The Nominating Committee held one meeting during 2010. A copy of the Nominating Committee Charter may be found on the Company's website at [www.crzo.net](http://www.crzo.net). The Board of Directors has determined that Messrs. Carter and Wojtek are independent directors within the meaning of Nasdaq Listing Rule 5605(a)(2), and the Board of Directors determined that Mr. Loyd was an independent director within the meaning of Nasdaq Listing Rule 5605(a)(2) during the time he served as a member of the Nominating Committee prior to his retirement effective at the 2010 Annual Meeting of Shareholders.

The Board of Directors has an Audit Committee, which currently consists of Messrs. Parker (chairman), Carter and Ramsey. The Audit Committee held six meetings during 2010. The Audit Committee has direct responsibility for the appointment, retention, compensation and oversight of the independent registered public accounting firm for the purpose of preparing the Company's annual audit reports or performing other audit, review or attest services for the Company. The Audit Committee has sole authority to approve all engagement fees and terms of the independent registered public accounting firm and to establish policies and procedures for preapproval of audit and non-audit services. The Audit Committee also reviews and discusses the annual audited financial statements and internal control over financial reporting with management and the independent registered public accounting firm. A copy of the Audit Committee Charter may be found on our website at [www.crzo.net](http://www.crzo.net).

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The Board has determined that all of the members of the Audit Committee satisfy the independence standards under the Nasdaq Listing Rules and Rule 10A-3 of the Securities Exchange Act. In addition, the Board has determined that Mr. Parker is an audit committee financial expert, as such term is defined in Item 407(d)(5)(ii) of Regulation S-K promulgated by the Securities and Exchange Commission (the SEC). Mr. Parker is a certified public accountant and served as partner in a major accounting firm.

The Board of Directors has a Compensation Committee, which currently consists of Messrs. Parker (chairman) and Ramsey. The Compensation Committee held two meetings during 2010. The primary responsibilities of the Compensation Committee are to review and approve the compensation of the Chief Executive Officer and our other executive officers and oversee and advise the Board on the policies that govern our compensation programs. The Compensation Committee has the authority to select, retain, terminate, and approve the fees and other retention terms of special counsel, compensation consultants or other experts or consultants, as it deems appropriate, without seeking approval of the Board of Directors or management. The Compensation Committee retains the independent compensation consulting firm of A.G. Ferguson & Associates, Inc. (AG Ferguson) to provide the Compensation Committee with market data and recommendations regarding our executive compensation program. Our Chief Executive Officer annually reviews the performance of our other named executive officers and makes recommendations to the Compensation Committee regarding base salary adjustments, cash bonuses and long-term incentive awards for the other named executive officers.

The Compensation Committee has been appointed by the Board of Directors to administer the Incentive Plan of Carrizo Oil & Gas, Inc., as amended and restated effective April 30, 2009 (the Incentive Plan), subject in some cases to action by the full Board. The Compensation Committee may delegate to the Chief Executive Officer and other senior officers of the Company certain of its duties under the Incentive Plan. In February 2005, the Compensation Committee delegated authority to the Chief Executive Officer to designate certain eligible participants, excluding officers (as defined in Rule 16a-1 promulgated under Section 16 of the Exchange Act) and directors, to receive options under the Incentive Plan and to determine the number of options to be issued to each such designee, subject to certain limitations. In October 2006, the Board of Directors designated a special stock award committee of the Board consisting solely of Mr. Johnson to award certain eligible participants, excluding officers (as defined in Rule 16a-1 promulgated under Section 16 of the Exchange Act) and directors, shares of restricted stock under the Incentive Plan and to determine the number of restricted shares to be issued, up to an aggregate of 15,000 shares per quarter and subject to other limitations.

A copy of the Compensation Committee Charter can be found on our website at [www.crzo.net](http://www.crzo.net). The Board of Directors has determined that Messrs. Parker and Ramsey are independent directors within the meaning of Nasdaq Listing Rule 5605(a)(2).

## **Leadership Structure and Risk Oversight**

The Board believes our Company's current leadership structure, with Mr. Johnson serving as Chief Executive Officer and Mr. Webster serving as Chairman of the Board, is the optimal structure for the Company at this time. From the time that we became a publicly traded company in 1997, the roles of Chairman of the Board and Chief Executive Officer have been held by separate individuals. We believe it is the Chief Executive Officer's responsibility to lead the Company and the Chairman's responsibility to lead the Board of Directors. As directors continue to have more oversight responsibilities than ever before, we believe it is beneficial to have a separate Chairman who has the responsibility of leading the Board. In addition, by having another director serve as Chairman of the Board, our Chief Executive Officer is able to focus his energy on leading the Company.

We believe our Chief Executive Officer and our Chairman have an excellent working relationship. We believe this relationship and separation provides strong leadership for the Board of Directors, while also positioning our Chief Executive Officer as the leader of the Company in the eyes of our employees and other stakeholders. We believe we are also able to draw on Mr. Webster's considerable industry expertise in the

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management of our Company through our consulting arrangement with him. (See Certain Transactions Certain Other Matters Regarding Mr. Webster for more information.) Although this consulting arrangement precludes a finding that Mr. Webster is independent under applicable Nasdaq rules, the Board believes that such arrangement does not prevent Mr. Webster from exercising effective leadership in his role as Chairman of the Board and is, in any event, in the best interests of the Company.

The Board of Directors is responsible for determining the ultimate direction of our business, determining the principles of our business strategy and policies and promoting the long-term interests of the Company. The Board of Directors possesses and exercises oversight authority over our business but, subject to our governing documents and applicable law, delegates day-to-day management of the Company to our Chief Executive Officer and our executive management. Viewed from this perspective, the Board of Directors generally oversees risk management, and the Chief Executive Officer and other members of executive management generally manage the material risks that we face. The Board of Directors focuses on the most significant risks facing the Company and the Company's general risk management strategy, and also ensures that risks undertaken by the Company are consistent with the Board's risk tolerance.

The Audit Committee assists the Board of Directors in oversight of the integrity of the Company's financial statements and various matters relating to our publicly available financial information and our internal and independent auditors. The Audit Committee also evaluates related party transactions and potential conflicts of interest. The Audit Committee's role includes receiving information from our employees and others regarding public disclosure, our internal controls over financial reporting and material violations of law. Certain risks associated with our governance fall within the authority of the Nominating Committee, which is responsible for evaluating independence of directors and Board candidates. Risks associated with retaining and incentivizing management fall within the scope of the authority of the Compensation Committee, which assists the Board of Directors in reviewing and administering compensation, benefits, incentive and equity-based compensation plans. These committees receive reports from management periodically regarding management's assessment of risks and report regularly to the full Board of Directors.

Responsibility for risk oversight generally rests with the entire Board of Directors. Risks falling within this area would include but are not limited to business ethics, general business and industry risks, operating risks and financial risks. We have not concentrated responsibility for all risk management in a single risk management officer, but rather rely on various executive and other management personnel to understand, assess, mitigate and generally manage material risks that we face in various areas including capital expenditure plans, liquidity, operations and health, safety and environmental. These personnel report to the Board of Directors as appropriate regarding material risks and our management of those risks. The Board of Directors monitors the risk management information provided to it and provides feedback to management from time to time.

## **Director Nominations Process**

In assessing the qualifications of candidates for director, the Nominating Committee considers, in addition to qualifications set forth in the Company's bylaws, each potential nominee's personal and professional integrity, experience, reputation, skills, ability and willingness to devote the time and effort necessary to be an effective board member, and commitment to acting in the best interests of the Company and its shareholders. The Nominating Committee also considers requirements under the listing standards of the Nasdaq Stock Market for a majority of independent directors, as well as qualifications applicable to membership on Board committees under the listing standards and various regulations. The Nominating Committee makes recommendations to the Board, which in turn makes the nominations for consideration by the shareholders.

Suggestions for potential nominees for director can come to the Nominating Committee from a number of sources, including incumbent directors, officers, executive search firms and others. The extent to which the Nominating Committee dedicates time and resources to the consideration and evaluation of any potential nominee brought to its attention depends on the information available to the Nominating Committee about the

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qualifications and suitability of the individual, viewed in light of the needs of the Board, and is at the Nominating Committee's discretion. Recognizing the contribution of incumbent directors who have been able to develop, over a period of time, increasing insight into the Company and its operations and, therefore, provide an increasing contribution to the Board as a whole, the Nominating Committee reviews each incumbent director's qualifications to continue on the Board in connection with the selection of nominees to take office when that director's term expires, and conducts a more detailed review of each director's suitability to continue on the Board following expiration of the director's term.

In addition, the Nominating Committee's policy is that it will consider candidates for the Board recommended by shareholders. Any such recommendation should include the candidate's name and qualifications for Board membership and should be submitted in writing to the Secretary, Carrizo Oil & Gas, Inc., 1000 Louisiana Street, Suite 1500, Houston, Texas 77002, along with:

a signed statement of the proposed candidate consenting to be named as a candidate and, if nominated and elected, to serve as a director;

a statement that the writer is a shareholder of the Company and is proposing a candidate for consideration by the Nominating Committee;

a statement detailing any relationship between the candidate and any customer, supplier or competitor of the Company;

the financial and accounting background of the candidate, to enable the Nominating Committee to determine whether the candidate would be suitable for Audit Committee membership; and

detailed information about any relationship or understanding between the proposing shareholder and the candidate.

Although the Nominating Committee will consider candidates recommended by shareholders, it may determine not to recommend that the Board, or the Board may determine not to, nominate those candidates for election to the Board of Directors.

The Nominating Committee considers diversity in identifying nominees for director and endeavors to have a Board representing diverse experience in areas that will contribute to the Board's ability to perform its roles relating to oversight of the Company's business, strategy and risk exposure worldwide. For example, the Nominating Committee takes into account, among other things, the diversity of business, leadership and personal experience of Board candidates and determines how that experience will serve the best interests of the Company.

**Director Compensation**

The table below contains information about the compensation received by each of our non-employee directors during 2010. S. P. Johnson IV, our President and Chief Executive Officer, receives no compensation for serving as a director.

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$) <sup>(1)</sup>	Option Awards (\$) <sup>(2)</sup>	All Other Compensation (\$)	Total (\$)
Steven A. Webster			\$ 211,696	180,000 <sup>(3)</sup>	391,696
Thomas L. Carter, Jr.	39,500	58,113			97,613
F. Gardner Parker	59,500	116,225			175,725
Roger A. Ramsey	52,000	81,358			133,399
Frank A. Wojtek	35,500	23,245			59,047



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- (1) Represents the aggregate grant date fair value related to restricted stock units computed in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718, Compensation Stock Compensation ( FASB ASC Topic 718 ). The grant date fair value, in accordance with FASB ASC Topic 718, of restricted stock units granted to our non-employee directors in 2010 was calculated at \$23.25 per share. As of December 31, 2010, our directors held unvested restricted stock units in the following amounts: Mr. Webster none, Mr. Carter 2,500, Mr. Parker 5,000, Mr. Ramsey 3,500 and Mr. Wojtek 1,000.
  
- (2) We did not grant any director stock option awards in 2010. As of December 31, 2010, our directors held exercisable stock options to purchase shares of Common Stock in the following amounts: Mr. Webster 168,334, Mr. Carter 3,334, Mr. Parker 22,500, Mr. Ramsey 13,500 and Mr. Wojtek 2,500. During 2010, Mr. Webster was granted cash-settled stock appreciation rights under the Company's Cash-Settled Stock Appreciation Plan covering an aggregate of 23,340 shares of Common Stock. These stock appreciation rights had an aggregate grant date fair value, calculated in accordance with FASB ASC Topic 718 (at \$9.07 per share), of \$211,696. Mr. Webster received these cash-settled stock appreciation rights in his capacity as a consultant. See Certain Transactions Certain Other Matters Regarding Mr. Webster for more information.
  
