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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

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**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a) of the  
Securities Exchange Act of 1934  
(Amendment No. )**

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Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only** (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to § 240.14a-12

**Approach Resources Inc.**

(Name of Registrant as Specified in its Charter)

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

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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

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2) Aggregate number of securities to which transaction applies:

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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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1) Amount Previously Paid:

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2) Form, Schedule or Registration Statement No.:

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3) Filing Party:

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4) Date Filed:

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## 2016 Proxy Statement and Notice of Annual Meeting





# Notice of 2016 Annual Meeting of Stockholders and Proxy Statement

**Thursday, June 2, 2016**  
10:00 a.m. Central Time

**One Ridgmar Centre**  
6500 West Freeway, Suite 800  
Fort Worth, Texas 76116

To Our Stockholders:

The 2016 annual meeting of stockholders of Approach Resources Inc., a Delaware corporation, will be held at the offices of Approach Resources Inc., located at One Ridgmar Centre, 6500 West Freeway, Suite 800 in Fort Worth, Texas, on Thursday, June 2, 2016, at 10:00 a.m. Central Time, for the following purposes:

1. To elect two directors, J. Ross Craft and Vean J. Gregg III, to the class of directors whose term expires in 2019;
2. To approve, on an advisory basis, executive compensation;
3. To approve the Fifth Amendment to our 2007 Stock Incentive Plan to increase the maximum number of available shares by 2,500,000 shares;
4. To approve the material terms of the 2007 Stock Incentive Plan, as amended by the Fifth Amendment, for purposes of complying with Section 162(m) of the Internal Revenue Code;
5. To ratify the appointment of Hein & Associates LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2016; and
6. To transact such other business as may properly come before the meeting or any adjournment or postponement thereof.

You may vote if you were a stockholder of record at the close of business on April 11, 2016. To ensure that your vote is properly recorded, please vote as soon as possible, even if you plan to attend the annual meeting. You may still vote in person, with the proper identification and documentation, if you attend the annual meeting. For further details about voting, please see "General Matters" beginning on page 1 of this notice and proxy statement.

**If your shares are held in "street name" in a stock brokerage account or by a bank or other nominee, you must provide your broker with instructions on how to vote your shares in order for your shares to be voted on important matters presented at the annual meeting. If you do not instruct your broker on how to vote in the election of directors, the advisory vote to approve executive compensation, the proposal to approve the Fifth Amendment to our 2007 Stock Incentive Plan or the proposal to approve the material terms of the 2007 Stock Incentive Plan, your shares will not be voted on these matters.**

We have adopted the Securities and Exchange Commission's "notice and access" model which allows us to provide our notice of annual meeting, proxy statement and annual report to stockholders online, with paper copies available free of charge upon request. On or about April 20, 2016, we began mailing a Notice of Internet Availability of Proxy Materials detailing how to access the proxy materials electronically and how to vote via the Internet. The Notice of Internet Availability of Proxy Materials also provides instructions on how to request and obtain paper copies of the proxy materials and a proxy card or voting instruction form, as applicable. We believe this process will provide our stockholders with a

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convenient way to access the proxy materials and vote online, while allowing us to reduce our environmental impact as well as the costs of printing and distribution. **Please note that you will need the control number provided on your proxy card or Notice of Internet Availability of Proxy Materials in order to vote online.**

By Order of the Board of Directors,



**J. Ross Craft, P.E.**

*Chairman, Chief Executive Officer and President*

April 20, 2016  
Fort Worth, Texas

**Important Notice Regarding the Availability of Proxy Materials  
for the Annual Meeting of Stockholders to be held on June 2, 2016**

This notice of annual meeting, the proxy statement, the form of proxy card and our 2015 annual report to stockholders, which includes our Annual Report on Form 10-K for the year ended December 31, 2015, are available at [www.proxyvote.com](http://www.proxyvote.com). On this site, you will be able to access these materials and any amendments or supplements to these materials that are required to be furnished to stockholders.

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# APPROACH RESOURCES INC. PROXY STATEMENT

## Annual Meeting of Stockholders – June 2, 2016

These proxy materials are being furnished to you in connection with the solicitation of proxies by the Board of Directors of Approach Resources Inc. for use at the 2016 annual meeting of stockholders and any adjournments or postponements of the meeting. We refer to our Board of Directors as the “Board” and to Approach Resources Inc. as “Approach,” the “Company,” “we,” “us” or “our.” The annual meeting will be held at the offices of the Company, One Ridgmar Centre, 6500 West Freeway, Suite 800 in Fort Worth, Texas, on Thursday, June 2, 2016, at 10:00 a.m. Central Time.

The items to be considered are summarized in the notice of annual meeting of stockholders and more fully described in this proxy statement. Shares of our common stock represented by proxies will be voted as described below or as specified by each stockholder.

### General Matters

**Mailing Date and Delivery of Proxy Materials** . On or about April 20, 2016, we mailed a Notice of Internet Availability of Proxy Materials (the “Notice of Availability”) to our stockholders containing instructions on how to access this proxy statement, a proxy card or voting instruction card, and our 2015 annual report to stockholders (collectively, the “proxy materials”), and how to vote online. We have made these proxy materials available to you over the Internet or, upon your request, have delivered paper copies of these materials to you by mail, in connection with the solicitation of proxies by the Board for the 2016 annual meeting.

**Record date** . The record date for the 2016 annual meeting is April 11, 2016. On the record date, there were 41,541,578 shares of our common stock outstanding, and there were no outstanding shares of any other class of stock. Our stockholders are entitled to one vote for each share of common stock that is owned on the record date, April 11, 2016, on all matters considered at the annual meeting.

**Quorum** . In order for us to hold our annual meeting, holders of a majority of our outstanding shares of common stock as of April 11, 2016, must be present in person or by proxy at the meeting. Proxy cards or voting instruction forms that reflect abstentions and broker non-votes will each be counted as shares present to determine whether a quorum exists to hold the 2016 annual meeting.

**Shares Held of Record** . If your shares are held in your name, you may vote your shares or submit a proxy to have your shares voted by one of the following methods:

- **By Internet** . You may submit a proxy electronically via the Internet at [www.proxyvote.com](http://www.proxyvote.com) . Please have your Notice of Availability or proxy card, which includes your personal control number, on hand when you log onto the website. Internet voting facilities will close and no longer be available as of 11:59 p.m. on June 1, 2016.
- **By Telephone** . You may submit a proxy by telephone using the toll-free number listed on the proxy card or your Notice of Availability. Please have your proxy card or Notice of Availability in hand when you call. Telephone voting facilities will close and no longer be available as of 11:59 p.m. on June 1, 2016.
- **By Mail** . If you request paper copies of the proxy materials by mail, you may submit a proxy by signing, dating and returning your proxy card in the pre-addressed envelope provided.
- **In Person** . You may vote in person at the annual meeting by completing a ballot; however, attending the meeting without completing a ballot will not count as a vote.

If you vote by granting a proxy, the proxy holders will vote the shares according to your instructions. If you submit a proxy without giving specific voting instructions, the proxy holders will vote those shares as recommended by our Board. If you plan to vote in person at the annual meeting and your shares are held in your name, please bring proof of identification. Even if you currently plan to attend the annual meeting, we recommend that you also submit your proxy as described above so that your vote will be counted if you later decide not to attend the annual meeting.

**Shares Held in Street Name.** If your shares are held in “street name” by your broker, bank or other nominee, you will receive instructions from your broker, bank or other nominee that you must follow in order for your shares to be voted. Internet and/or telephone voting is expected to be offered to street name stockholders. You may also vote in person at the annual meeting if you obtain a legal proxy from your broker, bank or other nominee. Please consult the voting instruction form or other information sent to you by your broker, bank or other nominee to determine how to obtain a legal proxy in order to vote in person at the annual meeting. If you plan to vote in person at the annual meeting and you have obtained a legal proxy from your broker, bank or other nominee, please bring proof of identification. If your shares are held in street name in a brokerage account or by a bank or other nominee, you must provide your broker with instructions on how to vote your shares in order for your shares to be voted on Proposals 1, 2, 3 and 4. If you do not instruct your broker on how to vote these proposals, your shares will not be voted on these matters.

**Revoking Your Proxy.** If your shares are held of record, even after you have returned your proxy card or voted by telephone or via the Internet, you may revoke your proxy at any time before it is exercised by (i) submitting a written notice of revocation to our Corporate Secretary by mail to Approach Resources Inc., One Ridgmar Centre, 6500 West Freeway, Suite 800, Fort Worth, Texas 76116 or by facsimile to (817) 989-9001, (ii) mailing in a new proxy card with a later date, (iii) submitting a proxy with new voting instructions using the telephone or Internet voting system, or (iv) attending the annual meeting and voting in person, which suspends the powers of the proxy holder. If your shares are held in street name, you may change your vote by submitting new voting instructions to your broker, bank or other nominee in accordance with such broker’s, bank’s or other nominee’s procedures.

**Vote Required.** For Proposal 1, the election of two directors, you may vote “FOR ALL NOMINEES,” “WITHHOLD AUTHORITY FOR ALL NOMINEES” or “FOR ALL EXCEPT.” A plurality of the votes of the shares present in person or represented by proxy at the meeting and entitled to vote on the election of directors is required for the election of directors. This means that the two director nominees receiving the highest number of affirmative votes of the shares present in person or represented by proxy at the annual meeting and entitled to vote on the election of directors will be elected to our Board. Broker non-votes and votes marked “WITHHOLD AUTHORITY FOR ALL NOMINEES” will have no legal effect on the outcome of the election of directors. With respect to votes marked “FOR ALL EXCEPT,” votes for director nominees that are withheld will have no legal effect on the outcome of the election of directors, while votes for all other director nominees will count toward a plurality.

For each of Proposals 2, 3, 4 and 5, you may vote “FOR,” “AGAINST” or “ABSTAIN.” The affirmative vote of a majority of the shares present in person or represented by proxy and entitled to vote is required to approve Proposals 2, 3, 4 and 5. As such, abstentions will have the effect of a vote against the matters to be voted on in Proposals 2, 3, 4 and 5.

Brokers will not have discretionary authority to vote on Proposals 2, 3 and 4, and broker non-votes will have no effect on the outcome of such vote. Brokers will have discretionary authority to vote on Proposal 5.

**Costs of Solicitation .** We will bear all costs incurred in the solicitation of proxies, including the preparation, printing and mailing of the Notice of Availability and related proxy materials. In addition to solicitation by mail, our directors, officers and employees may solicit proxies personally or by telephone, email, facsimile or other means. These directors, officers and employees will not be additionally compensated but may be reimbursed for reasonable out-of-pocket expenses in connection with such solicitation. We may also make arrangements with brokerage houses and other custodians, nominees and fiduciaries for the forwarding of solicitation material to the beneficial owners of shares of common stock held by such persons, and we may reimburse those brokerage houses and other custodians, nominees and fiduciaries for reasonable expenses incurred in connection therewith. To assist in the solicitation of proxies, we have engaged Okapi Partners LLC, which will receive a fee of approximately \$6,800, plus out-of-pocket expenses.

If you have any questions about this proxy statement or the annual meeting, please contact our Corporate Secretary at Approach Resources Inc., One Ridgmar Centre, 6500 West Freeway, Suite 800, Fort Worth, Texas 76116, or by telephone at (817) 989-9000.

# Proposal 1 – Election of Directors

## Nomination and Election of Directors

Under our certificate of incorporation, the members of our Board are divided into three classes with staggered, three-year terms. The terms of three Class III directors expire at the 2016 annual meeting, one of whom is not standing for re-election, as further discussed below.

The Board has nominated J. Ross Craft and Vean J. Gregg III for re-election as Class III directors. Upon re-election, Messrs. Craft and Gregg will serve for terms expiring at the 2019 annual meeting of stockholders or, in each case, until their respective successors are elected and qualified.

Each of the nominees has agreed to serve if elected. If any of the nominees becomes unavailable to serve as a director, the Board may designate a substitute nominee. In that case, the persons named as proxies will vote for the substitute nominee designated by the Board. The Board may also reduce the number of directors by resolution. The Board does not presently expect that any of the nominees will become unavailable for election.

In making these nominations, the Nominating and Corporate Governance Committee (“Nominating and Governance Committee”) reviewed the background of the nominees and recommended their nomination to the full Board consistent with the Nominating and Governance Committee’s guidelines for identifying and evaluating nominees for director. Please see “Corporate Governance—Identifying and Evaluating Nominees for Director” for more information on the Nominating and Governance Committee’s guidelines for identifying and nominating director nominees. In addition, information on each director (including each nominee) is set forth below.

## 2016 Board Reduction

On March 2, 2016, our Board determined, in light of the current commodity price environment, market conditions and size of the Company, to (i) reduce the size of the Board from eight members to five members, effective immediately following the 2016 annual meeting, and (ii) reduce the value of each director’s 2016 stock retainer by 70%. The Board also adopted governance guidelines that include a mandatory retirement provision, requiring directors to resign at the annual meeting of stockholders following their 72nd birthday. The 2016 annual meeting will take place after the 72nd birthday of each of Bryan H. Lawrence, a Class III director whose term will expire at the 2016 annual meeting, and Sheldon B. Lubar, a Class I director. Mr. Lawrence has determined to not run for re-election and to let his term expire at such time. Mr. Lubar and Christopher J. Whyte, also a Class I director, have each indicated an intention to retire, effective immediately following the 2016 annual meeting. After these retirements, the number of directors comprising the Board will be five.

**Proposal 1 – Election of Directors** (continued)**Directors**

The Board believes that each nominee and director has valuable individual skills and experiences that, taken together, provide us with the knowledge, judgment and strategic vision necessary to provide effective oversight of the Company. The biographies below reflect the particular experience, qualifications, attributes and skills that led the Board to conclude that each nominee and director should serve on the Board, including:

Nominee/Director	Qualifications and Experience
Mr. Bell, Mr. Craft, Mr. Crain, Mr. Lubar and Mr. Whyte	<ul style="list-style-type: none"> <li>Experience in executive management and operations in exploration and production (“E&amp;P”), or oilfield service companies</li> </ul>
Mr. Craft	<ul style="list-style-type: none"> <li>Detailed, technical understanding of the Company’s operations, reserves, drilling and completion techniques</li> </ul>
Mr. Bell, Mr. Brandi, Mr. Craft, Mr. Crain, Mr. Gregg, Mr. Lawrence, Mr. Lubar and Mr. Whyte	<ul style="list-style-type: none"> <li>Deep history and knowledge of asset acquisitions, divestitures and evaluations in the E&amp;P and broader energy sector; and expertise in public and private capital markets in the E&amp;P and broader energy sector</li> </ul>
Mr. Bell, Mr. Brandi, Mr. Crain, Mr. Lawrence, Mr. Lubar and Mr. Whyte	<ul style="list-style-type: none"> <li>Oversight of E&amp;P, midstream, oilfield services and other energy companies through other public boards of directors</li> </ul>
Mr. Bell, Mr. Brandi, Mr. Crain, Mr. Gregg, Mr. Lawrence, Mr. Lubar and Mr. Whyte	<ul style="list-style-type: none"> <li>Board independence</li> </ul>
Mr. Bell and Mr. Crain	<ul style="list-style-type: none"> <li>An advanced degree or license in public accounting</li> </ul>
Mr. Crain and Mr. Lubar	<ul style="list-style-type: none"> <li>An advanced degree in law or the practice of oil and gas law</li> </ul>
Mr. Bell, Mr. Brandi, Mr. Gregg and Mr. Lawrence	<ul style="list-style-type: none"> <li>An advanced degree in business management</li> </ul>
Mr. Lubar	<ul style="list-style-type: none"> <li>Government service in the executive branch</li> </ul>

The Board believes that these skills and experiences qualify the nominees and directors to serve on the Board of the Company.

The principal occupation and other information about our directors is set forth below.

Name	Age	Director Since	Term Expires	Class
Alan D. Bell	70	2010	2017	Class I
James H. Brandi	67	2007	2018	Class II
J. Ross Craft, P.E.	59	2002	2016	Class III
James C. Crain	67	2007	2018	Class II
Vean J. Gregg III	48	2014	2016	Class III
Bryan H. Lawrence	73	2002	2016	Class III
Sheldon B. Lubar	86	2007	2017	Class I
Christopher J. Whyte	59	2007	2017	Class I

**Alan D. Bell** was appointed to our Board in August 2010 and is Chairman of our Audit Committee and a member of our Compensation Committee. Mr. Bell’s prior experience includes 33 years in various capacities at Ernst & Young LLP from 1973 until his retirement in 2006, when he was Director of Ernst & Young’s Energy Practice in the southwest United

**Proposal 1 – Election of Directors** (continued)

States. Before joining Ernst & Young, Mr. Bell was a production engineer with Chevron Oil Company in the Gulf of Mexico. Mr. Bell has been a director and Chairman of the Audit Committee of Jones Energy, Inc., a public oil and gas company, since July 2013. During the past five years, Mr. Bell has also served as a director of Dune Energy Inc., an independent energy company based in Houston, Treador Resources Corporation, an independent energy company based in Dallas and Central Energy GP LLC, the general partner of Central Energy Partners, LP, a public company engaged in the storage and transportation of oil and gas, refined petroleum products and petrochemicals. In 2009, Mr. Bell served as the Chief Restructuring Officer of Energy Partners Ltd., a New Orleans-based exploration and development company that emerged from Chapter 11 in September 2009. Mr. Bell also serves on the Board of Directors of the North Texas chapter of the NACD and is a NACD Board Leadership Fellow. Mr. Bell earned a degree in Petroleum Engineering from the Colorado School of Mines and an M.B.A. from Tulane University. He is a current member of the American Institute of Certified Public Accountants, the Texas Society of Certified Public Accountants and is a licensed Certified Public Accountant in Texas. Mr. Bell is also a member of the Institute of Certified Management Accountants, Association of Certified Fraud Examiners and the Society of Petroleum Engineers. Mr. Bell is also an Eagle Scout.

**James H. Brandi** joined us as a director in June 2007 and is a member of our Audit Committee. Mr. Brandi's prior work experience includes serving as Managing Director in investment banking at BNP Paribas, a global bank and financial services company, from May 2010, when BNP Paribas acquired Hill Street Capital, until November 2011. From November 2005 to May 2010, Mr. Brandi was a partner at Hill Street Capital, a financial advisory and private investment firm. From 2000 until November 2005, Mr. Brandi was a Managing Director at UBS Securities, LLC, where he was the Deputy Global Head of the Energy and Power Groups. Before 2000, Mr. Brandi was a Managing Director at Dillon, Read & Co. Inc. and later its successor firm, UBS Warburg, concentrating on transactions in the energy and consumer goods areas. Mr. Brandi is a director of OGE Energy Corp., an energy and energy services provider that delivers electricity in Oklahoma and Arkansas and that is part owner of Enable Midstream Partners, LP and majority owner of its general partner, Enable Midstream Partners, GP, which provide oil and gas midstream services in the Gulf Coast and Midwest regions of the United States. Mr. Brandi is also Chairman of the Board of Carbon Natural Gas Company, an independent oil and gas company. Mr. Brandi is a trustee of The Kenyon Review and a former trustee of Kenyon College. Mr. Brandi holds a B.A. in History from Yale University and an M.B.A. from Harvard Business School and attended Columbia Law School as a Harlan Fiske Stone Scholar.

**J. Ross Craft, P.E.** has been our Chief Executive Officer and President and a member of our Board since our inception in September 2002. In November 2014, Mr. Craft was named Chairman of the Board. Before Approach, Mr. Craft co-founded Athanor Resources Inc., an international E&P company with operations in the United States and Tunisia, in 1998, and was its Executive Vice President from 1998 until its merger with Nuevo Energy Company in September 2002. From 1988 to 1997, Mr. Craft served in various positions with American Cometra Inc., an independent E&P company with operations in the United States, including as Vice President—Operations from 1995 to 1997. American Cometra was sold in two parts, to Range Resources in 1995 and Pioneer Natural Resources in 1997. Mr. Craft has more than 30 years of experience in the oil and gas industry. Mr. Craft holds a B.S. in Petroleum Engineering from Texas A&M University and is a registered Professional Engineer licensed in Texas. Mr. Craft is a member of the Society of Petroleum Engineers, the Texas Oil & Gas Association, the Permian Basin Petroleum Association and the Independent Petroleum Association of America. Mr. Craft currently serves on the Texas A&M University Petroleum Engineering Industry Board and has served on the Board of the Fort Worth Chapter of the Society of Petroleum Engineers and on the Board of the Fort Worth Petroleum Engineers Club, where his last position was President. Mr. Craft is also an Eagle Scout. Mr. Craft is the brother-in-law of J. Curtis Henderson, our Chief Administrative Officer and Corporate Secretary.

**James C. Crain** joined us as a director in June 2007 and is Chairman of our Nominating and Governance Committee and a member of our Audit Committee. Mr. Crain has been in the energy industry for more than 35 years, both as an attorney and as an executive officer. Until his retirement in July 2013, Mr. Crain was an officer of Marsh Operating Company, an investments management company focusing on energy investing, including his last position as President, which he held since 1989. Before joining Marsh in 1984, Mr. Crain was a partner in the law firm of Jenkins & Gilchrist, where he headed the firm's energy section. Mr. Crain is a director of EnLink Midstream, LLC, a midstream services provider and the successor company following the combination of Crosstex Energy, Inc. and Crosstex Energy GP, LLC with substantially all of the midstream assets of Devon Energy Corporation in March 2014. Mr. Crain is also a director of Armstrong Energy, Inc., a coal producer operating in the Illinois Basin. During the past five years, Mr. Crain has also been a director of

**Proposal 1 – Election of Directors** (continued)

Crosstex Energy, Inc., a midstream natural gas company, and GeoMet, Inc., a natural gas exploration and production company. Mr. Crain holds a B.B.A., M.P.A. and J.D. from the University of Texas at Austin.

**Vean J. Gregg III** was appointed to our Board in January 2014 and is Chairman of our Compensation Committee and a member of our Nominating and Governance Committee. In November 2014, Mr. Gregg was appointed Lead Independent Director. From January 1996 to January 2014, Mr. Gregg was in oil and gas investment banking with J.P. Morgan Securities LLC, most recently as Managing Director and Group Head, North American Oil and Gas Investment Banking. In this capacity, Mr. Gregg managed oil and gas investment banking in North America and was part of the global leadership team responsible for steering business strategy and personnel in Asia, Australia, Europe and Latin America. Mr. Gregg also has prior international work experience in strategic planning with Bellezza Club International, a manufacturing and merchandise trading company in Tokyo, Japan. Mr. Gregg holds a M.I.M. from Thunderbird—The American Graduate School of International Management and a B.B.A. from the University of Texas at Austin.