- (3) Reflects fees paid pursuant to a consulting agreement between the Company and an entity owned by Mr. Webster. See Certain Transactions Certain Other Matters Regarding Mr. Webster for more information.  
For the 2010-2011 director term, each director not employed by the Company or any of its subsidiaries (an Outside Director ) received an annual cash retainer of \$30,000, plus cash compensation of \$2,500 per regular meeting attended (\$1,000 if attended via telephone), \$1,000 per special meeting attended (\$500 if attended via telephone) and \$1,000 per committee meeting (\$500 if attended via telephone). The additional annual cash retainers for the Chairmen of the Audit, Compensation and Nominating Committees were \$12,500, \$6,000 and \$2,500, respectively, and for non-chairman members of the Audit and Compensation Committees were \$7,500 and \$4,000, respectively. Outside director cash compensation for the 2011-2012 director term is expected to remain the same as for the 2010-2011 term. All directors may, if applicable, be reimbursed for travel, meal and lodging expenses while attending meetings.

Under the Incentive Plan, the Chairmen of the Audit, Compensation and Nominating Committees and the nonchairmen members of the Audit, Compensation and Nominating Committees who are deemed by the Board to be independent for purposes of the listing rules of the Nasdaq Stock Market (the Outside Directors ) may be granted stock options, stock appreciation rights, restricted stock and/or restricted stock units at the discretion of the Board of Directors or the Compensation Committee. The vesting terms of any stock options, stock appreciation rights, shares of restricted stock and restricted stock units granted to Outside Directors are at the discretion of the Compensation Committee or the Board of Directors.

During 2010, Mr. Webster did not receive an award of restricted stock units for his service on the Board of Directors. Mr. Webster is not expected to receive the equity awards to which he would otherwise be entitled as a director in light of the consulting agreement between the Company and an entity owned by Mr. Webster. In 2010, the Company granted cash-settled stock appreciation rights covering 23,340 shares to Mr. Webster in his capacity as a consultant to the Company. These stock appreciation rights (1) have a seven-year term, (2) vest in three equal annual installments, triggered by a Company performance target that has been met, and (3) have an exercise price equal to the fair market value of a share of Common Stock on the date of grant.

**Shareholder Communication with the Board of Directors**

Shareholders may communicate with the Board by submitting their communications in writing, addressed to the Board as a whole or, at the election of the shareholder, to one or more specific directors, c/o Secretary, Carrizo Oil & Gas, Inc., 1000 Louisiana Street, Suite 1500, Houston, Texas 77002.

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The Audit Committee of the Board of Directors has established procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls, or auditing matters. Shareholders who wish to submit a complaint under these procedures should submit the complaint in writing to: F. Gardner Parker, Chairman of the Audit Committee, Carrizo Oil & Gas, Inc., 1000 Louisiana Street, Suite 1500, Houston, Texas 77002. The Company also has a confidential hotline by which employees can communicate concerns or complaints regarding these matters.

### **Director Attendance at Annual Meeting of Shareholders**

The Company does not have a policy regarding director attendance at annual meetings of shareholders. All of the Company's directors attended the 2010 Annual Meeting of Shareholders.

### **Code of Ethics**

The Company has a Code of Ethics and Business Conduct that is applicable to all employees, officers and directors and that satisfies the requirements of Nasdaq Listing Rule 5610. The Code of Conduct is available on the Company's website at [www.crzo.net](http://www.crzo.net).

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

Section 16(a) of the Exchange Act requires that the Company's executive officers and directors, and persons who own more than 10% of a registered class of the Company's equity securities, file reports of ownership and changes of ownership with the SEC. Officers, directors and greater than 10% shareholders are required by SEC regulation to furnish the Company with copies of all such forms they file.

Based solely on its review of the copies of such forms received by the Company, and on written representations by the Company's officers and directors regarding their compliance with the filing requirements, the Company believes that during the fiscal year ended December 31, 2010, all reports required by Section 16(a) to be filed by its directors, executive officers and greater than 10% beneficial owners were filed on a timely basis, except Messrs. Johnson and Loyd each filed two Forms 4 late and Messrs. Webster, Carter, Parker, Ramsey, Wojtek, Boling, Fisher and Smith each filed one Form 4 late. Each Form 4 described above reported one transaction.

### **Board Recommendation**

**The Board of Directors recommends that shareholders vote FOR the election of the six nominees for director.**

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**COMPENSATION DISCUSSION AND ANALYSIS**

**Overview**

This Compensation Discussion and Analysis covers the following topics:

the philosophy and objectives of our executive compensation program;

our process of setting executive compensation;

the components of our executive compensation; and

the tax considerations of executive compensation.

**Philosophy and Objectives of Our Executive Compensation Program**

The guiding philosophy and specific objectives of our executive compensation program are: (1) to align executive compensation design and outcomes with our business strategy, (2) to encourage management to create sustained value for our shareholders, (3) to attract, retain, and engage our executives and (4) to support a performance-based culture for all of our employees. These primary objectives are evaluated annually by: (a) measuring and managing executive compensation, with the goal of focusing a majority of the total compensation package on a balance of short-term and long-term performance-based incentives, (b) aligning incentive plan goals with shareholder value-added measures and (c) having an open and objective discussion with management and the Compensation Committee in setting goals for and measuring performance of the named executive officers. We believe that each of these objectives is important to our compensation program. Our compensation program is designed to reward our executives for meeting or exceeding the short-term financial and operating goals and furthering the long-term strategy of the Company without subjecting the Company to excessive or unnecessary risk. Specifically, the components of our executives' compensation, such as base salaries, bonuses and equity awards, are evaluated and determined on a periodic basis to ensure the amount and type of compensation received by each executive corresponds to the executive's performance and goals for the Company's performance. For example, in 2008, in response to depressed market conditions and relatively negative performance by the Company, our executive officers received lower compensation than in years past. In 2010, in recognition of the Company's strong performance and improved market conditions, we increased the executive officers' compensation, primarily through an increased number of performance-based equity awards.

**The Executive Compensation Process**

*The Compensation Committee*

The Compensation Committee's responsibilities, which are more fully described in the Compensation Committee's charter, include each of the following:

Annually reviewing and approving our general compensation philosophy and overseeing the development and implementation of our compensation programs.

Reviewing and approving corporate goals and objectives relevant to the compensation of the Chief Executive Officer, evaluating the performance of the Chief Executive Officer in light of those goals and objectives, and having the sole authority to determine the Chief Executive Officer's compensation level based on this evaluation.

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Reviewing and approving the compensation of all of our other officers (as defined in Rule 16a-1 promulgated under Section 16 of the Exchange Act).

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Making recommendations to the Board with respect to our long-term incentive plan.

Administering our long-term incentive plan in accordance with the terms and conditions of the plan, discharging any responsibilities imposed on, and exercising all rights and powers granted to, the Compensation Committee by the plan, and overseeing the activities of the individuals and entities responsible for the day-to-day operation and administration of the plan.

*Compensation Consultant*

During 2010, the Compensation Committee retained AG Ferguson to assist the Compensation Committee with executive compensation matters, and the Compensation Committee has also retained AG Ferguson for 2011. AG Ferguson has assisted the Compensation Committee on executive compensation matters since 2005. AG Ferguson is responsible for preparing and presenting a comprehensive competitive market study of the compensation levels and practices of a group of industry peers. The Compensation Committee determines the identity of the companies in the industry peer group annually. In 2005 and again in 2008, AG Ferguson also prepared and presented a director compensation study using the same industry peer group. A representative of AG Ferguson attends a meeting of the Compensation Committee each year to present AG Ferguson's annual compensation study. The Compensation Committee believes AG Ferguson is independent of management. AG Ferguson works exclusively for the Compensation Committee and generally performs no services directly for management. Management does not retain the services of a compensation consultant. Management may purchase broadly available compensation surveys or other products from compensation consulting firms.

The Compensation Committee considers AG Ferguson's market study of the industry peer group before making decisions with respect to executive compensation (including base salary, bonuses and equity-based compensation) in its discretion.

The companies that the Compensation Committee selects for the industry peer group are designed to represent our competitors of similar size and scope in the exploration and production sector of the energy industry that generally compete in our areas of operation for both business opportunities and executive talent. The industry peer group changes from time to time due to business combinations, asset sales and other types of transactions that cause peer companies to no longer exist or no longer be comparable. The Compensation Committee approves any revisions to the peer group on an annual basis. The following nine companies comprised the industry peer group used during 2010 in connection with executive compensation decisions:

ATP Oil & Gas Corporation

Berry Petroleum Company

Brigham Exploration Company

Cabot Oil & Gas, Inc.

Delta Petroleum Corporation

GMX Resources, Inc.

Goodrich Petroleum Corporation

PetroQuest Energy, Inc.

Swift Energy Company

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### *Role of Executive Officers in Our Executive Compensation Program*

Our Chief Executive Officer annually reviews the performance of our other named executive officers and makes recommendations to the Compensation Committee regarding base salary adjustments, cash bonuses and long-term incentive awards for the other named executive officers (but not for himself), based in part on AG Ferguson's market study. Both our Chief Executive Officer and our Chief Financial Officer participate in meetings of the Compensation Committee to discuss executive compensation, but they are subsequently excused to allow the members of the Compensation Committee to meet in executive session.

### *Compensation Program Design*

Although we have no pre-established policy or target for the allocation between either cash and non-cash or short-term and long-term compensation, we have designed the components of our compensation programs so that, as an executive's responsibility increases, his compensation mix is weighted more heavily toward performance-based and at-risk compensation and less heavily toward base salary, while at the same time remaining competitive at or near the market median. Any benefits or perquisites that an executive officer may receive are not considered for purposes of this analysis. We supplement this performance-based and at-risk compensation with downside protection to minimize the turnover of executive talent and to ensure that our executives' attention remains focused on the Company's and our shareholders' interests. Such downside protection includes, but is not limited to, the use of change of control arrangements, which are discussed in more detail below.

Base salary is generally set at a level commensurate with the base pay of executives with similar responsibilities at companies in our peer group. Our Chief Executive Officer annually reviews each executive's performance, the performance of the Company and information regarding total cash compensation of executives in comparable positions at our peer companies and makes a recommendation to the Compensation Committee regarding each executive's cash bonus for the applicable year. The cash bonus is tied to a percentage of the executive's salary, subject to a maximum percentage. To determine the appropriate amount and mix of total compensation for each executive, the Compensation Committee reviews the recommendations made by our Chief Executive Officer, information regarding total compensation paid by our peer group companies and other compensation survey information developed and provided by our compensation consultant. The Compensation Committee generally seeks to provide each executive with total compensation, comprised of the cash portion and the equity-based portion, with a value within the range of values of total compensation provided to executives with similar responsibilities at our peer companies.

Based on its reviews of total compensation and such other factors, the Compensation Committee believes that the total compensation paid to the named executive officers is reasonable. However, compensation practices and philosophy are an evolving practice and future changes may be made to take into account changed circumstances, practices, competitive environments and other factors.

### **Executive Compensation Components**

The compensation of the named executive officers consists of the following components:

base salary;

annual bonus;

long-term equity-based compensation;

severance and change of control benefits; and

perquisites and other benefits.

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We believe that each of these components is necessary to achieve our objective of retaining highly qualified executives and motivating them to maximize shareholder return.

### *Base Salary*

Base salary is designed to provide basic economic security for our executives and be competitive with salary levels for comparable executive positions at companies in our industry peer group. The Compensation Committee reviews comparable salary information provided by AG Ferguson as one factor to be considered in determining the base pay for our executive officers and aims for base salary for our executives to be within a general range of the median for the peer group. Other factors the Compensation Committee considers in determining base pay for each of the executive officers are the officer's responsibilities, experience, leadership, potential future contribution and demonstrated individual performance. The relative importance of these factors varies among our executives depending on their positions and the particular operations and functions for which they are responsible. The employment contracts of the named executive officers provide that base salary will be reviewed at least annually and may be increased at any time and from time to time and that any increase will be substantially consistent with increases in base salary generally awarded in the ordinary course of business to our other executives. In the past, the Compensation Committee has also taken into account positive financial results and drilling success in determining base salaries. The Chief Executive Officer may make recommendations regarding increases in salaries to account for changes in salaries paid to comparable executives at the companies in our industry peer group. The Compensation Committee considers all of these factors and ultimately makes a decision regarding the base salary of the named executive officers in its discretion. The Compensation Committee is expected to review the base salary of the named executive officers in June 2011.