**Bryan H. Lawrence** has been a member of our Board since 2002, and served as Chairman of the Board from July 2007 until his retirement from that position in November 2014. Mr. Lawrence has determined to not run for re-election to the Board, and his term is set to expire at the 2016 annual meeting. Mr. Lawrence is a founder and Senior Manager of Yorktown Partners LLC, the manager of the Yorktown group of investment partnerships, which make investments in companies in the energy industry. The Yorktown group of investment partnerships was formerly affiliated with the investment firm of Dillon, Read & Co. Inc., where Mr. Lawrence had been employed since 1966, serving as a Managing Director until the merger of Dillon Read with SBC Warburg in 1997. Mr. Lawrence is a director of Hallador Energy Company, an independent company engaged in the production of coal and the exploration and production of oil and gas, Carbon Natural Gas Company, an independent oil and gas company, and the general partner of Star Gas Partners, L.P., a home heating oil distributor and services provider, and certain non-public companies in the energy industry in which the Yorktown group of investment partnerships holds equity interests. Mr. Lawrence was a director of Crosstex Energy, Inc. and Crosstex Energy GP, LLC, midstream natural gas companies, until their combination with substantially all of Devon Energy Corporation's midstream assets to form EnLink Midstream, LLC and EnLink Midstream Partners, LP in March 2014. During the past five years, Mr. Lawrence has also been a director of Winstar Resources Ltd. and Compass Petroleum, Ltd., Canadian oil and gas companies. Mr. Lawrence is a graduate of Hamilton College and holds an M.B.A. from Columbia University.

**Sheldon B. Lubar** joined us as a director in June 2007 and is a member of our Nominating and Governance Committee. Mr. Lubar has indicated an intention to retire from the Board at the 2016 annual meeting. Mr. Lubar has been Chairman of the Board of Lubar & Co. Incorporated, a private investment and venture capital firm he founded, since 1977. He was Chairman of the Board of Christiana Companies, Inc., a logistics and manufacturing company, from 1987 until its merger with Weatherford International in 1995. Mr. Lubar is a director of Hallador Energy Company, an independent company engaged in the production of coal and the exploration and production of oil and gas, and the general partner of Star Gas Partners, L.P., a home heating oil distributor and services provider. During the past five years, Mr. Lubar has also been a director of Crosstex Energy, Inc. and Crosstex Energy GP, LLC, midstream natural gas companies, and Weatherford International, Inc., a global provider of oilfield products and services. Mr. Lubar previously held governmental appointments under three United States Presidents, including Commissioner of the White House Conference on Small Business from 1979 to 1980 under President Carter, Assistant Secretary, Housing Production and Mortgage Credit, Department of Housing and Urban Development and Commissioner of the Federal Housing Administration and Director of the Federal National Mortgage Association from 1973 to 1974 under Presidents Nixon and Ford. Mr. Lubar is a past president of the Board of Regents of the University of Wisconsin System. Mr. Lubar holds a B.B.A., J.D. and honorary Doctor of Humane Letters degree from the University of Wisconsin—Madison, an honorary Doctor of Commercial Science degree from the University of Wisconsin—Milwaukee and an Honorary Doctors degree from the Medical College of Wisconsin.

**Christopher J. Whyte** joined our Board in June 2007 and is a member of our Audit Committee and our Compensation Committee. Mr. Whyte has indicated an intention to retire from the Board at the 2016 annual meeting. Mr. Whyte has been President, Chief Executive Officer and a director of PetroSantander Inc., which owns and operates oil and gas producing properties in the United States, Colombia, Romania and Brazil, since 1995. During the past five years, Mr. Whyte has been a director of Winstar Resources Ltd. and Compass Petroleum, Ltd., Canadian oil and gas companies. Mr. Whyte holds a B.A. from the University of Pittsburgh. Mr. Whyte has more than 30 years of experience in various operating, executive and finance positions, including as a Chief Executive and Chief Financial Officer, in the E&P and energy businesses.

**Proposal 1 – Election of Directors** (continued)

**Vote Required**

The affirmative vote of a plurality of the votes of the shares present in person or represented by proxy at the annual meeting and entitled to vote is required for the election of directors. A properly executed proxy marked “WITHHOLD AUTHORITY FOR ALL NOMINEES” or “FOR ALL EXCEPT” with respect to the election of one or more directors will not be voted with respect to the director or directors indicated, although it will be counted for purposes of determining whether a quorum is present.

**Board Recommendation**

The Board recommends a vote “[FOR](#)” the election of each of the nominees.

# Proposal 2 – Advisory Vote to Approve Executive Compensation

Section 14A of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), requires that we provide our stockholders with the opportunity to vote to approve, on a non-binding, advisory basis, the compensation of our named executive officers as disclosed in this proxy statement according to the compensation disclosure rules of the Securities and Exchange Commission (“SEC”). Throughout this proxy statement, the individuals who served as our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”) during fiscal year 2015, as well as our other executive officers, are referred to as our “named executive officers” or “executive officers.”

As described in detail below in this proxy statement under “Compensation Discussion and Analysis,” we seek to (i) pay our executive officers for performance, (ii) closely align the interests of our executive officers with the interests of our stockholders, and (iii) attract, retain and motivate top talent. Below is a summary of how we have structured our executive compensation program to achieve these goals:

Objective	How Our Current Executive Compensation Program Achieves This Objective
Pay for Performance	<ul style="list-style-type: none"> <li>In 2015, 84% of total target compensation for our CEO was tied to performance.</li> <li>In 2015, an average of 81% of total target compensation for the non-CEO executive officers was tied to performance.</li> <li>Our 2015 short-term incentive plan (“STIP”) award opportunity was tied to Company performance (80% of total opportunity) as well as individual performance (20% of total opportunity).</li> <li>Seventy-five percent (75%) of the base award value of our 2015 long-term incentive plan (“LTIP”) is tied to an initial Company performance trigger in the award year. The remaining 25% was tied to three-year relative total stockholder return (“TSR”) performance (approximately 33% if maximum TSR is achieved).</li> </ul>
Align Executive Interests with Stockholder Interests	<ul style="list-style-type: none"> <li>Our compensation program provides our executive officers with equity ownership to give them the opportunity to acquire a meaningful interest in our operations and future success.</li> <li>We require our executive officers to maintain equity ownership at designated levels, as further discussed below.</li> <li>Our 2015 STIP and LTIP included performance measures of both debt leverage and cost control to encourage growth but avoid excessive risk taking. In addition, our 2015 LTIP incorporates TSR performance over a three-year period to incentivize our executive officers to build long-term stockholder value.</li> <li>We believe the performance measures in both our 2015 STIP and LTIP are strongly correlated to building long-term stockholder value and increasing TSR.</li> </ul>
Attract, Retain and Motivate Top Talent	<ul style="list-style-type: none"> <li>We provided competitive base salary amounts for 2015 based on our review of oil and gas industry salary information, individual contributions to 2014 results and general market conditions.</li> <li>Our 2015 LTIP includes service-based vesting requirements for approximately three years including the award year to retain top executives over the long term.</li> </ul>

**Proposal 2 – Advisory Vote to Approve Executive Compensation** (continued)**2016 Compensation Actions**

In light of low commodity prices, the decline in our TSR in 2015, our desire to preserve liquidity and our focus on cost control, we made the following decisions regarding executive officer compensation for 2015 and 2016, to support our goals and objectives described above:

- No increase in base salaries for our executive officers in 2015 and 2016.
- No increase in the amount of the individual STIP award opportunities for our named executive officers in 2015 or 2016.
- Reduced the payout of the 2015 STIP cash awards to our executive officers by 50% of the amount actually achieved under pre-established performance measures.
- Reduced the value of LTIP awards granted to our executive officers by 70% from 2015.
- Increased the time-based vesting period for 2016 LTIP awards from three to four years.

The vote on this resolution is not intended to address any specific element of compensation; rather, the vote relates to the overall compensation of our named executive officers as described in this proxy statement according to the compensation disclosure rules of the SEC. The vote is advisory, which means that the vote is not binding on the Company, our Board or the Compensation Committee. If there are significant votes against our named executive officer compensation as disclosed in this proxy statement, the Compensation Committee will consider our stockholders' concerns and evaluate whether any actions are necessary to address those concerns. The Company intends to hold this vote annually, and the next vote will occur in 2017.

**Vote Required**

The affirmative vote of a majority of the shares present in person or represented by proxy and entitled to vote is required to approve this Proposal 2.

The text of the resolution to be voted on is as follows:

“RESOLVED, that the Company’s stockholders approve, on an advisory basis, the compensation of the named executive officers as disclosed in the Company’s proxy statement for the 2016 Annual Meeting of Stockholders pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis, the compensation tables and related narrative disclosure.”

**Board Recommendation**

The Board recommends a vote “**FOR**” the approval of the compensation of our named executive officers as disclosed in this proxy statement.

## Proposal 3 – Approval of the Fifth Amendment to the 2007 Stock Incentive Plan to Increase the Maximum Number of Available Shares by 2,500,000 Shares

At this annual meeting, stockholders will be asked to approve the Fifth Amendment (the “Fifth Amendment”) to the Approach Resources Inc. 2007 Stock Incentive Plan, as amended from time to time (the “2007 Plan”), to increase the number of shares available for grant under the 2007 Plan by 2,500,000 shares.

If the Fifth Amendment is approved at the annual meeting, it will become effective as of June 2, 2016. We believe approval of the Fifth Amendment is advisable to ensure the Company has enough shares of common stock available to grant to maintain its compensation structure.

### Background and Purpose of the Proposal

The use of stock-based awards under the 2007 Plan has been a key component of our compensation program since its original adoption in 2007. Our Board originally adopted the 2007 Plan on June 26, 2007, and it became effective in connection with our initial public offering. The First Amendment to the Plan was adopted by the Board effective December 31, 2008. At our annual meeting on June 1, 2011, our stockholders voted to reapprove the material terms of the 2007 Plan so that awards granted under the 2007 Plan that are intended to qualify as “performance-based compensation” under Section 162(m) of the Internal Revenue Code (the “Code”) would be fully deductible by us. The Second Amendment to the 2007 Plan was adopted by the Board effective May 31, 2012, and was approved by our stockholders at our annual meeting held on that date. The Third Amendment to the 2007 Plan was adopted by the Board effective June 2, 2015, and was approved by our stockholders at our annual meeting held on that date. The Fourth Amendment to the 2007 Plan was adopted by the Board effective March 2, 2016, to, among other things, impose a three-year minimum vesting period on stock options and stock appreciation rights, and did not require stockholder approval.

The 2007 Plan helps us attract and retain talented employees, directors and consultants and provides a means for those persons to acquire stock ownership or awards, the value of which is tied to our performance and the performance of our common stock. A further purpose of the 2007 Plan is to provide these employees, directors and consultants with additional incentive and reward opportunities designed to enhance the profitable growth of the Company.

The purpose of the Fifth Amendment is to increase the number of shares available for grant under the 2007 Plan by 2,500,000 shares. The Board unanimously approved the Fifth Amendment on March 2, 2016, subject to stockholder approval at this annual meeting. If the Fifth Amendment is approved by stockholders, we intend to file a registration statement on Form S-8 to register the additional shares available for issuance under the 2007 Plan.

We believe that approval of the Fifth Amendment will give us the flexibility to continue making stock-based grants and other awards permitted under the 2007 Plan over the next two to three years in amounts determined appropriate by the Compensation Committee; however, this timeline is simply an estimate used to determine the number of additional shares of common stock requested under the Fifth Amendment and future circumstances may require a change to expected equity grant practices. These circumstances include but are not limited to the future price of our common stock, award levels and our hiring activity over the next few years. For example, as the low commodity price environment that began in 2014 has continued into 2016, stock prices in our industry, including our stock price, have continued to decline. As a result, the number of stock awards granted in 2015 and thus far in 2016 has exceeded the estimates in the 2015 proxy statement as grants of more shares have been necessary to provide a grant date value consistent with the value of grants made in prior years. The closing market price of our common stock as of March 2, 2016, when the Board made annual awards to our executive officers for 2016, was \$0.92 per share, as reported on the NASDAQ Global Select Market. For more information about stock awards made in 2016, see the section below titled “Compensation Discussion and Analysis—Analysis of Executive Compensation Decisions—2016 LTIP Awards and Performance Measures.”