### *Annual Bonus*

The annual bonus is an incentive designed to motivate our executives to maximize shareholder return and is based on a percentage of annual base salary. Our Chief Executive Officer reviews the performance of the executive and of the Company during the prior year and information regarding total cash compensation for comparable executive positions at companies in our industry peer group. The Chief Executive Officer then makes a recommendation to the Compensation Committee regarding the amount of the bonus for each executive (other than himself). The Compensation Committee reviews information regarding compensation for comparable executive positions at the companies in our industry peer group provided by AG Ferguson and aims for bonuses for our executives to be within a general range of the median for the industry peer group. The Compensation Committee also considers the other factors described above under *Base Salary*. The employment agreement of each named executive officer contemplates annual bonus awards in an amount comparable to the annual bonus awards of other named executive officers, taking into account the individual's position and responsibilities. The Compensation Committee ultimately makes a decision regarding the bonuses of the named executive officers in its discretion. In 2010 with respect to 2009, the annual bonus was comprised 70% of cash and 30% of short-term performance-based restricted stock units. In July 2010, each of Messrs. Johnson, Fisher, Boling, Evans and Smith was awarded a total annual bonus with a value equal to 97%, 90%, 85%, 70% and 75%, respectively, of their annual base pay. These percentages were higher than in 2009, due to improved performance in the categories of increased production, increased reserve additions for discoveries and extensions and improved finding and development costs per thousand cubic feet equivalent ( Mcfe ), which positively affected the financial results of the Company. The Compensation Committee is expected to make its decision regarding the bonuses to be awarded to the named executive officers with respect to 2010 in June 2011. See Notes 3 and 4 to the *Summary Compensation Table* for more information on the bonuses.

### *Long-Term Equity-Based Compensation*

The objectives of our long-term incentive plan are to (1) attract and retain the services of key employees, qualified independent directors and qualified consultants and other independent contractors and (2) encourage a sense of proprietorship in and stimulate the active interest of those persons in our development and financial



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success by making awards designed to provide participants in the plan with a proprietary interest in our growth and performance. Long-term equity-based compensation is tied to shareholder return.

Particularly in recent years, the market for executives in our industry has been very competitive. The Compensation Committee believes, therefore, that equity compensation awards are particularly important in retaining our executives and attracting new executives. Under our incentive plan, long-term incentive compensation includes restricted stock, stock options, which generally have a ten-year term and vest on a schedule determined by the Compensation Committee or the Board of Directors, and restricted stock units and stock appreciation rights, which generally have a seven-year term and vest in three equal annual installments if certain performance targets are achieved. Cash-settled stock appreciation rights are settled in cash only and stock-settled stock appreciation rights may be settled in cash or Common Stock in the discretion of the Company. The exercise price of stock options and stock appreciation rights is equal to or greater than the fair market value of the Common Stock on the date of grant; accordingly, executives receiving stock options and stock appreciation rights are rewarded only if the market price of the Common Stock appreciates. In addition, restricted stock units and stock appreciation rights only vest if the Company achieves certain performance targets. Stock options, stock appreciation rights and performance-based restricted stock units are thus designed to align the interests of our executives with those of our shareholders by encouraging our executives to enhance the value and performance of our company and, hence, the price of the Common Stock and each shareholder's return.

Although in the past we relied upon stock option awards to provide long-term incentives for our executives, given the significant increase in our stock price in the past several years through mid-2008, the Compensation Committee increased the use of restricted stock and restricted stock units. More recently the Compensation Committee has relied upon a blended approach of restricted stock, restricted stock units and stock appreciation rights as preferable tools to incentivize executive officers. Additionally, in order to limit the dilutive impact of equity-based awards on our shareholders and to align executive officers' incentives with the Company's performance, the Compensation Committee has utilized restricted stock units and, recently, cash-settled stock appreciation rights and stock appreciation rights that may be settled in stock or cash at the option of the Company. In June 2009, the Compensation Committee granted SARs to our executive officers that were to be settled in cash or stock at our option. In July 2010, the Compensation Committee determined that these awards would be settled in cash only, to minimize the dilutive effect on Common Stock outstanding. Additionally, the Compensation Committee has increased its use of awards which vest only if certain Company performance targets are met, such as specified average daily production levels. Performance-based awards allow the Compensation Committee to include an at-risk component of awards and allow the Company to avail itself of the benefits of Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code), which is described below under Tax Considerations Section 162(m) of the Internal Revenue Code. The Compensation Committee ultimately makes a decision regarding the size of awards granted to the named executive officers in its discretion. The awards generally vest in one-third increments over a three-year period if any applicable performance target has been met, although the Compensation Committee has also granted awards that have different vesting schedules. The Compensation Committee may, however, determine to change the terms, types or mix of equity-based awards in the future.

On July 12, 2010, the Compensation Committee approved two grants of restricted stock units to the named executive officers, subject to the terms, conditions and restrictions contained in our long-term incentive plan and the applicable restricted stock unit award agreement.

Under the first award, the restricted stock units would vest in three equal installments assuming the recipient's continuous employment with the Company and the satisfaction of certain performance criteria. The performance targets were average daily production of the Company for the third quarter of 2010 of at least (1) 71,726 Mcfe per day ( Mcfe/d ), if the Company's weighted average realized natural gas price (excluding the impact of cash-settled hedges) for the third quarter of 2010 is greater than or equal to \$4/Mcf, or (2) 57,381 Mcfe/d, if the Company's weighted average realized natural gas price (excluding the impact of cash-settled hedges) for the third quarter of 2010 is less than \$4/Mcf. On October 7, 2010, the Compensation Committee determined that the performance target was met. Because the performance target was met, one-third of the units will vest on May 29, 2011, an additional one-third of the units will vest on May 29, 2012, and the final one-third of the units will vest on May 29, 2013.

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Under the second award, if the performance target described above is satisfied, the restricted stock units would vest in a single installment, assuming the recipient's employment with the Company, on the date that the Compensation Committee determines the performance target is satisfied. On October 7, 2010, the Compensation Committee determined that the performance target was met and accordingly, the units vested on that date. The Compensation Committee determined to grant shares of restricted stock with performance-based vesting terms in part so that the compensation should be deductible for federal income tax purposes, as qualified performance-based compensation under Section 162(m) of the Code. The three-year vesting period the Compensation Committee adopted under the first award is designed to encourage the retention of our executives.

On July 12, 2010, the Compensation Committee approved a grant of cash-settled stock appreciation rights to the named executive officers, subject to the terms, conditions and restrictions contained in our long-term incentive plan and the applicable stock appreciation rights award agreement. These stock appreciation rights were granted with an exercise price of \$17.28. The stock appreciation rights will vest in three equal installments assuming the recipient's continuous employment with the Company and the satisfaction of the performance target described above. Because the Compensation Committee determined that the performance target has been met, one-third of the stock appreciation rights will vest on May 29, 2011, an additional one-third of the stock appreciation rights will vest on May 29, 2012, and the final one-third of the stock appreciation rights will vest on May 29, 2013.

The Compensation Committee retains the flexibility to grant restricted stock, restricted stock units, stock options or stock appreciation rights in the future, depending on various factors, including the price of the Common Stock. We may periodically grant new awards to provide continuing incentive for future performance. In making the decision to grant additional awards, the Compensation Committee considers factors such as the size of previous grants and the number of awards held. In determining whether to grant executive officers awards under the plan, the Compensation Committee considers various factors, including that executive's current ownership stake in the Company, the degree to which increasing that ownership stake would provide the executive with additional incentives for future performance, the likelihood that the grant of those awards would encourage the executive to remain with us and the value of the executive's service to us. We do not currently have any stock ownership guidelines for officers or directors. Our officers are not subject to (i) any post-exercise holding period for stock options or stock appreciation rights settled in stock or (ii) post-vesting holding period for restricted stock or restricted stock units.

In addition to regular grants, the Compensation Committee or the Board of Directors may from time to time grant shares of restricted stock, restricted stock units, stock appreciation rights or stock options to newly hired executives as a hiring incentive.

### *Severance and Change of Control Benefits*

As described in more detail under *Employment Agreements* and *Potential Payments to the Named Executive Officers Upon Termination or Change of Control*, we have entered into employment agreements with the named executive officers that provide for specified severance pay and benefits upon certain termination events, including termination events after a change of control. The employment agreements contain change of control provisions that we believe are comparable to similar provisions employed by a majority of the companies in our industry peer group. The Compensation Committee believes these agreements encourage executives to remain in our employment in the event of a change of control of the Company and during circumstances which indicate that a change of control might occur. The Compensation Committee believes this program is important in maintaining strong leadership and in encouraging retention in these situations.

### *Perquisites and Other Benefits*

We also make 401(k) contributions and pay insurance premiums for the named executive officers and our other employees. We believe providing these benefits as part of our overall compensation package is necessary to attract and retain highly qualified executives and that these benefits are comparable to those provided by our

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industry peer group. In the past, we have awarded overriding royalties in certain oil and gas properties (assigned legal interests) to some of the named executive officers, but we have since adopted a policy that we will not grant any overriding royalty interests to our executive officers. We also have a notional overriding royalty interest participation arrangement with Mr. Fisher, which is not an assigned legal interest but is based on our oil and gas production in a certain operated field located in our Barnett Shale area in the Fort Worth Basin. Mr. Fisher's All Other Compensation for 2010, 2009 and 2008 included \$0, \$403 and \$2,535 of compensation from overriding royalty interests and \$10,663, \$13,483 and \$26,055 of compensation from this notional overriding royalty interest, respectively. We believe this arrangement serves as an additional incentive for Mr. Fisher, as Vice President and Chief Operating Officer, to create value for our shareholders. We may grant similar notional overriding royalty participation rights to our named executive officers from time to time in the future.

### **Tax Considerations of Executive Compensation**

#### *Section 162(m) of the Internal Revenue Code*

Section 162(m) of the Code generally limits (to \$1 million per covered executive) the deductibility for federal income tax purposes of compensation paid to certain executives, unless such compensation qualifies as performance-based compensation. The Compensation Committee and the Board of Directors will take deductibility or nondeductibility of compensation into account but have in the past authorized, and will retain the discretion in the future to authorize, the payment of potentially nondeductible amounts. As noted above, the Compensation Committee took Section 162(m) into account in 2010 in its use of performance-based equity compensation.

#### *Section 409A of the Internal Revenue Code*

To the extent one or more elements of compensation provided to employees is subject to Section 409A of the Code, the Company intends that these elements be compliant so that the employees are not subject to increased income or penalty taxes imposed by Section 409A. Section 409A requires that deferred compensation either comply with certain deferral election and payment rules or be subject to a 20% additional tax and in some circumstances penalties and interest imposed on the person who is to receive the deferred compensation. The Company believes that if the adverse tax consequences of Section 409A become applicable to the Company's compensation arrangements, such arrangements would be less efficient and less effective in incentivizing and retaining employees. The Company intends to operate its compensation arrangements so that they are compliant with or exempt from Section 409A and has, therefore, amended or modified its compensation programs and awards, including the employment agreements, to the extent necessary to make them compliant or exempt. The Company has also agreed to provide additional payments to the named executive officers in the event that an additional tax is imposed under Section 409A.

### **COMPENSATION COMMITTEE REPORT**

Our Compensation Committee has reviewed and discussed with management the section titled Compensation Discussion and Analysis included in this proxy statement. Based on that review and discussion, we have recommended to the Company's Board of Directors the inclusion of the Compensation Discussion and Analysis section in the Company's proxy statement for the 2011 annual meeting of shareholders.

The Compensation Committee

F. Gardner Parker

Roger A. Ramsey

**Pursuant to SEC Rules, the foregoing Compensation Committee Report is not deemed filed with the SEC and is not incorporated by reference into the Company's Annual Report on Form 10-K.**

**Table of Contents****EXECUTIVE COMPENSATION****SUMMARY COMPENSATION TABLE**

The following table sets forth the compensation during 2010, 2009 and 2008 of the Company's Principal Executive Officer, the Company's Principal Financial Officer and the three other most highly compensated executive officers for 2010 (collectively, the named executive officers).