### **Proposal 3 – Approval of the Fifth Amendment to the 2007 Stock Incentive Plan to Increase the Maximum Number of Available Shares by 2,500,000 Shares** (continued)

As of December 31, 2015, our dilution (calculated as the number of shares available for grant under the 2007 Plan, divided by the total number of shares of our common stock outstanding) was approximately 3.6%. If the Fifth Amendment is approved, the potential dilution from issuances authorized under the 2007 Plan as of December 31, 2015 will increase to approximately 10%. Please see “Summary of the Amended Plan—Shares Subject to the Amended Plan” for additional information regarding the number of available shares being requested under the Fifth Amendment. While we are aware of the potential dilutive effect of compensatory equity awards, we also recognize the significant retention, motivational and performance benefits that may be achieved from making such awards.

### **Consequences of Failing to Approve the Proposal**

The Fifth Amendment will not be implemented unless it is approved by stockholders. If the proposed Fifth Amendment is not approved by our stockholders, the 2007 Plan will continue in effect in its present form and we will continue to grant equity awards under the terms of the 2007 Plan until the shares remaining available for issuance are exhausted, which we estimate will occur in 2017 based on current expected equity grant practices. If the remaining share pool is exhausted, we may elect to provide compensation through other means, such as cash-settled performance awards or other cash compensation, in order to assure that we can attract and retain qualified personnel. Failure of our stockholders to approve the Fifth Amendment also will not affect the rights of existing award holders under the 2007 Plan or under any previously granted awards under the 2007 Plan.

### **Summary of the Amended Plan**

The following summary of the 2007 Plan, as amended by the Fifth Amendment and all preceding amendments (the “Amended Plan”), is not a complete description of all provisions of the Amended Plan and should be read in conjunction with, and is qualified in its entirety by reference to, the complete text of (i) the 2007 Plan, which was filed as Exhibit 10.6 to our Registration Statement on Form S-1 on July 12, 2007, (ii) the First Amendment to the 2007 Plan, which was filed as Exhibit 10.1 to our Current Report on Form 8-K on December 31, 2008, (iii) the Second Amendment to the 2007 Plan, which was filed as Exhibit 10.1 to our Current Report on Form 8-K on June 1, 2012, (iv) the Third Amendment to the 2007 Plan, which was filed as Exhibit 10.1 to our Current Report on Form 8-K on June 2, 2015, (v) the Fourth Amendment to the 2007 Plan, which is expected to be filed as an exhibit to our quarterly report on Form 10-Q for the first quarter of 2016, and (vi) the Fifth Amendment, which is attached to this proxy statement as Appendix 1.

**Key Features of the Amended Plan** . Key features of the Amended Plan include:

- No discounted options or other awards may be granted;
- Awards are non-transferrable, except to an award recipient’s immediate family member or related family trust, pursuant to a qualified domestic relations order or by will or the laws of descent or distribution;
- No automatic award grants are made to any eligible individual;
- Awards may be designed to meet the requirements for deductibility as “performance-based compensation” under Section 162(m) of the Code;
- Limitations on the maximum number of shares available for issuance that cannot be increased without stockholder approval and on the maximum number or amount of awards that may be granted to certain individuals during any calendar year;
- No reuse or “recycling” of shares used for stock option exercises, withholding taxes or net-settled stock appreciation rights;
- Minimum vesting period of three years for stock options and stock appreciation rights;
- No repricing, replacement or re-granting of stock options or other stock awards without stockholder approval if the effect would be to reduce the exercise price of the award; and
- Awards are subject to potential reduction, cancelation, forfeiture or other clawback under certain specified circumstances.

**Proposal 3 – Approval of the Fifth Amendment to the 2007 Stock Incentive Plan to Increase the Maximum Number of Available Shares by 2,500,000 Shares** (continued)

**Purposes of the Amended Plan.** The purpose of the Amended Plan is to provide incentives to our employees, consultants and directors to devote their abilities and energies to our success by affording them a way to acquire stock ownership or awards, the value of which is tied to the performance of our common stock. The Amended Plan gives the Compensation Committee the ability to award stock options, stock appreciation rights, restricted stock, restricted stock units, performance awards, unrestricted stock awards and other incentive awards, with vesting and other award provisions. These awards provide incentives to our employees, consultants and non-employee directors and alignment of stockholder, management and non-employee director interests.

**Eligibility to Participate.** Awards may be made under the Amended Plan to our employees, non-employee directors and consultants, including any employee who is an officer, and to any other service provider who, in the opinion of the Compensation Committee, is in a position to make a significant contribution to our success. The Compensation Committee determines in its discretion which eligible persons will receive awards under the Amended Plan. As of April 11, 2016, approximately 100 employees, seven non-employee directors and one consultant were eligible to participate in the Amended Plan.

**Shares Subject to the Amended Plan.** At the date of the Third Amendment to the 2007 Plan (June 2, 2015), a maximum of 1,736,795 shares of common stock were available for grant of awards under the 2007 Plan on and after June 2, 2015. Since June 2, 2015, and through December 31, 2015, a total of 284,132 shares of common stock had been issued pursuant to, or were subject to awards under, the 2007 Plan, net of allowed cancellations for termination of employment. Therefore, at December 31, 2015, a total of 1,452,663 shares of common stock were authorized and remained available for issuance under the 2007 Plan.

The Fifth Amendment would increase the total number of shares of common stock available for grant of awards under the Amended Plan by 2,500,000 shares, to 3,952,663 shares (based on the number of authorized shares remaining available for issuance at December 31, 2015). The maximum number of shares of common stock available for grant of awards under the Amended Plan is subject to adjustment for corporate events such as recapitalizations, stock splits, stock dividends and other corporate events. See “Awards Under the Amended Plan—Corporate Events” below.

The maximum number of shares of common stock that may be subject to incentive stock options granted under the Amended Plan is 1,100,000. As of December 31, 2015, under the 2007 Plan, a total of 38,525 shares remained subject to outstanding stock options and 1,735,256 shares remained subject to awards of restricted stock still subject to forfeiture.

If an award granted under the Amended Plan expires, is forfeited or becomes unexercisable for any reason, the undelivered shares of common stock that were subject to the award will be available for future awards under the Amended Plan. The number of shares available for grant of awards under the Amended Plan will not be increased by (i) the number of shares of common stock delivered or withheld to pay the exercise price of any award, (ii) the number of shares of common stock delivered or withheld to pay withholding taxes payable upon exercise, vesting or payment of any award, or (iii) the number of shares of common stock reserved for issuance upon grant of a stock appreciation right, even if a lesser number of shares is actually issued upon exercise of the stock appreciation right (i.e., a net-settled stock appreciation right). Our common stock issued or to be issued under the Amended Plan consists of original issue or treasury shares or a combination of the foregoing.

**Maximum Amount of Compensation.** The maximum number of shares of common stock that could be subject to all awards (other than awards designated to be settled solely in cash) granted to any one participant in each fiscal year is 330,000 shares. The maximum number of shares of common stock that may be subject to nonqualified stock options and stock appreciation rights granted to any one participant during a fiscal year is 330,000 shares. The amount that may be paid in cash pursuant to performance awards granted to our CEO and three other most highly compensated executive officers, other than our CEO and CFO, determined pursuant to the executive compensation disclosure rules of the SEC (each, a “covered employee”) is \$5,000,000 for each fiscal year during the applicable performance period.

**Administration.** The Amended Plan provides for administration by the Board or the Compensation Committee, or another committee of the Board designated by the Board, unless it is determined that administration of the LTIP by “outside directors” is necessary for awards intended to qualify as “performance-based compensation” under Section 162(m) of the Code or by “non-employee directors” is necessary under Rule 16b-3 under the Exchange Act. Subject to the terms of the

**Proposal 3 – Approval of the Fifth Amendment to the 2007 Stock Incentive Plan to Increase the Maximum Number of Available Shares by 2,500,000 Shares** (continued)

Amended Plan and applicable law, the Board or the Compensation Committee has broad authority to select participants to receive awards, determine the types of awards and terms and conditions of awards and interpret provisions of the Amended Plan. Currently, the 2007 Plan is administered by the Compensation Committee. Under NASDAQ rules, members of the Compensation Committee are required to satisfy the NASDAQ's standards for independence. The Compensation Committee may delegate various functions to subcommittees or certain officers.

**Awards Under the Amended Plan**

**Stock Options.** The Amended Plan permits the granting of options to purchase shares of common stock intended to qualify as incentive stock options under the Code and stock options that do not qualify as incentive stock options (i.e., nonqualified stock options). The exercise price of each stock option may not be less than 100% of the fair market value of the common stock on the date of grant. In the case of certain 10% stockholders who receive incentive stock options, the exercise price may not be less than 110% of the fair market value of the common stock on the date of grant. An exception to these requirements is made for options that we grant in exchange for options held by employees of companies that we acquire. In such a case, the exercise price is adjusted to preserve the economic value of the employee's stock option from his or her former employer.

The term of each stock option is fixed at the time of grant and may not exceed 10 years from the date of grant. The Compensation Committee determines when each option may be exercised. Options may be exercisable in installments, and the minimum vesting period for a stock option is three years. A participant may pay the exercise price of an option in cash or in cash equivalents, by tendering shares of common stock equal to the total exercise price, by surrendering option shares equal to the total exercise price, by a sale through a broker-dealer or in a combination of these forms, as permitted by the Compensation Committee. The Amended Plan prohibits the repricing of stock options without stockholder approval.

**Stock Appreciation Rights.** A stock appreciation right provides the right to receive shares, cash or a combination of shares and cash, based on the increase in the fair market value of the shares underlying the rights during a specified period of time. The Compensation Committee may grant stock appreciation rights subject to such terms and conditions and exercisable at such times as determined by the Compensation Committee and specified in the applicable award agreement. The minimum vesting period for a stock appreciation right is three years. The price at which stock appreciation rights may be exercised will not be less than 100% of the fair market value of our common stock on the date of grant, unless the award is granted in substitution of an award held by an employee of a company we acquire. The term of a stock appreciation right will not exceed 10 years. Stock appreciation rights may not be repriced without stockholder approval. There are currently no stock appreciation rights outstanding under the Amended Plan.

**Restricted Stock.** A restricted stock award is an award of shares that is subject to one or more restrictions and prohibitions regarding the transferability of the shares, for a period to be determined by the Compensation Committee. The Compensation Committee has the discretion to determine the terms of any restricted stock award including the number of shares subject to the award, the price (if any) paid for shares subject to the award and the minimum period over which a restricted stock award may be vested. Unless otherwise determined by the Compensation Committee, participants holding shares subject to restricted stock awards may exercise full voting rights with respect to the shares during the restriction period and will be entitled to receive all dividends and other distributions with respect to the shares.

**Restricted Stock Units.** A restricted stock unit is an award of units denominated in shares and payable in shares or cash, which is subject to such performance and/or other conditions as are specified by the Compensation Committee. The Compensation Committee has the discretion to determine the terms of any restricted stock unit award, including the number of shares subject to such award and the minimum period over which the award may vest and be settled. Holders of restricted stock units will be entitled to receive dividend equivalents only to the extent provided by the Compensation Committee.