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards <sup>(1)</sup> (\$)	Option Awards <sup>(1)</sup> (\$)	All Other Compensation <sup>(2)</sup> (\$)	Total (\$)
S. P. Johnson IV	2010	448,000	( <sup>3</sup> )	163,324	1,988,882	26,722	2,626,928
President and Chief Executive Officer	2009	432,000	259,200 <sup>(4)</sup>	88,302	1,631,543	23,054	2,434,099
	2008	408,000	259,200 <sup>(4)</sup>	455,763		20,909	1,143,872
J. Bradley Fisher	2010	312,000	( <sup>3</sup> )	1,021,591	404,835	28,600	1,767,026
Vice President and Chief Operating Officer	2009	300,000	189,000 <sup>(4)</sup>	836,747	290,151	29,739	1,645,637
	2008	285,000	180,000 <sup>(4)</sup>	248,510		43,545	757,055
Paul F. Boling	2010	256,000	( <sup>3</sup> )	713,126 <sup>(1)</sup>	280,892	15,997	1,266,015
	2009	237,000	141,015 <sup>(4)</sup>	724,556	256,377	13,538	1,372,486
Chief Financial Officer, Vice President, Secretary and Treasurer	2008	229,667	115,500 <sup>(4)</sup>	190,298		12,296	547,761
Gregory E. Evans	2010	240,000	( <sup>3</sup> )	481,119	185,792	18,009	924,920
Vice President of Exploration	2009	234,000	114,660 <sup>(4)</sup>	451,716	155,590	14,160	970,126
	2008	226,000	105,375 <sup>(4)</sup>	177,962		12,791	522,128
Richard H. Smith	2010	221,000	( <sup>3</sup> )	370,805	138,582	13,305	743,692
Vice President of Land	2009	215,000	112,875 <sup>(4)</sup>	329,524	110,966	11,570	779,935
	2008	206,667	96,750 <sup>(4)</sup>	120,582		11,050	435,049

- (1) Represents the aggregate grant date fair value computed in accordance with FASB ASC Topic 718. For a discussion of the valuation assumptions, see Note 9 to our financial statements in our Annual Report on Form 10-K for the year ended December 31, 2010. See Grants of Plan-Based Awards Table for information on stock and option awards that we granted in 2010.

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(2) The amounts shown as All Other Compensation for the named executive officers include the following:

	Year	Mr. Johnson	Mr. Fisher	Mr. Boling	Mr. Evans	Mr. Smith
Matching contributions under the 401(K) Plan	2010	\$ 21,783	\$ 15,479	\$ 12,813	\$ 12,021	\$ 11,042
	2009	21,600	15,000	11,850	11,700	10,750
	2008	19,667	14,250	11,483	11,300	10,333
Life insurance premium	2010	4,939	2,458	3,184	5,988	2,263
	2009	1,454	853	1,688	2,460	820
	2008	1,242	705	813	1,491	717
Overriding royalties	2010		10,663			
	2009		13,886			
	2008		28,590			

See Compensation Discussion and Analysis Perquisites and Other Benefits for a discussion of overriding royalties granted to certain named executive officers.

(3) The Compensation Committee expects to determine the bonus amounts earned by the named executive officers with respect to 2010 in June 2011.

(4) The amounts shown for 2009 and 2008 include amounts earned with respect to 2009 and 2008 but paid in the third quarter of 2010 and the second quarter of 2009, respectively.

**Table of Contents****GRANTS OF PLAN-BASED AWARDS**

The table below contains information with respect to plan-based awards to the named executive officers during 2010.

Name	Grant Date	Estimated Future Payouts Under Equity Incentive Plan Awards Target (#)	Exercise or Base Price of Option Awards (\$/Sh)	Grant Date Fair Value of Stock and Option Awards (\$/Sh) <sup>(1)</sup>
S. P. Johnson IV	7/12/10	9,243 <sup>(2)</sup>		17.67
	7/12/10	219,279 <sup>(3)</sup>	17.28	9.07
J. Bradley Fisher	7/12/10	4,688 <sup>(2)</sup>		17.67
	7/12/10	44,634 <sup>(3)</sup>	17.28	9.07
	7/12/10	53,127 <sup>(4)</sup>		17.67
Paul F. Boling	7/12/10	3,497 <sup>(2)</sup>		17.67
	7/12/10	30,969 <sup>(3)</sup>	17.28	9.07
	7/12/10	36,861 <sup>(4)</sup>		17.67
Gregory E. Evans	7/12/10	2,844 <sup>(2)</sup>		17.67
	7/12/10	20,484 <sup>(3)</sup>	17.28	9.07
	7/12/10	24,384 <sup>(4)</sup>		17.67
Richard H. Smith	7/12/10	2,799 <sup>(2)</sup>		17.67
	7/12/10	15,279 <sup>(3)</sup>	17.28	9.07
	7/12/10	18,186 <sup>(4)</sup>		17.67

- (1) Represents the grant date fair value per share of the awards calculated in accordance with FASB ASC Topic 718. For a discussion of the valuation assumptions, see Note 9 to our financial statements in our Annual Report on Form 10-K for the year ended December 31, 2010. The grant date fair value of restricted stock units is based on the average of the high and low price of the Company's common stock on the date of grant.
- (2) Represents performance-based restricted stock units granted under the Incentive Plan that vested in a single installment on October 7, 2010, the date on which the Compensation Committee determined that the performance target had been met.
- (3) Represents performance-based cash-settled stock appreciation rights granted under the Cash-Settled Stock Appreciation Rights Plan that have a seven-year term and vest in one-third increments on May 29, 2011, May 29, 2012 and May 29, 2013, subject to the satisfaction of a performance target. On October 7, 2010, the Compensation Committee determined that the performance target had been met.
- (4) Represents performance-based restricted stock units granted under the Incentive Plan that vest in one-third increments on May 29, 2011, May 29, 2012 and May 29, 2013, subject to the satisfaction of a performance target. On October 7, 2010, the Compensation Committee determined that the performance target had been met.

**Table of Contents****OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END**

The table below presents information on the outstanding equity awards held by the named executive officers as of December 31, 2010.

Name	Option Awards				Stock Awards	
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$) <sup>(1)</sup>
S. P. Johnson	8,334		15.01	2/28/2015		
	8,334		8.27	9/3/2014		
	45,000		4.01	12/6/2011		
	50,000		4.43	4/7/2013		
	44,354 <sup>(2)</sup>		20.22	6/3/2016		
	9,282 <sup>(3)</sup>		20.22	6/3/2016		
		88,708 <sup>(2)</sup>	20.22	6/3/2016		
	18,566 <sup>(3)</sup>	20.22	6/3/2016			
	219,279 <sup>(4)</sup>	17.28	7/13/2017			
					9,865 <sup>(5)</sup>	340,244
J. Bradley Fisher	5,724 <sup>(2)</sup>		20.22	6/3/2016		
	3,816 <sup>(3)</sup>		20.22	6/3/2016		
		11,446 <sup>(2)</sup>	20.22	6/3/2016		
		7,630 <sup>(3)</sup>	20.22	6/3/2016		
		44,634 <sup>(4)</sup>	17.28	7/13/2017		
					5,379 <sup>(5)</sup>	185,522
					25,016 <sup>(6)</sup>	862,802
					53,127 <sup>(7)</sup>	1,832,350
Paul F. Boling	14,250		6.98	2/19/2014		
	5,057 <sup>(2)</sup>		20.22	6/3/2016		
	3,371 <sup>(3)</sup>		20.22	6/3/2016		
		10,114 <sup>(2)</sup>	20.22	6/3/2016		
		6,743 <sup>(3)</sup>	20.22	6/3/2016		
		30,969 <sup>(4)</sup>	17.28	7/13/2017		
					4,119 <sup>(5)</sup>	142,064
					22,105 <sup>(6)</sup>	762,401
					36,861 <sup>(7)</sup>	1,271,336
Gregory E. Evans	3,069 <sup>(2)</sup>		20.22	6/3/2016		
	2,046 <sup>(3)</sup>		20.22	6/3/2016		
	13,333		14.90	3/2/2015		
		6,138 <sup>(2)</sup>	20.22	6/3/2016		
		4,092 <sup>(3)</sup>	20.22	6/3/2016		
		20,484 <sup>(4)</sup>	17.28	7/13/2017		
					3,852 <sup>(5)</sup>	132,855
					13,414 <sup>(6)</sup>	462,649
					24,384 <sup>(7)</sup>	841,004
Richard H. Smith	2,189 <sup>(2)</sup>		20.22	6/3/2016		
	1,460 <sup>(3)</sup>		20.22	6/3/2016		
		4,377 <sup>(2)</sup>	20.22	6/3/2016		
		2,918 <sup>(3)</sup>	20.22	6/3/2016		
		15,279 <sup>(4)</sup>	17.28	7/13/2017		
						2,610 <sup>(5)</sup>
					9,567 <sup>(6)</sup>	329,966
					18,186 <sup>(7)</sup>	627,235

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- (1) Based on the closing price of our Common Stock on the Nasdaq Global Select Market on December 31, 2010 (\$34.49 per share).
- (2) Represents an award of performance-based stock appreciation rights that vest in one-third increments on May 28, 2010, May 28, 2011 and May 28, 2012. On October 5, 2009, the Compensation Committee determined that the performance target had been met.
- (3) Represents an award of performance-based cash-settled stock appreciation rights that vest in one-third increments on May 28, 2010, May 28, 2011 and May 28, 2012. On October 5, 2009, the Compensation Committee determined that the performance target had been met.
- (4) Represents an award of performance-based cash-settled stock appreciation rights that vest in one-third increments on May 29, 2011, May 29, 2012 and May 29, 2013. On October 7, 2010, the Compensation Committee determined that the performance target had been met.
- (5) Represents an award of shares of performance-based restricted stock that vests in one-third increments on June 19, 2009, June 19, 2010 and June 19, 2011. On May 11, 2009, the Compensation Committee determined that the performance target had been met.
- (6) Represents an award of shares of performance-based restricted stock units that vest in one-third increments on May 28, 2010, May 28, 2011 and May 28, 2012. On October 5, 2009, the Compensation Committee determined that the performance target had been met.
- (7) Represents an award of shares of performance-based restricted stock units that vest in one-third increments on May 29, 2011, May 29, 2012 and May 29, 2013. On October 7, 2010, the Compensation Committee determined that the performance target had been met.

**OPTION EXERCISES AND STOCK VESTED**

The following table shows information concerning the amounts realized by the named executive officers on the exercise of options to purchase our Common Stock during 2010, and the vesting of restricted stock units during 2010:

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
S. P. Johnson IV	95,000	2,037,960	22,538	476,819
J. Bradley Fisher			24,920	486,392
Paul F. Boling			20,669	400,594
Gregory E. Evans			15,358	300,157
Richard H. Smith			16,093	311,622

**Compensation Committee Interlocks and Insider Participation**

The members of the Compensation Committee during the last completed fiscal year were Mr. Parker and Mr. Ramsey. There are no matters relating to interlocks or insider participation that we are required to report.



**Certain Transactions**

The Charter of the Audit Committee also provides that the Audit Committee will review all related party transactions required to be disclosed pursuant to Item 404 of Regulation S-K for potential conflicts of interest. Transactions involving potential conflicts of interest may also be reviewed by an independent committee. In addition, our Code of Conduct requires that directors and officers and other employees disclose possible conflicts of interest to our Chief Executive Officer, Chief Financial Officer or a member of the Audit Committee.

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*Marcellus Shale Joint Venture*

Effective as of August 2008, our wholly-owned subsidiary Carrizo (Marcellus) LLC entered into a joint venture with an affiliate of Avista Capital Partners, LP, a private equity fund (Avista Capital Partners, LP, together with its affiliates, Avista).

We serve as operator of the properties covered by this joint venture and also perform specified management services for the Avista affiliate that is our partner in the joint venture. An operating committee composed of one representative of each party provides overall supervision and direction of joint operations. Avista or its designee has the right to become a co-operator of the properties if all of its membership interests or substantially all of its assets are sold to an unaffiliated third party or if we default under the terms of any pledge of our interest in the properties.