**Performance Awards.** The Amended Plan provides for the grant of performance awards, ultimately payable in common stock or cash (or a combination of stock and cash), as determined by the Compensation Committee. Performance awards are conditioned upon the level of achievement of one or more stated performance goals over a specified performance period that is not shorter than one year. Performance awards to covered employees may be designed to qualify as "performance-based compensation" under Section 162(m) of the Code to the extent the Compensation Committee so

**Proposal 3 – Approval of the Fifth Amendment to the 2007 Stock Incentive Plan to Increase the Maximum Number of Available Shares by 2,500,000 Shares** (continued)

designates, in which case the grant, exercise, vesting or settlement of such performance award will be contingent upon the achievement of one or more pre-established performance goals based on one or more of the business criteria established by the Compensation Committee. The number of shares issued under or the amount paid under an award may be reduced by the Compensation Committee in its discretion.

**Other Awards.** In addition to the award types described above, the Amended Plan permits the following types of awards:

- Shares of unrestricted stock, which are shares of common stock issued at no cost or for a purchase price and that are free from any transferability and forfeiture restrictions.
- Other incentive awards, which may be payable in common stock, cash or other property as determined by the Compensation Committee. The terms and conditions of such awards will be specified by the Compensation Committee in the applicable award agreement.

**Transferability.** Unless otherwise provided by the Compensation Committee, awards under the Amended Plan are generally only transferable (i) by the recipient's last will and testament and by the applicable laws of descent and distribution, (ii) pursuant to a domestic relations order, or (iii) to immediate family members or trusts or partnerships solely for the benefit of the participant's immediate family members. Incentive stock options are transferable only as provided in clause (i) above.

**Tax Withholding.** A participant must satisfy any applicable federal, state, local or foreign tax withholding obligations that arise due to an award made under the Amended Plan, and the Compensation Committee will not be required to issue any shares or make any payment until the participant satisfies those obligations in a manner satisfactory to us. The Compensation Committee may permit tax withholding obligations to be satisfied by having the Company withhold a portion of the shares that would otherwise be issued to the participant under an award or by allowing the participant to surrender previously acquired shares.

**Term and Termination of the Amended Plan.** Unless earlier terminated by action of our Board, the Amended Plan will terminate on May 30, 2022. Awards granted before the termination date of the Amended Plan will continue to be effective according to their terms and conditions.

**Amendment and Termination.** Our Board may amend, suspend or terminate the Amended Plan at any time and for any reason. Amendments to the Amended Plan will be submitted for stockholder approval if an amendment increases the maximum number of shares available under the Amended Plan, changes the designation or class of persons eligible to receive awards under the Amended Plan or if required by applicable law or by applicable stock exchange listing requirements. Amendments to limit the scope of the Amended Plan do not require stockholder approval. No amendment to the Amended Plan or awards may adversely affect in any material way any outstanding award without the consent of the holder of such award.

**Corporate Events.** We may make appropriate adjustments in outstanding awards and the number of shares available for issuance under the Amended Plan, including the individual limitations on awards, to reflect recapitalizations, reclassifications, stock splits, reverse stock splits, stock dividends and other similar events. Unless provided otherwise in an applicable award agreement, in the event of a "change in control" (as defined in the Amended Plan), the vesting of all awards will be accelerated and any performance criteria will be deemed to be achieved to the maximum extent possible. If there is a change in control, and we are not the surviving corporation (or if we survive only as a subsidiary of another corporation), unless the Compensation Committee determines otherwise, awards will be replaced with similar awards of the surviving corporation (or parent of the surviving corporation). The Compensation Committee may require the surrender to us by selected participants of some or all of the outstanding awards held by such participants, at which time we will cancel those awards and cause to be paid to each affected participant a certain amount of cash per share, as specified in the Amended Plan.

**Clawback Policy.** The Amended Plan contains a clawback provision, which provides that (i) the Company will not be required to comply with any term of the plan or awards thereunder if and to the extent prohibited by applicable law or to the extent doing so would require that the participant reimburse the Company for such amounts under the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act") or the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the

### Proposal 3 – Approval of the Fifth Amendment to the 2007 Stock Incentive Plan to Increase the Maximum Number of Available Shares by 2,500,000 Shares (continued)

“Dodd-Frank Act”), and (ii) the participant will reimburse the Company for incentive-based awards and profits realized from the sale of award shares as required by applicable law, including but not limited to the Sarbanes Oxley Act and the Dodd-Frank Act.

## Equity Compensation Plan Information and Burn Rate

**Outstanding options and available shares** . The following table provides information regarding the shares of our common stock that may be issued under the 2007 Plan as of December 31, 2015. The number of securities reported in column (c) as available for future issuance does not include any of the 2,500,000 additional shares that stockholders are being asked to approve at the 2016 annual meeting.

Equity Compensation Plan Information as of December 31, 2015			
Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights(a)	Weighted-average exercise price of outstanding options, warrants 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 <sup>(1)</sup>	38,525	\$ 12.00	1,452,663
Equity compensation plans not approved by security holders	—	—	—
<b>Total</b>	<b>38,525</b>	<b>\$ 12.00</b>	<b>1,452,663</b>

(1) All securities reported as remaining available for future issuance are available from the additional shares approved by stockholders under the Second Amendment and the Third Amendment.

**Burn rate.** At December 31, 2015, our three-year average annual “burn rate,” or percentage of outstanding weighted average shares, awarded under the 2007 Plan in the prior three years, was **2.25%** .

## Federal Income Tax Consequences

The following discussion is for general information only and is intended to summarize briefly the U.S. federal income tax consequences to participants arising from participation in the Amended Plan. This description is based on current law, which is subject to change (possibly retroactively). The tax treatment of participants in the Amended Plan may vary depending on the particular situation and therefore may be subject to special rules not discussed below. No attempt has been made to discuss any potential foreign, state or local tax consequences.

**Stock Options and Stock Appreciation Rights.** Participants will not realize taxable income upon the grant of a nonqualified stock option or a stock appreciation right. Upon the exercise of a nonqualified stock option or a stock appreciation right, a participant will recognize ordinary compensation income (subject to withholding) in an amount equal to the excess of (i) the amount of cash and the fair market value of the common stock received, over (ii) the exercise price (if any) paid. A participant will generally have a tax basis in any shares of common stock received pursuant to the exercise of a stock appreciation right, or pursuant to the cash exercise of a nonqualified stock option, that equals the fair market value of such shares on the date of exercise. Subject to the discussion under “Federal Income Tax Consequences—Tax Code Limitations on Deductibility” below, we or one of our subsidiaries (as applicable) will be entitled to a deduction for federal income tax purposes that corresponds as to timing and amount with the compensation income recognized by a participant under the rules described above.

Participants eligible to receive an incentive stock option will not recognize taxable income on the grant of an incentive stock option. Upon the exercise of an incentive stock option, a participant will not recognize taxable income, although the excess of the fair market value of the shares of common stock received upon exercise of the incentive stock option (“ISO Stock”) over the exercise price will increase the alternative minimum taxable income of the participant, which may cause

**Proposal 3 – Approval of the Fifth Amendment to the 2007 Stock Incentive Plan to Increase the Maximum Number of Available Shares by 2,500,000 Shares** (continued)

the participant to incur alternative minimum tax. The payment of any alternative minimum tax attributable to the exercise of an incentive stock option would be allowed as a credit against the participant's regular tax liability in a later year to the extent the participant's regular tax liability is more than the alternative minimum tax for that year.

Upon the disposition of ISO Stock that has been held for the requisite holding period (generally, at least two years from the date of grant and one year from the date of exercise of the incentive stock option), a participant will generally recognize capital gain (or loss) equal to the excess (or shortfall) of the amount received in the disposition over the exercise price paid by the participant for the ISO Stock. However, if a participant disposes of ISO Stock that has not been held for the requisite holding period (a "Disqualifying Disposition"), the participant will recognize ordinary compensation income in the year of the Disqualifying Disposition in an amount equal to the amount by which the fair market value of the ISO Stock at the time of exercise of the incentive stock option (or, if less, the amount realized in the case of an arm's-length disposition to an unrelated party) exceeds the exercise price paid by the participant for such ISO Stock. A participant would also recognize capital gain to the extent the amount realized in the Disqualifying Disposition exceeds the fair market value of the ISO Stock on the exercise date. If the exercise price paid for the ISO Stock exceeds the amount realized (in the case of an arm's-length disposition to an unrelated party), such excess would ordinarily constitute a capital loss.

Generally, we will not be entitled to any federal income tax deduction upon the grant or exercise of an incentive stock option, unless a participant makes a Disqualifying Disposition of the ISO Stock. If a participant makes a Disqualifying Disposition, we will then, subject to the discussion below under "Federal Income Tax Consequences—Tax Code Limitations on Deductibility," be entitled to a tax deduction that corresponds as to timing and amount with the compensation income recognized by a participant under the rules described in the preceding paragraph.

Under current rulings, if a participant transfers previously held shares of common stock (other than ISO Stock that has not been held for the requisite holding period) in satisfaction of part or all of the exercise price of a nonqualified stock option or incentive stock option, no additional gain will be recognized on the transfer of such previously held shares in satisfaction of the nonqualified stock option or incentive stock option exercise price (although a participant would still recognize ordinary compensation income upon exercise of a nonqualified stock option in the manner described above). Moreover, that number of shares of common stock received upon exercise that equals the number of shares of previously held common stock surrendered in satisfaction of the nonqualified stock option or incentive stock option exercise price will have a tax basis that equals, and a capital gains holding period that includes, the tax basis and capital gains holding period of the previously held shares of common stock surrendered in satisfaction of the nonqualified stock option or incentive stock option exercise price. Any additional shares of common stock received upon exercise will have a tax basis that equals the amount of cash (if any) paid by the participant, plus the amount of compensation income recognized by the participant under the rules described above. If a reload option is issued in connection with a participant's transfer of previously held common stock in full or partial satisfaction of the exercise price of a nonqualified stock option or incentive stock option, the tax consequences of the reload option will be as provided above for a nonqualified stock option or incentive stock option, depending on whether the reload option itself is a nonqualified stock option or incentive stock option.

The Amended Plan allows the Compensation Committee to permit the transfer of awards in limited circumstances. See "Awards Under the Amended Plan—Transferability." For income and gift tax purposes, certain transfers of nonqualified stock options and stock appreciation rights generally should be treated as completed gifts, subject to gift taxation.

The Internal Revenue Service ("IRS") has not provided formal guidance on the income tax consequences of a transfer of nonqualified stock options (other than in the context of divorce pursuant to a domestic relations order) or stock appreciation rights. However, the IRS has informally indicated that after a transfer of stock options (other than in the context of divorce pursuant to a domestic relations order), the transferor will recognize income, which will be subject to withholding, and FICA/FUTA taxes will be collectible at the time the transferee exercises the stock options. If a nonqualified stock option is transferred pursuant to a domestic relations order, the transferee will recognize ordinary income upon exercise by the transferee, which will be subject to withholding, and FICA/FUTA taxes will be collectible from the transferee at such time.

In addition, if a participant transfers a vested nonqualified stock option to another person and retains no interest in or power over it, the transfer is treated as a completed gift. The amount of the transferor's gift (or generation-skipping transfer, if the gift is to a grandchild or later generation) equals the value of the nonqualified stock option at the time of the

**Proposal 3 – Approval of the Fifth Amendment to the 2007 Stock Incentive Plan to Increase the Maximum Number of Available Shares by 2,500,000 Shares** (continued)

gift. The value of the nonqualified stock option may be affected by several factors, including the difference between the exercise price and the fair market value of the stock, the potential for future appreciation or depreciation of the stock, the time period of the nonqualified stock option and the illiquidity of the nonqualified stock option. The transferor will be subject to a federal gift tax, which will be limited by (i) the annual exclusion of \$14,000 (for 2016, indexed for inflation) per donee, (ii) the transferor's lifetime unified credit, or (iii) the marital or charitable deduction rules. The gifted nonqualified stock option will not be included in the participant's gross estate for purposes of the federal estate tax or the generation-skipping transfer tax.