Subject to specified exceptions (including the Reliance transactions described below), net cash flow from hydrocarbon production from the joint venture properties and related sales proceeds, if the properties are sold, will be allocated (a) 75% to Avista and 25% to us until Avista has recovered the remainder of its investment, (b) thereafter, 100% to us until we recover an amount equal to such remainder and (c) thereafter in accordance with the parties' participating interests, which are currently 50/50. We have also agreed to jointly market Avista's share of the production from the properties with our own until the cash flows and sale proceeds are allocated in accordance with the parties' participating interests under the joint operating agreement. In addition to our share in the production and sale proceeds from joint venture properties, we also acquired an interest in Avista's joint venture entity, ACP II Marcellus, LLC (ACP II), that entitles us to increasing percentages of ACP II's distributions if specified internal rates-of-return and return-on-investment thresholds of its members are achieved. Our interest in the Avista entity provides consent rights only in limited, specified circumstances and generally does not entitle us to vote or participate in the management of the Avista entity, which is controlled by its members and affiliates. During 2010, we received cash distributions of approximately \$38.8 million in respect of this interest.

Each party's ability to transfer its interest in the joint venture to third parties is subject in most instances to preferential purchase rights for transfers of less than 10% of its interest in joint venture properties, or to tag along rights for most other transfers. Avista's tag along rights do not apply upon a change of control of the Company.

In September 2010, we completed the sale of 20% of our interests in oil and gas properties that had been subject to the Avista joint venture in parts of Pennsylvania in the Marcellus Shale to Reliance Marcellus II, LLC (Reliance), a wholly-owned subsidiary of Reliance Holding USA, Inc. and an affiliate of Reliance Industries Limited, for \$13.1 million in cash and a commitment by Reliance to pay 75% of certain of our future development costs up to approximately \$52.0 million. Simultaneously with the closing of this transaction, ACP II closed the sale of its entire interest in the same properties to Reliance for a purchase price of approximately \$327 million. In December 2010, we entered into a settlement agreement with Reliance providing for the resolution of defects in title that Reliance alleged with respect to the properties it acquired from us and Avista. In the agreement, we agreed to undertake specified curative measures with respect to the properties we and Avista sold to Reliance, and to indemnify Reliance on our own behalf and on behalf of Avista with respect to specified third party claims (in addition to existing customary indemnification obligations under the purchase agreement). In connection with entering into the settlement agreement, we entered into an agreement with Avista by which it agreed to indemnify us for amounts we pay on its behalf under the settlement agreement, if any.

As part of the closing of the transactions with Reliance described above, we and Avista amended our existing joint venture agreements to provide that the properties that we and Avista sold to Reliance, as well as the properties we committed to the joint venture with Reliance, are not subject to the terms of the Avista joint venture, and that the Avista joint venture's area of mutual interest will generally not include Pennsylvania, in which those properties are located. Our Marcellus joint venture with Avista will otherwise continue and currently

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includes approximately 174,583 net acres, primarily in West Virginia and New York. Pursuant to the terms of the Avista area of mutual interest, effective December 31, 2010, the initial area of mutual interest was reduced to specified halos in which the joint venture was active.

Our Chairman, Steven A. Webster, serves as Co-Managing Partner and President of Avista Capital Partners LP, a private equity firm focused on investments in the energy, media and healthcare sectors, and is therefore a related party to the joint venture.

### *Certain Other Matters Regarding Mr. Webster*

In November 1999, we entered into a month-to-month agreement, as amended, with San Felipe Resource Company, an entity owned by Mr. Webster, under which Mr. Webster provides consulting services to the Company in exchange for a fee of \$15,000 per month. In his capacity as a consultant, during 2010, Mr. Webster was granted cash-settled stock appreciation rights under the Company's Cash-Settled Stock Appreciation Plan covering an aggregate of 23,340 shares of Common Stock. These stock appreciation rights had an aggregate grant date fair value, calculated in accordance with FASB ASC Topic 718 (at \$9.07 per share), of \$211,696.

We paid Mr. Webster approximately \$143, \$120 and \$430 in 2010, 2009 and 2008, respectively, in overriding royalties relating to leases we had acquired from him in 2006 under a lease purchase option agreement that expired in 2006. The terms and conditions of the lease purchase option agreement with Mr. Webster were consistent with similar lease purchase option agreements that we entered into with unrelated third parties around the same time as we entered into the agreement with Mr. Webster.

### *Pinnacle Gas Resources, Inc.*

In 2003, the Company and its wholly-owned subsidiary CCBM, Inc. contributed their interests in certain oil and gas leases in Wyoming and Montana in areas prospective for coalbed methane to a newly formed entity, Pinnacle Gas Resources, Inc. ( Pinnacle ).

On February 23, 2010, Pinnacle entered into an Agreement and Plan of Merger with affiliates of Scotia Waterous (USA), Inc. At the closing of the transactions contemplated by the Merger Agreement, Pinnacle is expected to be owned by an investor group led by Scotia Waterous (USA), Inc., which includes DLJ Merchant Banking Partners III, L.P. and affiliated investment funds and certain members of Pinnacle's management team. The merger was completed on January 25, 2011, and each of the Company's 2,555,825 shares of Pinnacle common stock was converted into the right to receive \$0.34 in cash.

Mr. Webster was previously affiliated with DLJ Merchant Banking Partners. Mr. Webster is a former director of Pinnacle. Messrs. Johnson and Parker were directors of Pinnacle until January 2011.

### *Certain Matters Regarding Mr. Carter*

Thomas L. Carter, Jr., a member of our board of directors, and his immediate family members collectively own interests directly and indirectly through entities (the Black Stone Entities), which are royalty owners in the Company's Louisiana Delta Farms #1, Louisiana Delta Farms #2 and King Gas #1. Mr. Carter also serves as an executive officer, general partner or controlling shareholder of the Black Stone Entities and, in some cases, he and his family hold substantial interests in these entities. We estimate that, during 2010, (1) the Black Stone Entities collectively, were paid nothing in lease bonuses and other land costs in connection with the acquisition by the Company of certain leases in which the Black Stone Entities held an interest and (2) the Black Stone Entities were paid approximately \$141,000 in lease royalties attributable to wells owned by the Company.

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In addition, the Black Stone Entities own royalty interests in certain undeveloped lease acreage that the Company may develop in the future. The terms and conditions of the lease agreements with the Black Stone Entities in which royalty payments are, or may become, due to the Black Stone Entities are generally consistent with the lease agreements that we have entered into with third parties.

**Employment Agreements**

The Company has entered into employment agreements with each executive officer listed below. The following chart shows the annual base salaries for named executive officers as of December 31, 2010.

Name and Current Position	Annual Salary
S. P. Johnson IV <i>President and Chief Executive Officer</i>	\$ 460,000
J. Bradley Fisher <i>Vice President and Chief Operating Officer</i>	\$ 320,000
Paul F. Boling <i>Chief Financial Officer, Vice President, Secretary and Treasurer</i>	\$ 270,000
Gregory E. Evans <i>Vice President of Exploration</i>	\$ 245,000
Richard H. Smith <i>Vice President of Land</i>	\$ 225,000

The employment agreements each have an initial one-year term; provided that at the date of the agreement and on every day thereafter, the term of such employment agreement is automatically extended for one day, such that the remaining term of the agreement shall never be less than one year until an event (as described in each agreement) that gives rise to termination of employment occurs. Under each agreement, both the Company and the employee may terminate the employee's employment at any time. Mr. Johnson's employment agreement provides that he will serve as President, Chief Executive Officer and a member of the Board of Directors. Upon termination of employment on account of disability or by the Company for any reason (except under certain limited circumstances defined as "for cause" in each agreement), or if employment is terminated either (x) for any reason (including by reason of death) during the 30-day period immediately following elapse of one year after any change of control ("window period") or (y) by the employee for good reason (as defined in each agreement), under the agreements the employee will generally be entitled to (1) an immediate lump sum cash payment equal to 145% for Messrs. Johnson and Fisher and 97% in the case of Messrs. Boling, Evans and Smith (363% for Mr. Johnson, 266% for Mr. Fisher and 145% for Messrs. Boling, Evans and Smith, if termination occurs after or in anticipation of a change of control) of his annual base salary, (2) in lieu of a prorated bonus for the year of termination, an immediate lump sum cash payment equal to 100% for Mr. Johnson, 90% in the case of Messrs. Boling and Fisher and 80% in the case of Messrs. Evans and Smith of his annual base salary prorated based on the number of days in the fiscal year in which he was employed (unless his employment is terminated as a result of disability or after the date a change of control occurs, in either of which cases the lump sum is not prorated), (3) in lieu of continued participation in the Company's welfare benefit plans, practices, programs and policies (other than the Company's medical and dental plans) for the remaining employment period (as defined in each employment agreement), an immediate lump sum cash payment equal to 3% of the employee's annual base salary, (4) continued medical and dental benefits coverage for the employee and his dependents for one year following his termination of employment, and (5) the immediate vesting of any stock option, restricted stock award, restricted stock unit award or other equity-based award and performance award previously granted to such employee and outstanding as of the time immediately prior to the date of his termination and an extension of the period of exercisability of any such awards until the earlier of (A) one year following his date of termination or (B) the date such awards would have lapsed had the employee remained employed for the remaining term. Notwithstanding this provision, each of the Company's

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performance-based restricted stock unit grants made to the named executive officers since December 14, 2008 have provided that in no event would such accelerated vesting occur in the event of a termination without cause or for good reason prior to a change in control unless the performance condition underlying the awards has been satisfied.

If employment terminates due to the death of the employee and other than during a window period, the Company will provide continued medical and dental benefits coverage for the employee's dependents for one year following death and immediate vesting and extension of exercisability of equity awards as described above. The Company will also provide the employee with Company-paid term life insurance protection with a death benefit at least equal to 2 times annual base salary for Mr. Johnson, 1.9 times annual base salary in the case of Messrs. Boling and Fisher and 1.8 times annual base salary in the case of Messrs. Evans and Smith, with such coverage being supplemental to any other Company-paid group life insurance policy.

The salaries in each of these agreements are subject to periodic review and provide for increases consistent with increases in base salary generally awarded to other executives of the Company. Each agreement entitles the employee to participate in all of the Company's incentive, savings, retirement and welfare benefit plans in which other executive officers of the Company participate. The agreements each provide for an annual bonus in an amount comparable to the annual bonus of other Company executives, taking into account the individual's position, responsibilities and accomplishments.

In the event of a dispute regarding the employee's rights upon termination of employment, (1) the parties are required to submit the dispute to arbitration; (2) the Company is only required to pay the employee's attorneys fees pending a dispute if the termination occurred within two years after a change in control (as defined in the agreement) or, in the case of a termination before a change in control, if the termination was not initiated by the employee (with or without good reason); and (3) the Company is only required to pay the employee severance pending resolution of a dispute in the case of a termination within two years after a change in control. The agreements also provide that the employees will be entitled to a gross-up payment to offset the effect of any excise tax imposed under Section 4999 of the Code in connection with payments contingent on a change of control as well as a gross-up payment to offset the effect of any additional taxes imposed under Section 409A of the Code. Upon a voluntary termination of employment, the employees have agreed to be subject to one-year noncompetition and one-year nonsolicitation covenants.

**Potential Payments to the Named Executive Officers Upon Termination or Change of Control**

The following tables provide information regarding potential payments to each of our named executive officers in connection with certain termination events, including a termination related to a change of control of our company.