This favorable tax treatment for vested nonqualified stock options has not been extended to unvested nonqualified stock options. Whether such consequences apply to unvested nonqualified stock options is uncertain, and the gift tax implications of such a transfer are a risk the transferor will bear upon such a disposition. The IRS has not specifically addressed the tax consequences of a transfer of stock appreciation rights.

**Restricted Stock Awards; Restricted Stock Units; Cash Awards.** A participant will recognize ordinary compensation income upon receipt of cash pursuant to a cash award or, if earlier, at the time the cash is otherwise made available for the participant to draw upon. A participant will not have taxable income at the time of grant of a stock award in the form of restricted stock units denominated in common stock, but rather, will generally recognize ordinary compensation income at the time he receives cash or common stock in settlement of the restricted stock units in an amount equal to the cash or the fair market value of the common stock received. In general, a participant will recognize ordinary compensation income as a result of the receipt of common stock pursuant to a restricted stock award in an amount equal to the fair market value of the common stock when such stock is received; provided that, if the stock is not transferable and is subject to a substantial risk of forfeiture when received, a participant will recognize ordinary compensation income in an amount equal to the fair market value of the common stock (i) when the common stock first becomes transferable or is no longer subject to a substantial risk of forfeiture, in cases where a participant does not make a valid election under section 83(b) of the Code, or (ii) when the common stock is received, in cases where a participant makes a valid election under section 83(b) of the Code. If a section 83(b) election is made and the shares are subsequently forfeited, the recipient will not be allowed to take a deduction for the value of the forfeited shares.

A participant who is an employee will be subject to withholding for federal, and generally for state and local, income taxes at the time he recognizes income under the rules described above for common stock or cash received. Dividends that are received by a participant before the common stock is taxed to the participant under the rules described in the preceding paragraph are taxed as additional compensation, not as dividend income. The tax basis in the common stock received by a participant will equal the amount recognized by him as compensation income under the rules described in the preceding paragraph, and the participant's capital gains holding period in those shares will commence on the later of the date the shares are received or the restrictions lapse.

Subject to the discussion immediately below, we will be entitled to a deduction for federal income tax purposes that corresponds as to timing and amount with the compensation income recognized by a participant under the rules described above.

**Tax Code Limitations on Deductibility.** In order for the amounts described above to be deductible, these amounts must be reasonable compensation for services rendered or to be rendered and must be ordinary and necessary business expenses.

Our ability to obtain a deduction for future payments under the Amended Plan could also be limited by the golden parachute payment rules of Section 280G of the Code, which prevent the deductibility of certain excess parachute payments made in connection with a change in control of an employer-corporation.

Finally, our ability (or the ability of one of our subsidiaries, as applicable) to obtain a deduction for amounts paid under the Amended Plan could be limited by Section 162(m) of the Code, which limits the deductibility, for federal income tax purposes, of compensation paid to covered employees of a publicly traded corporation to \$1 million for any such officer during any taxable year of the corporation. However, an exception applies to this limitation in the case of certain "performance-based compensation." In order to exempt "performance-based compensation" from the \$1 million deductibility limitation, the grant, vesting, exercise or settlement of the award relating to the compensation must be based

**Proposal 3 – Approval of the Fifth Amendment to the 2007 Stock Incentive Plan to Increase the Maximum Number of Available Shares by 2,500,000 Shares** (continued)

on the satisfaction of one or more performance goals as selected by the Compensation Committee. Performance-based awards intended to comply with Section 162(m) may not be granted in a given period if such awards relate to shares of common stock that exceed a specified limitation or, alternatively, the performance-based awards may not result in compensation, for a participant, in a given period that exceeds a specified limitation. Under the terms of the Amended Plan, a participant who receives an award or awards intended to satisfy the “performance-based compensation” exception to the \$1 million deductibility limitation may not receive performance-based awards (other than awards designated to be settled solely in cash) relating to more than 330,000 shares of common stock or, with respect to awards not related to shares of common stock, \$5 million, in any given fiscal year. Although the Amended Plan has been drafted to satisfy the requirements for the “performance-based compensation” exception, we may determine that it is in our best interests not to satisfy the requirements for the exception. See “Awards Under the Amended Plan—Performance Awards.”

**Requirements Regarding Nonqualified Deferred Compensation.** Certain of the awards under the Amended Plan may constitute “nonqualified deferred compensation” within the meaning of Section 409A of the Code. Failure to comply with the requirements of Section 409A regarding the timing of payment of deferred amounts could result in affected participants being required to recognize ordinary income for federal tax purposes earlier than expected, and being subject to substantial penalties. We intend for awards granted under the Amended Plan to be exempt from or to comply with the requirements of Section 409A but no assurance can be given that they will.

## New Plan Benefits

The future awards, if any, that will be made to eligible persons under the Amended Plan are subject to the discretion of the Compensation Committee and, therefore, we cannot currently determine the benefits or number of shares subject to awards that may be granted in the future to our executive officers, employees and directors under the Amended Plan. Therefore, a New Plan Benefits Table is not provided.

## Vote Required

Approval of the Fifth Amendment to the 2007 Plan requires the affirmative vote of a majority of the shares present in person or represented by proxy and entitled to vote.

## Board Recommendation

The Board recommends a vote “[FOR](#)” the approval of the Fifth Amendment to the 2007 Plan.



# Proposal 4 – Approval of the Material Terms of the 2007 Stock Incentive Plan for Purposes of Complying with Section 162(m) of the Internal Revenue Code

In addition to the approval of the Fifth Amendment, our stockholders are also being asked to approve the material terms of the Amended Plan for purposes of complying with certain requirements of Section 162(m) of the Code (“Section 162(m)”). As explained in greater detail below, we believe approval of this proposal is advisable in order to allow us to grant awards under the Amended Plan that may qualify as “performance-based compensation” under Section 162(m).

## Background and Purpose of the Proposal

The Amended Plan is designed, in part, to allow us to provide “performance-based compensation” that may be tax-deductible by us and our subsidiaries without regard to the limits of Section 162(m) if we structure compensation in a manner that will satisfy the exemption. Under Section 162(m), the federal income tax deductibility of compensation paid to covered employees may be limited to the extent this compensation exceeds \$1 million in any taxable year. However, we may deduct compensation paid to the covered employees above that amount, if it qualifies for exemption as “performance-based compensation” under Section 162(m).

In addition to other requirements, in order for awards under the Amended Plan to constitute “performance-based compensation,” the material terms of the Amended Plan periodically must be disclosed to and approved by our stockholders. Under Section 162(m), the material terms of the Amended Plan that stockholders are being asked to approve are (i) the employees eligible to receive compensation under the Amended Plan, (ii) the maximum amount of compensation that may be paid to an individual under the Amended Plan during a specified period, and (iii) the list of business criteria on which performance goals may be based. Each of these items is discussed below, and stockholder approval of this proposal will be considered approval of each of these items for purposes of the Section 162(m) stockholder approval requirements.

## Consequences of Failing to Approve the Proposal

If this Proposal 4 is not approved, our covered employees may not receive the compensation that we intend to provide them under the Amended Plan and the deductibility of awards granted to covered employees in the future potentially may be limited. This means that we may be limited in our ability to grant awards that satisfy our compensation objectives and that are deductible (although we retain the ability to evaluate the performance of the covered employees and to pay appropriate compensation even if some of it may be non-deductible). For the avoidance of doubt, if this Proposal 4 is not approved by stockholders, we will continue to be able to grant “performance-based compensation” within the meaning of Section 162(m) under the 2007 Plan regarding shares of common stock currently available under the 2007 Plan (i.e., before giving effect to the Fifth Amendment) as a result of the approval of the material terms of the 2007 Plan by our stockholders at the 2015 annual meeting.

## Material Terms

**Eligibility to Participate.** Under Section 162(m) and its regulations, the employees eligible to receive compensation must be set forth in the Amended Plan and approved by stockholders. Awards may be made under the Amended Plan to our employees, non-employee directors and consultants, including any employee who is an officer, and to any other service provider who, in the opinion of the Compensation Committee, is in a position to make a significant contribution to our success. The Compensation Committee determines in its discretion which eligible persons will receive awards under the

**Proposal 4 – Approval of the Material Terms of the 2007 Stock Incentive Plan for Purposes of Complying with Section 162(m) of the Internal Revenue Code** (continued)

Amended Plan. Although Section 162(m) only limits the deductibility for compensation paid to a covered employee who is employed as of the end of the year, the performance goals described below may be applied to other senior officers if any of them could be deemed to be a covered employee under the Section 162(m) regulations during the time that they hold a performance award.

**Maximum Amount of Compensation.** Under Section 162(m) and its regulations, restrictions on the maximum amount of compensation that may be awarded to an individual in a specified period must be provided for in the Amended Plan and approved by our stockholders. The maximum number of shares of common stock that may be subject to all awards (other than awards designated to be settled solely in cash) granted to any one participant in each fiscal year is 330,000 shares. The maximum number of shares of common stock that may be subject to nonqualified stock options and stock appreciation rights granted to any one participant during a fiscal year is 330,000 shares. The amount that may be paid in cash pursuant to performance awards granted to our covered employees is \$5 million for each fiscal year during the applicable performance period. These limits are not intended to suggest that the amount of compensation received by any covered employee or other participant will be the maximum in the Amended Plan.

**Business Criteria.** Under Section 162(m) and its regulations, the business criteria on which performance goals may be based must be provided for in the Amended Plan and approved by our stockholders. If the Compensation Committee determines that an eligible person is a covered employee or is likely to be a covered employee and the award is intended to qualify as “performance-based compensation” under Section 162(m), then the grant, exercise, vesting and settlement of the performance award will be contingent upon the achievement of one or more pre-established performance goals based on one or more of the business criteria below. For awards intended to be “performance-based compensation,” performance goals will be designed to be objective, “substantially uncertain” of achievement at the date of grant and to otherwise meet the requirements of Section 162(m) and its regulations. Performance goals may vary among award recipients or among awards to the same recipient. Performance goals will be established no later than 90 days after the beginning of any performance period applicable to the awards, or at such other date as may be required or permitted for “performance-based compensation” under Section 162(m). The number of shares issued under or the amount paid under an award may, to the extent specified in the award agreement, be reduced by the Compensation Committee in its discretion.

Performance goals set by the Compensation Committee may relate to one or more of the following objective business criteria (on an absolute basis or relative to the performance of other business entities) that the Compensation Committee determines is appropriate: (i) earnings or earnings per share (whether on a pre-tax, after-tax, operational, adjusted or other basis), (ii) return on equity, (iii) return on assets or net assets, (iv) return on capital or invested capital and other related financial measures, (v) cash flow or EBITDA or EBITDAX, (vi) revenues, (vii) income or operating income, (viii) expenses or costs or expense levels or cost levels (absolute or per unit), (ix) one or more operating ratios, (x) stock price, (xi) total stockholder return, (xii) operating profit, (xiii) profit margin, (xiv) capital expenditures, (xv) net borrowing, debt leverage levels, credit quality or debt ratings, (xvi) the accomplishment of mergers, acquisitions, dispositions, public offerings or similar extraordinary business transactions, (xvii) net asset value per share, (xviii) economic value added, (xix) individual business objectives, (xx) growth in production, (xxi) growth in reserves, (xxii) reserve replacement ratio, and (xxiii) finding and development costs per unit. At the time of the grant of an award intended to qualify as “performance-based compensation” and to the extent permitted under Section 162(m) and its regulations, the Compensation Committee may provide for the manner in which the performance goals will be measured in light of specified corporate transactions, extraordinary events, accounting changes and other similar occurrences.

For a detailed description of the other principal terms of, certain tax consequences associated with participation in and other information regarding the Amended Plan, please see “Proposal 3: Approval of the Fifth Amendment to the 2007 Stock Incentive Plan to Increase the Maximum Number of Available Shares by 2,500,000 Shares.”

**Proposal 4 – Approval of the Material Terms of the 2007 Stock Incentive Plan for Purposes of Complying with Section 162(m) of the Internal Revenue Code** (continued)

**Vote Required**

Approval of the material terms of the Amended Plan for purposes of complying with the requirements of Section 162(m) requires the affirmative vote of a majority of the shares present in person or represented by proxy and entitled to vote.

**Board Recommendation**

The Board recommends a vote “FOR” the approval of the material terms of the Amended Plan for purposes of complying with the requirements of Section 162(m).

## Proposal 5 – Ratification of the Appointment of the Independent Registered Public Accounting Firm

The Audit Committee of the Board has appointed Hein & Associates LLP (“Hein”) as the independent registered public accounting firm to audit our consolidated financial statements as of and for the fiscal year ending December 31, 2016, and our internal control over financial reporting as of December 31, 2016. Hein has served as our independent registered public accounting firm since 2005 and has provided us audit-related services during that time. Hein also provided us tax services through 2008. Representatives of Hein are expected to be present at the annual meeting to respond to appropriate questions from stockholders and will be given the opportunity to make a statement if they desire to do so.

The submission of this matter for approval by stockholders is not legally required; however, the Board and Audit Committee believe that this submission is consistent with best practices in corporate governance and is an opportunity for stockholders to provide direct feedback to the Board and Audit Committee on an important issue of corporate governance. If the appointment is not ratified, the Audit Committee will consider whether it should select another independent registered public accounting firm, although the results of the vote are not binding on the Audit Committee.

### Vote Required

The affirmative vote of a majority of the shares present in person or represented by proxy and entitled to vote is required for the ratification of the appointment of Hein & Associates LLP as our independent registered public accounting firm for fiscal year 2016.

### Board Recommendation

**The Board recommends a vote “FOR” the ratification of the appointment of Hein & Associates LLP as our independent registered public accounting firm for fiscal year 2016.**



# Board of Directors, Board Meetings and Committees

## Board Structure and Meetings

Our Board currently has eight directors and three standing committees: the Audit Committee, the Compensation Committee and the Nominating and Governance Committee. Our Board is classified into three classes of directors, each serving staggered, three-year terms. As a result, stockholders will elect a portion of our Board each year. The current terms of Class I, Class II and Class III directors expire at the annual meeting of stockholders in 2017, 2018 and 2016, respectively. Our bylaws provide that the Board will consist of at least three but not more than nine directors, and the exact number of directors that make up the Board will be fixed from time to time by resolution of the Board. No decrease in the number of directors may shorten the term of any incumbent director.

### 2016 Board Action

In March 2016, our Board determined, in light of the current commodity price environment, market conditions and size of the Company, to reduce the size of the Board from eight members to five members, effective immediately following the Company's 2016 annual meeting of stockholders. The Board also adopted governance guidelines that included a mandatory retirement provision, requiring directors to resign at the annual meeting of stockholders following their 72nd birthday. The 2016 annual meeting will take place after the 72nd birthday of each of Bryan Lawrence, a Class III director whose term will expire at the 2016 annual meeting, and Sheldon Lubar, a Class I director. Mr. Lawrence has determined to not run for re-election and to let his term expire at such time, and Mr. Lubar has stated an intention to retire from the Board effective immediately following the 2016 annual meeting. In addition, Christopher Whyte has stated an intention to retire from the Board effective immediately following the 2016 annual meeting. After these retirements, the number of directors comprising the Board will be five.

### Board Leadership

Our Board has determined that a leadership structure consisting of a combined role of Chairman of the Board and Chief Executive Officer and President, together with a strong Lead Independent Director, is appropriate for our Company. As Mr. Craft bears the primary responsibility for managing our day-to-day business, the combination of the role of Chairman, Chief Executive Officer and President ensures that key business issues and stockholder interests are brought to the attention of our Board. In addition, as a result of his role as the Chief Executive Officer and President of the Company, Mr. Craft has Company-specific experience that is valuable in his role as Chairman of the Board when identifying strategic priorities, leading the discussion and execution of strategy and facilitating the flow of information between management and the Board.

To give a significant voice to our independent, non-management directors, to act as a liaison between the non-management Board members and management and to reinforce effective, independent leadership on the Board, as well as in recognition of his demonstrated leadership skills, the Board has appointed Mr. Gregg as Lead Independent Director. The Lead Independent Director's responsibilities are set forth in the Company's Lead Independent Director charter and include:

- Presiding at all meetings of the Board at which the Chairman is not present, including executive sessions of the independent directors;
- Serving as the principal liaison between the Chairman and the independent directors;
- Approving all information sent to the Board, including the quality, quantity, appropriateness and timeliness of such information;
- Approving meeting agendas for the Board;

**Board of Directors, Board Meetings and Committees** (continued)

- Approving the frequency of Board meetings and Board meeting schedules, assuring there is sufficient time for discussion of all agenda items;
- Calling meetings of the independent directors as needed;
- Ensuring that he is available for consultation and direct communication with major stockholders upon request; and
- Upon delegation of authority from the Nominating and Governance Committee, overseeing the development, recommendation and implementation of a process for the assessment of the effectiveness of the Board, each committee and the Board members, and administering such assessments as often as determined by the Board.

We believe that the above structure, policies and practices, when combined with the Company's other governance policies and procedures, provide for appropriate oversight, discussion and evaluation of decisions and direction from the Board, and are in the best interest of our stockholders.

**Meetings**

During 2015, our Board held seven meetings. In addition, the independent directors met regularly in executive session. Each director attended in person or by telephone at least 75% of the total Board meetings and meetings of Board committees of which he was a member in 2015.

**The Board's Role in Risk Oversight**

Assessing and managing risk is the responsibility of the management of the Company. However, the Board has an active role, as a whole, and also at the committee level, in overseeing management of the Company's risks. The Board regularly reviews information regarding the Company's credit, liquidity and operations, as well as the risks associated with each, and discusses the same with management.

Under its charter, the Audit Committee reviews and discusses with management the Company's major financial and other risk exposures and the steps management has taken to monitor and control such exposures, including the Company's risk assessment and risk management policies. In addition, the Audit Committee oversees risks related to the Company's financial statements, the financial reporting process, accounting, tax and legal matters, as well as liquidity risks and guidelines, policies and procedures for monitoring and mitigating risks.

The Audit Committee meets regularly in executive session without the Company's independent public accounting firm and without management. Members of the Audit Committee routinely observe meetings of the Company's Disclosure Committee, which meets before the Company files quarterly and annual financial reports with the SEC. In addition, the Audit Committee reviews and discusses with management and the Company's independent public accounting firm any major issues as to the adequacy of the Company's internal controls, any special steps adopted in light of material control deficiencies and the adequacy of disclosures about changes in internal control over financial reporting. The Audit Committee also meets with our internal controls, Sarbanes-Oxley compliance and enterprise risk management consultants, and, if applicable, reviews related-party transactions for potential conflicts of interest. Finally, the Audit Committee oversees the reserves estimation process and meets with our CEO, key management and our independent engineering firm to review the processes used to prepare our proved reserves reports.

The Compensation Committee oversees the management of risks associated with executive compensation, and meets regularly in executive session without management. See "Compensation Practices as They Relate to Risk Management" for additional discussion of the Compensation Committee's oversight of risks relating to executive compensation. The Nominating and Governance Committee oversees the management of risks associated with corporate governance practices and procedures, including independence of the Board, and makes recommendations to the Board regarding improvements. While each committee is responsible for overseeing the management of certain risks, the entire Board is regularly informed through committee reports about such risks.

**Board of Directors, Board Meetings and Committees** (continued)

**Committee Composition and Meetings**

The table below describes committee membership and the number of meetings of each of the committees in 2015. Following the anticipated reduction in Board size at the 2016 annual meeting, the Board will reorganize its committees to account for the departing directors. The function of each of the committees is described in greater detail below.

Each of the committees operates under a written charter adopted by our Board. Each of the committee charters is available under the Corporate Governance subsection of the “About” section of our website at [www.approachresources.com](http://www.approachresources.com) and is available in printed form upon request by any stockholder.

**Committee Membership 2015**

Name of Director	Audit	Compensation	Nominating and Governance	Board of Directors
Alan D. Bell	Chair	Member		Member
James H. Brandi	Member			Member
J. Ross Craft, P.E.				Chair
James C. Crain	Member		Chair	Member
Vean J. Gregg III		Chair	Member	Lead Independent Director
Bryan H. Lawrence				Member
Sheldon B. Lubar			Member	Member
Christopher J. Whyte	Member	Member		Member
Number of meetings	6	5	3	7

**Audit Committee**

We have an audit committee established according to Section 10A-3 of the Exchange Act. Our Audit Committee is currently made up of Alan Bell, Chairman, James Brandi, James Crain and Christopher Whyte. Our Board has determined that all members of the Audit Committee are independent Audit Committee members under SEC and NASDAQ rules and regulations. Additionally, the Board has determined that each member of the Audit Committee has accounting and related financial management expertise necessary to serve on the Audit Committee. The Board has determined that Mr. Bell, Mr. Crain and Mr. Whyte are each “audit committee financial experts” as described in Item 407(d)(5) of Regulation S-K. In addition to regularly scheduled meetings, Audit Committee members communicate with each other concerning audit matters outside of meetings as necessary. As Chairman of the Audit Committee, Mr. Bell regularly reports to the full Board regarding audit matters.

The Audit Committee oversees the annual audit and recommends to our Board the independent public accountants who audit our financial statements. The Audit Committee also approves any other services provided by public accounting firms. The Audit Committee assists our Board in fulfilling the Board’s oversight responsibility to the stockholders, the investment community and others relating to the integrity of our financial statements, our compliance with legal and regulatory requirements and the independent registered public accounting firm’s qualifications and independence. The Audit Committee oversees our system of disclosure controls and procedures and system of internal controls regarding financial, accounting, legal compliance and ethics that management and our Board have established. In doing so, it is the responsibility of the Audit Committee to maintain free and open communication between the Audit Committee, our independent registered public accounting firm and our management. For ease of reference in this proxy statement, we may refer to the independent registered public accounting firm as our “accounting firm.”

Principal responsibilities of the Audit Committee under its charter include the following:

- Appoint, determine funding for and oversee our accounting firm;
- Preapprove all auditing services, internal control related services and permitted non-audit services (including fees and terms) to be performed for us by our accounting firm;

**Board of Directors, Board Meetings and Committees** (continued)

- Review and discuss with management and our accounting firm our quarterly and annual financial statements;
- Review and discuss quarterly reports from our accounting firm on critical accounting policies to be used, any alternative treatments of financial information within U.S. generally accepted accounting principles (“GAAP”) that have been discussed with management and other material written communications between the accounting firm and management;
- Discuss with management our earnings press releases, including the use of “pro forma” or “adjusted” non-GAAP information, as well as financial information and earnings guidance provided to analysts;
- Discuss with management our major financial and other risk exposures and the steps management has taken to monitor and control such exposures;
- Review and discuss with management and our accounting firm our internal controls report and our accounting firm’s attestation of our internal controls before the filing of the Company’s annual report on Form 10-K;
- Review and evaluate the lead partner of our accounting firm audit team; and
- Establish policies and procedures for the receipt, retention and treatment of complaints received by us regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters or alleged breaches of our Code of Conduct.

**Compensation Committee**

The Compensation Committee oversees our executive and director compensation. Our Compensation Committee is currently made up of Vean Gregg, Chairman, Alan Bell and Christopher Whyte. Our Board has determined that all members of the Compensation Committee are independent Compensation Committee members under SEC and NASDAQ rules and regulations.