Executive Benefits and Payments Upon Termination of	Voluntary Termination		Involuntary For Cause Termination	Change of Control Termination		Death	Disability
	(No Good Reason/No Change of Control)	Good Reason/ Involuntary Not for Cause Termination		(Involuntary, Good Reason, Voluntary)			
<b>S. P. Johnson IV<sup>(1)</sup></b>							
Severance Payments		1,140,800 <sup>(2)</sup>		2,143,600 <sup>(3)</sup>			1,140,800
Long-Term Incentives:							
Unvested and Accelerated Stock Appreciation Rights <sup>(4)</sup>		5,304,592		5,304,592	5,304,592		5,304,592
Unvested and Accelerated Restricted Shares <sup>(5)</sup>		340,244		340,244	340,244		340,244
Life Insurance Proceeds						1,840,000 <sup>(6)</sup>	
Disability Benefits <sup>(7)</sup>							
Benefits Continuation		8,914		8,914	8,914		8,914
Total		6,794,550		7,797,350	7,493,750		6,794,550

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- (1) The executive's base salary as of December 31, 2010 was \$460,000. Information in this table assumes a termination date of December 31, 2010 and a price per share of our Common Stock of \$34.49 (the closing market price per share on December 31, 2010).
- (2) Reflects receipt by the executive of a cash severance payment of an amount equal to (a) 145% of the executive's annual base salary plus (b) in lieu of a prorated bonus for the year of termination, an immediate lump sum cash payment equal to the product of 100% of the executive's annual base salary and a fraction, the numerator of which is the number of days in the year through the date of termination, and the denominator of which is 365 plus (c) in lieu of continued participation in the Company's welfare benefit plans (other than the Company's medical and dental plans), an immediate lump sum cash payment equal to 3% of the executive's annual base salary. This payment is in addition to the payment of the executive's base salary through the date of termination.
- (3) Reflects receipt by the executive of a cash severance payment of an amount equal to (a) 363% of the executive's annual base salary plus (b) in lieu of a prorated bonus for the year of termination, an immediate lump sum cash payment equal to 100% of the executive's annual base salary plus (c) in lieu of continued participation in the Company's welfare benefit plans (other than the Company's medical and dental plans), an immediate lump sum cash payment equal to 3% of the executive's annual base salary. This payment is in addition to the payment of the executive's base salary through the date of termination.
- (4) Represents the value of accelerated vesting of cash-settled and stock-settled stock appreciation rights that were unvested at December 31, 2010 based on the closing market price per share of our common stock on December 31, 2010.
- (5) Represents the value of accelerated vesting of shares of restricted stock and restricted stock units that were unvested at December 31, 2010 based on the closing market price per share of our common stock on December 31, 2010.
- (6) Represents the value of company-paid term life insurance protection with a death benefit of 400% of the executive's base salary.
- (7) Our named executive officers are not eligible for any disability benefits that are not available to our other employees.

Executive Benefits and Payments Upon Termination of J. Bradley Fisher <sup>(1)</sup>	Voluntary Termination (No Good Reason/No Change of Control)	Good Reason/ Involuntary Not for Cause Termination	Involuntary For Cause Termination	Change of Control Termination (Involuntary, Good Reason, Voluntary)	Death	Disability
Severance Payments		761,600 <sup>(2)</sup>		1,148,800 <sup>(3)</sup>		761,600
Long-Term Incentives:						
Unvested and Accelerated Stock Appreciation Rights <sup>(4)</sup>		1,040,366		1,040,366	1,040,366	1,040,366
Unvested and Accelerated Restricted Shares <sup>(5)</sup>		2,880,674		2,880,674	2,880,674	2,880,674
Life Insurance Proceeds					1,248,000 <sup>(6)</sup>	
Disability Benefits <sup>(7)</sup>						
Benefits Continuation		8,974		8,974	8,974	8,974
Total		4,691,613		5,078,813	5,178,013	4,691,613

- (1) The executive's base salary as of December 31, 2010 was \$320,000. Information in this table assumes a termination date of December 31, 2010 and a price per share of our Common Stock of \$34.49 (the closing market price per share on December 31, 2010).



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- (2) Reflects receipt by the executive of a cash severance payment of an amount equal to (a) 145% of the executive's annual base salary plus (b) in lieu of a prorated bonus for the year of termination, an immediate lump sum cash payment equal to the product of 90% of the executive's annual base salary and a fraction, the numerator of which is the number of days in the year through the date of termination, and the denominator of which is 365 plus (c) in lieu of continued participation in the Company's welfare benefit plans (other than the Company's medical and dental plans), an immediate lump sum cash payment equal to 3% of the executive's annual base salary. This payment is in addition to the payment of the executive's base salary through the date of termination.
- (3) Reflects receipt by the executive of a cash severance payment of an amount equal to (a) 266% of the executive's annual base salary plus (b) in lieu of a prorated bonus for the year of termination, an immediate lump sum cash payment equal to 90% of the executive's annual base salary plus (c) in lieu of continued participation in the Company's welfare benefit plans (other than the Company's medical and dental plans), an immediate lump sum cash payment equal to 3% of the executive's annual base salary. This payment is in addition to the payment of the executive's base salary through the date of termination.
- (4) Represents the value of accelerated vesting of cash-settled and stock-settled stock appreciation rights that were unvested at December 31, 2010 based on the closing market price per share of our common stock on December 31, 2010.
- (5) Represents the value of accelerated vesting of shares of restricted stock and restricted stock units that were unvested at December 31, 2010 based on the closing market price per share of our common stock on December 31, 2010.
- (6) Represents the value of company-paid term life insurance protection with a death benefit of 390% of the executive's base salary.
- (7) Our named executive officers are not eligible for any disability benefits that are not available to our other employees.

Executive Benefits and Payments Upon Termination of Paul F. Boling <sup>(1)</sup>	Voluntary Termination (No Good Reason/No Change of Control)	Good Reason/ Involuntary Not for Cause Termination	Involuntary For Cause Termination	Change of Control Termination (Involuntary, Good Reason, Voluntary)	Death	Disability
	Severance Payments		513,000 <sup>(2)</sup>		642,600 <sup>(3)</sup>	
Long-Term Incentives:						
Unvested and Accelerated Stock Appreciation Rights <sup>(4)</sup>		773,526		773,526	773,526	773,526
Unvested and Accelerated Restricted Shares <sup>(5)</sup>		2,175,801		2,175,801	2,175,801	2,175,801
Life Insurance Proceeds					1,053,000 <sup>(6)</sup>	
Disability Benefits <sup>(7)</sup>						
Benefits Continuation		7,301		7,301	7,301	7,301
Total		3,469,628		3,599,228	4,009,628	3,469,628

- (1) The executive's base salary as of December 31, 2010 was \$270,000. Information in this table assumes a termination date of December 31, 2010 and a price per share of our Common Stock of \$34.49 (the closing market price per share on December 31, 2010).
- (2) Reflects receipt by the executive of a cash severance payment of an amount equal to (a) 97% of the executive's annual base salary plus (b) in lieu of a prorated bonus for the year of termination, an immediate lump sum cash payment equal to the product of 90% of the executive's annual base salary



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and a fraction, the numerator of which is the number of days in the year through the date of termination, and the denominator of which is 365 plus (c) in lieu of continued participation in the Company's welfare benefit plans (other than the Company's medical and dental plans), an immediate lump sum cash payment equal to 3% of the executive's annual base salary. This payment is in addition to the payment of the executive's base salary through the date of termination.

- (3) Reflects receipt by the executive of a cash severance payment of an amount equal to (a) 145% of the executive's annual base salary plus (b) in lieu of a prorated bonus for the year of termination, an immediate lump sum cash payment equal to 90% of the executive's annual base salary plus (c) in lieu of continued participation in the Company's welfare benefit plans (other than the Company's medical and dental plans), an immediate lump sum cash payment equal to 3% of the executive's annual base salary. This payment is in addition to the payment of the executive's base salary through the date of termination.
- (4) Represents the value of accelerated vesting of cash-settled and stock-settled stock appreciation rights that were unvested at December 31, 2010 based on the closing market price per share of our common stock on December 31, 2010.
- (5) Represents the value of accelerated vesting of shares of restricted stock and restricted stock units that were unvested at December 31, 2010 based on the closing market price per share of our common stock on December 31, 2010.
- (6) Represents the value of company-paid term life insurance protection with a death benefit of 390% of the executive's base salary.
- (7) Our named executive officers are not eligible for any disability benefits that are not available to our other employees.

Executive Benefits and Payments Upon Termination of Gregory E. Evans <sup>(1)</sup>	Voluntary Termination (No Good Reason/No Change of Control)	Good Reason/ Involuntary Not for Cause Termination	Involuntary For Cause Termination	Change of Control Termination (Involuntary, Good Reason, Voluntary)	Death	Disability
Severance Payments		441,000 <sup>(2)</sup>		558,600 <sup>(3)</sup>		441,000
Long-Term Incentives:						
Unvested and Accelerated Stock Appreciation Rights <sup>(4)</sup>		498,512		498,512	498,512	498,512
Unvested and Accelerated Restricted Shares <sup>(5)</sup>		1,436,508		1,436,508	1,436,508	1,436,508
Life Insurance Proceeds					931,000 <sup>(6)</sup>	
Disability Benefits <sup>(7)</sup>						
Benefits Continuation		4,028		4,028	4,028	4,028
<b>Total</b>		<b>2,380,048</b>		<b>2,497,648</b>	<b>2,870,048</b>	<b>2,380,048</b>

- (1) The executive's base salary as of December 31, 2010 was \$245,000. Information in this table assumes a termination date of December 31, 2010 and a price per share of our Common Stock of \$34.49 (the closing market price per share on December 31, 2010).
- (2) Reflects receipt by the executive of a cash severance payment of an amount equal to (a) 97% of the executive's annual base salary plus (b) in lieu of a prorated bonus for the year of termination, an immediate lump sum cash payment equal to the product of 80% of the executive's annual base salary and a fraction, the numerator of which is the number of days in the year through the date of termination, and the denominator of which is 365 plus (c) in lieu of continued participation in the Company's welfare

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benefit plans (other than the Company’s medical and dental plans), an immediate lump sum cash payment equal to 3% of the executive’s annual base salary. This payment is in addition to the payment of the executive’s base salary through the date of termination.

- (3) Reflects receipt by the executive of a cash severance payment of an amount equal to (a) 145% of the executive’s annual base salary plus (b) in lieu of a prorated bonus for the year of termination, an immediate lump sum cash payment equal to 80% of the executive’s annual base salary plus (c) in lieu of continued participation in the Company’s welfare benefit plans (other than the Company’s medical and dental plans), an immediate lump sum cash payment equal to 3% of the executive’s annual base salary. This payment is in addition to the payment of the executive’s base salary through the date of termination.
- (4) Represents the value of accelerated vesting of cash-settled and stock-settled stock appreciation rights that were unvested at December 31, 2010 based on the closing market price per share of our common stock on December 31, 2010.
- (5) Represents the value of accelerated vesting of shares of restricted stock and restricted stock units that were unvested at December 31, 2010 based on the closing market price per share of our common stock on December 31, 2010.
- (6) Represents the value of company-paid term life insurance protection with a death benefit of 380% of the executive’s base salary.
- (7) Our named executive officers are not eligible for any disability benefits that are not available to our other employees.

Executive Benefits and Payments Upon Termination of Richard H. Smith <sup>(1)</sup>	Voluntary Termination (No Good Reason/No Change of Control)		Involuntary For Cause Termination	Change of Control Termination (Involuntary, Good Reason, Voluntary)	Death	Disability
	Good Reason/ Involuntary Not for Cause Termination					
Severance Payments		405,000 <sup>(2)</sup>		513,000 <sup>(3)</sup>		405,000
Long-Term Incentives Unvested and Accelerated Stock Appreciation Rights <sup>(4)</sup>		367,051		367,051	367,051	367,051
Unvested and Accelerated Restricted Shares <sup>(5)</sup>		1,047,220		1,047,220	1,047,220	1,047,220
Life Insurance Proceeds Disability Benefits <sup>(7)</sup>					855,000 <sup>(6)</sup>	
Benefits Continuation		4,295	4,295	4,295	4,295	4,295
<b>Total</b>		<b>1,823,567</b>		<b>1,931,567</b>	<b>2,273,567</b>	<b>1,823,567</b>

- (1) The executive’s base salary as of December 31, 2010 was \$225,000. Information in this table assumes a termination date of December 31, 2010 and a price per share of our Common Stock of \$34.49 (the closing market price per share on December 31, 2010).
- (2) Reflects receipt by the executive of a cash severance payment of an amount equal to (a) 97% of the executive’s annual base salary plus (b) in lieu of a prorated bonus for the year of termination, an immediate lump sum cash payment equal to the product of 80% of the executive’s annual base salary and a fraction, the numerator of which is the number of days in the year through the date of termination, and the denominator of which is 365 plus (c) in lieu of continued participation in the Company’s welfare benefit plans (other than the Company’s medical and dental plans), an immediate lump sum cash payment equal to 3% of the executive’s annual base salary. This payment is in addition to the payment of the executive’s base salary through the date of termination.



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- (3) Reflects receipt by the executive of a cash severance payment of an amount equal to (a) 145% of the executive's annual base salary plus (b) in lieu of a prorated bonus for the year of termination, an immediate lump sum cash payment equal to 80% of the executive's annual base salary plus (c) in lieu of continued participation in the Company's welfare benefit plans (other than the Company's medical and dental plans), an immediate lump sum cash payment equal to 3% of the executive's annual base salary. This payment is in addition to the payment of the executive's base salary through the date of termination.
- (4) Represents the value of accelerated vesting of cash-settled and stock-settled stock appreciation rights that were unvested at December 31, 2010 based on the closing market price per share of our common stock on December 31, 2010.
- (5) Represents the value of accelerated vesting of shares of restricted stock and restricted stock units that were unvested at December 31, 2010 based on the closing market price per share of our common stock on December 31, 2010.
- (6) Represents the value of company-paid term life insurance protection with a death benefit of 380% of the executive's base salary.
- (7) Our named executive officers are not eligible for any disability benefits that are not available to our other employees.

**EQUITY COMPENSATION PLANS**

Information concerning our equity compensation plans at December 31, 2010 is as follows:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options and Rights <sup>(1)</sup> (a)	Weighted-Average Exercise Price of Outstanding Options and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans			
approved by security holders	404,854	\$ 6.20	694,328

(1) Consists of shares of Common Stock that are issuable with respect to stock options, restricted stock awards, restricted stock units and stock-settled stock appreciation rights issued under the Incentive Plan. Does not include stock appreciation rights that may be settled in cash only under the Company's Cash-Settled Stock Appreciation Rights Plan or stock-settled stock appreciation rights issued under the Incentive Plan that the Company has elected to settle in cash.

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**PROPOSAL 2**

**ADVISORY VOTE ON EXECUTIVE COMPENSATION**

The Board of Directors recognizes the interest the Company's shareholders have in the compensation of our named executive officers. In recognition of that interest and in accordance with the requirements of SEC rules and the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, this proposal, commonly known as a "say on pay" proposal, provides our shareholders with the opportunity to cast an advisory vote on the compensation of our named executive officers, as disclosed pursuant to the SEC's compensation disclosure rules, including the discussion of the Company's compensation program and philosophy and the compensation tables. This advisory vote is intended to give our shareholders an opportunity to provide an overall assessment of the compensation of our named executive officers rather than focus on any specific item of compensation.

We encourage you to review the discussions and information presented in "Compensation Discussion and Analysis" and "Executive Compensation," including the compensation tables and associated narrative disclosure, in considering how to cast your vote. As described in the "Compensation Discussion and Analysis" included in this proxy statement, the guiding philosophy and specific objectives of our executive compensation program are: (1) to align executive compensation design and outcomes with our business strategy, (2) to encourage management to create sustained value for our shareholders, (3) to attract, retain, and engage our executives and (4) to support a performance-based culture for all of our employees.

As an advisory vote, the shareholders' vote on this proposal is not binding on our Board or the Company and the Board could, if it concluded it was in the Company's best interests to do so, choose not to follow or implement the outcome of the advisory vote. However, we expect that the Compensation Committee will review the voting results on this proposal and give consideration to the outcome when making future decisions regarding compensation of our named executive officers.

Approval of the proposal, on a non-binding advisory basis, requires the affirmative vote of holders of at least a majority of the votes cast at the Annual Meeting in person or by proxy.

**Board Recommendation**

**The Board of Directors recommends that shareholders approve, on an advisory basis, the compensation of our named executive officers by voting FOR the approval of the following resolution:**

RESOLVED, that the compensation of the Company's named executive officers, as disclosed in the Company's proxy statement relating to the 2011 Annual Meeting pursuant to the executive compensation disclosure rules promulgated by the SEC, is hereby approved.

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**PROPOSAL 3**

**ADVISORY VOTE ON THE FREQUENCY OF EXECUTIVE COMPENSATION ADVISORY VOTE**

This proposal, commonly known as a "say-on-frequency" proposal, provides our shareholders with the opportunity to cast an advisory vote on whether the Company should hold a shareholder advisory vote on the compensation of the Company's named executive officers (such as Proposal 2) annually, every two years or every three years or to abstain from such vote.

The Board of Directors recommends that the Company hold an advisory vote on executive compensation annually. The Board of Directors believes that an annual advisory vote on executive compensation will provide shareholders with a frequent and consistent opportunity to express their views on our executive compensation as disclosed in our annual proxy statements. It is important to note that our compensation objectives are designed to reward our executives both for meeting or exceeding the short-term financial and operating goals as well as furthering the long-term strategy of the Company. Accordingly, the Board encourages shareholders to consider our executive compensation practices and the results we achieve over a multi-year horizon. Nonetheless, the Board believes that an annual advisory vote will allow our Compensation Committee (a) to take shareholders' views into account more quickly than a less frequent vote would allow and (b) to evaluate changes in our shareholders' views over time as our executive compensation program evolves.

As an advisory vote, this proposal is not binding upon the Board or the Company and the Board could, if it concluded it was in the Company's best interests to do so, choose not to follow or implement the outcome of the advisory vote. However, in setting the agenda for future shareholder meetings, the Company expects that the Board will review voting results on this proposal and give due consideration to the outcome. In future years, the Board could also recommend to shareholders that the advisory vote on executive compensation be held less frequently than annually.

Approval of the proposal to hold an advisory vote on executive compensation every year, on a non-binding advisory basis, requires the affirmative vote of holders of at least a majority of the votes cast at the Annual Meeting in person or by proxy. If none of the alternatives (every year, every two years or every three years) receive a majority vote, we will consider the alternative with the highest number of votes cast to be the alternative that has been selected by our shareholders.

**The Board of Directors recommends that shareholders vote to hold an advisory vote on the compensation of the Company's named executive officers annually.**

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**AUDIT COMMITTEE REPORT**

The Audit Committee's purpose is to assist the Board of Directors in its oversight of the Company's internal controls and financial statements and the audit process. The Board of Directors, in its business judgment, has determined that the members of the Audit Committee are independent, as required by applicable standards of the Nasdaq Stock Market. The Audit Committee operates pursuant to a written charter adopted by our Board of Directors. A copy of the Audit Committee Charter is available on the Company's website at [www.crzo.net](http://www.crzo.net).

Management is responsible for the preparation, presentation and integrity of the Company's financial statements, accounting and financial reporting principles and internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. The independent registered public accounting firm is responsible for performing an independent audit of the consolidated financial statements and internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board.

In connection with fulfilling its responsibilities under the Audit Committee charter, the Audit Committee met with management and KPMG, our independent registered public accounting firm, and discussed and reviewed the Company's audited financial statements as of and for the year ended December 31, 2010. The Audit Committee also discussed with KPMG the matters required to be discussed by the Statement on Auditing Standards No. 61, as amended, as adopted by the Public Company Accounting Oversight Board in Rule 3200T. The Audit Committee reviewed and discussed with KPMG the auditor's independence from the Company and its management. As part of that review, KPMG provided the Audit Committee the written disclosures and letter required by Public Company Accounting Oversight Board Rule 3526, Communication with Audit Committees Concerning Independence.

Based on the reports and discussions described in this report, and subject to the limitations on the role and responsibilities of the Audit Committee referred to below and in the Audit Committee Charter, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

Members of the Audit Committee rely, without independent verification, on the information provided to them and on the representations made by management and the independent registered public accounting firm. Accordingly, the Audit Committee's oversight does not provide an independent basis to determine that management has maintained appropriate accounting and financial reporting principles or appropriate internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. Furthermore, the Audit Committee's considerations and discussions referred to above do not assure that the audit of the Company's financial statements and internal control over financial reporting has been carried out in accordance with the standards of the Public Company Accounting Oversight Board, that the financial statements are presented in accordance with U.S. generally accepted accounting principles or that the independent registered public accounting firm is in fact independent.

The Audit Committee

F. Gardner Parker

Thomas L. Carter, Jr.

Roger A. Ramsey

**Pursuant to SEC Rules, the foregoing Audit Committee Report is not deemed filed with the SEC and is not incorporated by reference into the Company's Annual Report on Form 10-K.**

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**PROPOSAL 4**

**APPOINTMENT OF KPMG LLP**

**AS INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

**Appointment of Independent Registered Public Accounting Firm**

The Audit Committee has appointed, and recommends the approval of the appointment of, KPMG as independent registered public accounting firm for the fiscal year ending December 31, 2011. KPMG served as the Company's independent registered public accounting firm for the fiscal years ended December 31, 2009 and 2010. Representatives of KPMG are expected to be present at the Annual Meeting and will be given the opportunity to make a statement, if they desire to do so, and to respond to appropriate questions.

Unless shareholders specify otherwise in the proxy, proxies solicited by the Board of Directors will be voted by the persons named in the proxy at the Annual Meeting to ratify the selection of KPMG as the Company's independent registered public accounting firm for 2011. The affirmative vote of a majority of the votes cast at the Annual Meeting will be required for ratification. Abstentions will be counted as present for the purposes of determining if a quorum is present but will have the same effect as a vote against the proposal. Although the appointment of an independent registered public accounting firm is not required to be submitted to a vote of shareholders, the Board of Directors recommended that the appointment be submitted to our shareholders for approval. If our shareholders do not approve the appointment of KPMG, the Board of Directors may consider the appointment of another independent registered public accounting firm.

**Change in Independent Registered Public Accounting Firm**

On June 3, 2009, the Audit Committee dismissed Pannell Kerr Forster of Texas, P.C. ( PKF ) as the Company's independent registered public accounting firm, and on June 3, 2009, engaged KPMG to serve as the Company's independent registered public accounting firm to audit its consolidated financial statements for the fiscal year ending December 31, 2009. The dismissal of PKF and engagement of KPMG were unanimously approved by the Audit Committee.

The audit report of PKF on the Company's consolidated financial statements as of and for the year ended December 31, 2008 did not contain an adverse opinion or a disclaimer of opinion and was not qualified or modified as to uncertainty, audit scope or accounting principles. During the fiscal year ended December 31, 2008 and the subsequent interim period through June 3, 2009, there were (i) no disagreements with PKF on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, that if not resolved to the satisfaction of PKF, would have caused it to make reference to the subject matter of such disagreements in its reports on the Company's financial statements for such periods and (ii) no reportable events (as defined in Item 304(a)(1)(v) of Regulation S-K).

The Company provided PKF with a copy of the foregoing disclosure and requested PKF to furnish the Company with a letter addressed to the SEC stating whether it agrees with the statements by the Company in the foregoing disclosure and, if not, stating the respects in which it does not agree. PKF's letter was filed as Exhibit 16.1 to the Company's Current Report on Form 8-K filed on June 4, 2009.

During the fiscal year ended December 31, 2008 and the subsequent interim period through June 3, 2009, neither the Company nor anyone on its behalf consulted KPMG regarding either (i) the application of accounting principles to any specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Company's financial statements or (ii) any matter that was either the subject of a disagreement (as defined in Item 304(a)(1)(iv) of Regulation S-K) or a reportable event (as defined in Item 304(a)(1)(v) of Regulation S-K).



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The following table sets forth the fees billed to us by KPMG for professional services rendered in connection with the audit of the Company's annual financial statements for the years ended December 31, 2010 and 2009, the review of the Company's quarterly financial statements included in the Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2010, June 30, 2009 and 2010 and September 30, 2009 and 2010 and for services rendered in connection with securities offerings and related SEC filings during 2010.

Description	2010	2009
Audit Fees	\$ 664,300 <sup>(1)</sup>	\$ 580,580
Audit-Related Fees		
Tax Fees	86,000 <sup>(2)</sup>	
All Other Fees	1,786 <sup>(3)</sup>	
<b>Total</b>	<b>\$ 752,086</b>	<b>\$ 580,580</b>

(1) Includes \$182,000 of fees associated with services rendered in connection with securities offerings and related SEC filings during 2010.

(2) Consists of tax consulting services provided in connection with determining whether the Company has experienced one or more ownership changes through December 31, 2009, within the meaning of Section 382 of the Internal Revenue Code.

(3) Consists of fees associated with the Company's access to KPMG's accounting research library.

**Audit Committee Preapproval Policy**

The Audit Committee has adopted a policy that all audit, review or attest engagements and permissible non-audit services, including the fees and terms thereof, to be performed by the independent registered public accounting firm (subject to, and in compliance with, the *de minimis* exception for non-audit services described in Section 10A(i)(1)(B) of the Securities Exchange Act of 1934, as amended, and the applicable rules and regulation of the SEC) will be subject to specific pre-approval of the Audit Committee. No non-audit services were performed by KPMG LLP pursuant to the *de minimis* exception in 2010.

**Board Recommendation**

**The Board of Directors recommends that shareholders vote FOR the ratification of the appointment of KPMG as independent registered public accounting firm for the Company for 2011.**

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**PROPOSAL 5**

**SHAREHOLDER PROPOSAL**

The following shareholder proposal was submitted by the Comptroller of the State of New York (the Proponent), 633 Third Avenue, 31st Floor, New York, New York 10017, as trustee of the New York State Common Retirement Fund. Pursuant to applicable proxy regulations, the proposal and supporting statement are set forth below verbatim. The Company is not responsible for the contents of the proposal or of the supporting statement.

Whereas, Onshore unconventional natural gas production often requires hydraulic fracturing, which typically injects a mix of millions of gallons of water, thousands of gallons of chemicals, and particles deep underground to create fractures through which gas can flow for collection. According to the American Petroleum Institute, up to 80 percent of natural gas wells drilled in the next decade will require hydraulic fracturing.

The potential impacts of those fracturing operations stem from activities above and below the earth's surface including actions that are necessarily part of the life cycle of fracturing and extraction, such as assuring the integrity of the well construction, and moving, storing, and disposing of significant quantities of water and toxic chemicals.

High profile contamination incidents, especially in Pennsylvania, have fueled public controversy. Pennsylvania's Times-Shamrock Newspapers report many of the largest operators in the Marcellus Shale have been issued violations for spills that reached waterways, leaking pits that harmed drinking water, or failed pipes that drained into farmers' fields, killing shrubs and trees.

Public officials in Pittsburgh, Philadelphia and New York City have called for delays or bans on fracturing. Pennsylvania, West Virginia, Colorado, Wyoming and New York State all tightened or are considering tightening regulations and permitting requirements, though state regulations remain uneven. The federal Environmental Protection Agency is studying the potential adverse impact that hydraulic fracturing may have on water quality and public health.

A multi-sectoral assessment for investors, Water Disclosure 2010 Global Report, noted the existence of reputational risks from water management for the oil and gas sector.

Proponents believe these potential environmental impacts and increasing regulatory scrutiny could pose threats to Carrizo Oil & Gas, Inc.'s license to operate and increase its vulnerability to litigation. Proponents believe our company is not providing sufficient information on key business risks associated with hydraulic fracturing operations. Proponents believe Carrizo Oil & Gas, Inc. should protect its long-term financial interests by taking measures beyond the existing, inconsistent regulatory requirements to reduce environmental hazards and associated business risks.

Therefore, be it resolved: Shareholders request that the Board of Directors prepare a report by November 1, 2011, at reasonable cost and omitting confidential information such as proprietary or legally prejudicial data, summarizing 1. known and potential environmental impacts of fracturing operations of Carrizo Oil & Gas, Inc.; 2. [sic] policy options for our company to adopt, above and beyond regulatory requirements and our company's existing efforts, to reduce or eliminate hazards to air, water, and soil quality from fracturing operations.

**Supporting statement**

Proponents believe policies explored should include, for example, additional efforts to reduce toxicity of fracturing chemicals, recycle waste water, monitor water quality prior to drilling, cement bond logging, and other

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structural or procedural strategies to reduce environmental hazards and financial risks. Potential includes occurrences that are reasonably foreseeable and worst case scenarios. Impacts of fracturing operations encompass the life cycle of activities related to fracturing and associated gas extraction.

### **THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT SHAREHOLDERS VOTE AGAINST THE SHAREHOLDER PROPOSAL FOR THE FOLLOWING REASONS.**

Hydraulic fracturing is an important and commonly used process in the completion of oil and gas wells, particularly in unconventional resource plays from which the Company derives most of its income, such as the Barnett Shale, the Marcellus Shale, the Eagle Ford Shale and the Niobrara formation. We use hydraulic fracturing extensively to increase the volumes of oil and gas that we can economically recover, and hydraulic fracturing is critical for the development of our deep reserves in the shale plays that make up the core of our business. To date, we are not aware of any hydraulic fracturing-related incidents resulting in environmental contamination at any of our operations.

Hydraulic fracturing is a carefully engineered operation that we conduct only after thorough study by geoscientists of a target formation's characteristics. Hydraulic fracturing involves the injection of a mixture of water, sand and chemicals (which serve to kill bacteria, reduce friction and prevent mineral buildup and usually constitute less than 1% of the mixture) under pressure into rock formations to stimulate gas and oil production. This high-pressure injection results in carefully designed fractures in a producing formation that allow oil and gas to flow into from a low-permeability reservoir into the wellbore for extraction and sale. The target formations in our operations are typically more than one mile below the surface and are separated from the fresh water table by several thousand feet of impermeable rock. A significant portion of the fracturing mixture is removed during the extraction process for recycling or proper disposal and the balance of the mixture that remains underground is therefore kept safely contained in the fractured reservoir several thousand feet below the fresh water table. Further precautions are taken to protect fresh water formations by permanently installing and cementing the steel casings in the well bore prior to the hydraulic fracturing process.

Our oil and gas operations in the United States, including hydraulic fracturing, are subject to extensive federal, state and local laws and government regulations. Certain of these laws and regulations relating to the protection of human health and the environment apply to the development, production, handling, storage, transportation and disposal of materials used in oil and gas operations, including hydraulic fracturing mixtures and additives.

We have conducted, and will continue to conduct, our operations so as to ensure material compliance with these laws and regulations, as well as any future regulations that may be implemented. We view compliance with these laws and regulations and adherence to responsible standards where such laws and regulations do not exist as critical aspects of our operations. We are continually evaluating our business practices related to hydraulic fracturing, including the use of chemical additives in fracturing fluids and the recycling and reuse of fracturing fluids. The ongoing determination of how best to ensure compliance with existing laws and regulations and position the Company to respond to potential changes in laws and regulations while responsibly and economically developing the Company's reserves is a complex task undertaken on a day-to-day basis by the Company's management team of oil and gas professionals. To attempt to condense these complex determinations and potential alternatives into a report of the type proposed would be a significant and burdensome undertaking. Moreover, despite our compliance with laws and regulations, providing unnecessary information about our hydraulic fracturing activities could put us at a competitive disadvantage. It will also waste corporate resources on unwarranted legal proceedings against us and third party opposition to hydraulic fracturing generally.

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Based on the information currently available, the Board of Directors believes that hydraulic fracturing poses minimal risks to the environment. The Board also believes that the Company's management has taken and will continue to take prudent steps to manage these risks and any vulnerability to litigation related to hydraulic fracturing. Furthermore, as described herein, a significant amount of information about hydraulic fracturing of the type requested by the report is already available to the public and to regulators, and much more is expected to become available as a result of the EPA study mentioned in the shareholder proposal.

The Board of Directors therefore believes that preparation of the report requested by the Proponent would be a distraction for management and a waste of the Company's financial resources that would add little or no value to our investors.

Approval of the shareholder proposal requires the affirmative vote of holders of at least a majority of the votes cast at the Annual Meeting in person or by proxy.

**Board Recommendation**

**The Board of Directors unanimously recommends that shareholders vote AGAINST the shareholder proposal.**

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### **ADDITIONAL INFORMATION**

#### **Other Business**

As of the date of this proxy statement, the Board of Directors is not informed of any other matters, other than those above, that may be brought before the meeting. The persons named in the enclosed form of proxy or their substitutes will vote with respect to any such matters in accordance with their best judgment.

#### **Shareholder Proposals For Next Annual Meeting**

Rule 14a-8 under the Securities Exchange Act of 1934, as amended, addresses when a company must include a shareholder's proposal in its proxy statement and identify the proposal in its form of proxy when the company holds an annual or special meeting of shareholders. Under Rule 14a-8, proposals that shareholders intend to have included in the Company's proxy statement and form of proxy for the 2012 Annual Meeting of Shareholders must be received by the Company no later than January 9, 2012. However, if the date of the 2012 Annual Meeting of Shareholders changes by more than 30 days from the date of the 2011 Annual Meeting of Shareholders, the deadline is a reasonable time before the Company begins to print and mail its proxy materials, which deadline will be set forth in a Quarterly Report on Form 10-Q or will otherwise be communicated to shareholders. Shareholder proposals must also be otherwise eligible for inclusion.

If a shareholder desires to bring a matter before an annual or special meeting and the proposal is submitted outside the process of Rule 14a-8, the shareholder must follow the procedures set forth in the Company's Bylaws. The Company's Bylaws provide generally that shareholders who wish to nominate directors or to bring business before a shareholders' meeting must notify the Company and provide certain pertinent information at least 80 days before the meeting date (or within ten days after public announcement pursuant to the Bylaws of the meeting date, if the meeting date has not been publicly announced more than 90 days in advance). If the date of the 2012 Annual Meeting of Shareholders is the same as the date of the 2011 Annual Meeting of Shareholders, shareholders who wish to nominate directors or to bring business before the 2012 Annual Meeting of Shareholders must notify the Company no later than March 14, 2012.

A copy of the Company's Bylaws setting forth the requirements for the nomination of director candidates by shareholders and the requirements for proposals by shareholders may be obtained from the Company's Secretary at the address indicated on the first page of this proxy statement. A nomination or proposal that does not comply with the above procedures will be disregarded. Compliance with the above procedures does not require the Company to include the proposed nominee or proposal in the Company's proxy solicitation material.

#### **Solicitation of Proxies**

The accompanying proxy is being solicited on behalf of the Board of Directors. The expenses of preparing, printing and mailing the proxy and the materials used in the solicitation will be borne by us. Proxies may be solicited by personal interview, mail, telephone, facsimile, Internet or other means of electronic distribution by our directors, officers and employees, who will not receive additional compensation for those services. Arrangements also may be made with brokerage houses and other custodians, nominees and fiduciaries for the forwarding of solicitation materials to the beneficial owners of shares held by those persons, and we will reimburse them for reasonable expenses incurred by them in connection with the forwarding of solicitation materials.

#### **Householding**

The 2010 Annual Report to Shareholders, which includes financial statements of the Company for the year ended December 31, 2010, has been mailed to all shareholders entitled to vote at the Annual Meeting on or before the date of mailing this proxy statement. The SEC permits a single set of annual reports and proxy

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statements to be sent to any household at which two or more shareholders reside if they appear to be members of the same family. Each shareholder continues to receive a separate proxy card. This procedure, referred to as householding, reduces the volume of duplicate information shareholders receive and reduces mailing and printing expenses. A number of brokerage firms have instituted householding.

As a result, if you hold your shares through a broker and you reside at an address at which two or more shareholders reside, you will likely be receiving only one annual report and proxy statement unless any shareholder at that address has given the broker contrary instructions. However, if any such beneficial shareholder residing at such an address wishes to receive a separate annual report or proxy statement in the future, that shareholder should contact their broker or send a request to the Company's Secretary at the Company's principal executive offices, 1000 Louisiana, Suite 1500, Houston, Texas 77002, telephone number (713) 328-1000. The Company will deliver, promptly upon written or oral request to the Secretary, a separate copy of the 2010 Annual Report and this proxy statement to a beneficial shareholder at a shared address to which a single copy of the documents was delivered. The Annual Report is not a part of the proxy solicitation material.

**Annual Report on Form 10-K**

**Carrizo will provide to each shareholder, without charge and upon written request, a copy of its Annual Report on Form 10-K for 2010, including the financial statements, schedules and a list of exhibits. Any such written requests should be directed to the Secretary of the Company, at the address indicated on the first page of this proxy statement.**

By Order of the Board of Directors

Paul F. Boling

*Secretary*

Dated: April 29, 2011

Houston, Texas