Principal responsibilities of the Compensation Committee under its charter include the following:

- Review and approve corporate goals and objectives relating to compensation for our CEO, evaluate the CEO’s performance in light of these goals and objectives and recommend to the Board the CEO’s annual compensation;
- Review and approve the evaluation process and compensation structure for our executive officers and key employees and, in consultation with the CEO, recommend to the Board the annual compensation for such officers and key employees;
- Review and administer our incentive compensation and stock-based plans;
- Review director compensation and recommend to the Board the form and amount of director compensation;
- Meet with management to review and discuss the Compensation Discussion and Analysis required by the SEC’s rules and regulations; and
- Engage independent compensation consultants, outside legal counsel and other advisers to assist in the evaluation of executive officers’ compensation.

**Role of the Compensation Committee**

Our Compensation Committee is responsible for the approval, evaluation and oversight of all of our executive officer, director and stock incentive compensation plans, policies and programs. The Compensation Committee also reviews total annual base salaries and bonuses for non-executive employees as recommended by our CEO. In addition to regularly scheduled meetings, Compensation Committee members communicate with each other concerning compensation matters outside of meetings as necessary. As Chairman of the Compensation Committee, Mr. Gregg regularly reports to the full Board regarding compensation matters.

The Compensation Committee meets outside the presence of our executive officers to consider the appropriate compensation for our CEO. The Compensation Committee analyzes the performance of our CEO and determines his base

**Board of Directors, Board Meetings and Committees** (continued)

salary, individual performance portions of our annual STIP program and any grant of LTIP or other equity-based awards. For all other executive officers, the Compensation Committee meets outside the presence of all executive officers, except our CEO. Our CEO annually reviews the performance of each executive officer with the Compensation Committee and makes recommendations to the Compensation Committee on the appropriate base salary, payments to be made under any individual performance portion of our annual STIP program and any grant of LTIP or other equity-based awards. Our CEO has no role in determining his own compensation.

Based on these recommendations from our CEO for non-CEO executive officers and the other considerations discussed in “Compensation Discussion and Analysis” below, the Compensation Committee recommends to the Board the annual compensation package of each of our executive officers, including our CEO. Input or suggestions applicable to group or individual compensation from other executive officers may be solicited by the Compensation Committee.

To the extent permitted by applicable law and regulations, the Compensation Committee may delegate any of its authority to subcommittees of the Compensation Committee, as it deems appropriate.

**Role of Compensation Consultant**

Since 2011, the Compensation Committee has retained Meridian Compensation Partners, LLC (“Meridian”) as its independent compensation consultant. Meridian reports directly and exclusively to the Compensation Committee; however, at the Compensation Committee’s direction, Meridian works with management to review or prepare materials for the Committee’s consideration. Meridian attended four Compensation Committee meetings in 2015. The Compensation Committee did not engage any consultant other than Meridian during 2015 to provide executive or director compensation consulting services. The Compensation Committee’s engagement of Meridian includes the following services:

- Consult with the Compensation Committee on executive compensation matters to align the Compensation Committee’s actions with stockholder interests, the Company’s business strategy and pay philosophy, prevailing market practices and relevant legal and regulatory requirements;
- Provide comprehensive, competitive market data for the Compensation Committee to consider in determining executive base salary and short- and long-term incentive awards, including advice regarding the design of the Company’s STIP and LTIP;
- Review other parts of our compensation and benefits programs, including executive benefits and perquisites, change-in-control protections, severance policies and stock ownership requirements;
- Provide advice on proposed compensation actions;
- Assist the Compensation Committee in the design and level of non-employee director compensation;
- Provide regular updates of changes in executive compensation and governance policies of proxy advisory services and evaluate how the Company’s program compares against those policies;
- Provide periodic Monte Carlo evaluations for TSR stock awards; and
- Attend and participate in Compensation Committee meetings as the Compensation Committee deems appropriate.

In June 2015, the Compensation Committee considered the independence of Meridian in light of SEC rules and NASDAQ listing standards. The Compensation Committee requested and received a letter from Meridian addressing the consulting firm’s independence, including the following factors:

- Other services provided to us by Meridian;
- Fees paid by us as a percentage of Meridian’s total revenue;
- Policies or procedures maintained by Meridian that are designed to prevent a conflict of interest;
- Any business or personal relationships between the individual consultants involved in the engagement and members of the Compensation Committee;

**Board of Directors, Board Meetings and Committees** (continued)

- Any Company stock owned by the individual consultants involved in the engagement; and
- Any business or personal relationships between our executive officers and Meridian or the individual consultants involved in the engagement.

The Compensation Committee discussed these considerations and concluded that the work of Meridian did not raise any conflict of interest.

**Nominating and Corporate Governance Committee**

The Nominating and Governance Committee is currently made up of James Crain, Chairman, Vean Gregg and Sheldon Lubar. Our Board has determined that all members of the Nominating and Governance Committee are independent under SEC and NASDAQ rules and regulations. In addition to regularly scheduled meetings, Nominating and Governance Committee members communicate with each other concerning nominating and governance matters outside of meetings as necessary. As Chairman of the Nominating and Governance Committee, Mr. Crain regularly reports to the full Board regarding nominating and governance matters.

The Nominating and Governance Committee assists the Board by identifying individuals qualified for election and re-election as Board members and recommends to the Board director nominees for election by the stockholders or appointment by the Board, as the case may be. The Nominating and Governance Committee also recommends to the Board director nominees for each committee of the Board. The Nominating and Governance Committee is also responsible for developing and maintaining the Company's corporate governance policies and acting on specific matters within its delegated authority, as determined by the Board from time to time.

Principal responsibilities of the Nominating and Governance Committee under its charter include the following:

- Assess and develop the Company's corporate governance guidelines, monitor industry developments and governance practices, and make recommendations to the Board regarding improvements;
- Develop and recommend director qualifications to the Board for its approval;
- Establish procedures for evaluating the suitability of potential director nominees;
- Identify and recommend potential director nominees for election by the stockholders or appointment by the Board, as the case may be;
- Review the suitability for continued service as a director of each Board member as applicable; and
- Assess the size, composition and leadership of the Board and make recommendations to the Board regarding the same.

For more information on the director nomination process and the policies of the Nominating and Governance Committee, please see "Corporate Governance—Identifying and Evaluating Nominees for Director."

# Corporate Governance

We are committed to sound corporate governance principles. Following such principles is essential to running our business efficiently and maintaining our integrity in the marketplace. Our corporate governance documents, including our governance guidelines, are available under the Corporate Governance subsection of the “About” section of our website at [www.approachresources.com](http://www.approachresources.com), and are available in print upon request by any stockholder to our Corporate Secretary, Approach Resources Inc., One Ridgmar Centre, 6500 West Freeway, Suite 800, Fort Worth, Texas 76116. The information on our website is not part of this proxy statement.

## Corporate Governance Policies and Practices

In March 2016, our Board adopted Corporate Governance Guidelines, which can be viewed on our website at “About—Corporate Governance” at [www.approachresources.com](http://www.approachresources.com).

The Corporate Governance Guidelines address the following matters:

- Director qualification standards;
- Director responsibilities;
- Board communications with third parties and confidentiality;
- Attendance and board memberships;
- Director access to management and independent advisors;
- Director compensation;
- Director orientation and continuing education;
- Director retirement;
- Chief executive officer evaluation and management succession;
- Annual performance evaluation of the board; and
- Meetings of independent directors.

In addition, the corporate governance matters listed below and discussed in this proxy statement summarize the Board’s authority and policies and practices in place to review and evaluate the Company’s business and to make decisions that are independent of the Company’s management:

- Board structure and meetings, including executive sessions;
- Board’s role in risk oversight;
- Qualifications, independence, responsibilities and compensation of directors;
- Committee functions and independence of committee members;
- Performance evaluation of our executive officers and directors;
- Adherence to a Code of Conduct; and
- Review and approval of related-party transactions.

**Corporate Governance** (continued)**Code of Conduct**

We have adopted a Code of Conduct that applies to all of our directors, officers and employees. The Code of Conduct is available under the Corporate Governance subsection of the “About” section of our website at [www.approachresources.com](http://www.approachresources.com). Any change to or waiver from our Code of Conduct may be made only by the Board or, in the case of any change or waiver for any of our officers, by our independent directors. All changes and waivers will be disclosed as required by SEC and NASDAQ rules and regulations.

**Board Independence**

The Board has determined that, except for our Chairman and CEO, all members of our Board, including our Lead Independent Director, are independent under SEC and NASDAQ rules and regulations. Furthermore, the Board has determined that all of the current members of the Audit Committee, Compensation Committee and Nominating and Governance Committee are independent under SEC and NASDAQ rules and regulations.

**Identifying and Evaluating Nominees for Director**

The policy of the Nominating and Governance Committee is to consider properly submitted nominations for candidates for membership on the Board. The Nominating and Governance Committee and Board seek individuals who are of high ethical character and who share our professional values. The Nominating and Governance Committee and the Board also seek individuals with a diversity of professional experiences, including chief executive officers and other operating executives, investment and finance professionals, attorneys and individuals with experience or advanced degrees in public accounting. Other criteria that the Nominating and Governance Committee will use to evaluate director nominees are:

- A candidate’s strength of character, independence of opinion and sound business judgment;
- The proportion of Board members who meet the criteria for independence required by NASDAQ;
- A candidate’s broad understanding of business, financial affairs and the complexities of a business organization;
- A candidate’s ability to work with our other directors and executives in accomplishing our objectives and representing stockholders;
- A candidate’s ability to devote sufficient time to effectively administer our affairs; and
- A candidate’s educational background and expertise in areas significant to our operations.

The Nominating and Governance Committee has no specific policy on diversity. However, the Committee does not discriminate on the basis of race, gender, age or cultural background in identifying and nominating director candidates. For purposes of consideration of diversity, the Nominating and Governance Committee and the Board include members with differences of viewpoint, professional experience, education, skills and other individual qualities and attributes.

The Nominating and Governance Committee may consider suggestions from many sources regarding possible candidates for nomination to the Board, including suggestions from management, directors and stockholders. For the deadlines for stockholder suggestions to the Nominating and Governance Committee of individuals to be considered for nomination as candidates to be elected at the 2017 annual meeting of stockholders, see “Other Matters—Submission of Stockholder Proposals and Other Deadlines for the 2017 Annual Meeting of Stockholders.” Any such suggestion should be sent to the Nominating and Governance Committee, c/o our Corporate Secretary, Approach Resources Inc., One Ridgmar Centre, 6500 West Freeway, Suite 800, Fort Worth, Texas 76116. The information should include the name and address of the stockholder recommending the individual, the number of shares owned beneficially and of record by the stockholder, the suggested individual’s name and address, a description of all arrangements or understandings (if any) between the stockholder and the individual being suggested for the Nominating and Governance Committee’s consideration, the information about the individual being suggested that would be required to be included in a proxy statement filed with the SEC and an indication of the individual’s willingness to be named as a nominee and to serve as a director if nominated by the Nominating and Governance Committee and the Board. Possible candidates suggested by stockholders are evaluated by the Committee in the same manner as are other possible candidates. The Nominating and Governance Committee has not retained a third-party search firm to identify candidates at this time but may do so in the future at its discretion.

**Corporate Governance** (continued)

**Communications with the Board**

Stockholders may send written communications to the Board, c/o our Corporate Secretary, Approach Resources Inc., One Ridgmar Centre, 6500 West Freeway, Suite 800, Fort Worth, Texas 76116. These communications will be compiled by the Corporate Secretary and promptly forwarded to the Board.

**Director Attendance at Annual Meetings of Stockholders**

Our Board expects directors to attend the annual meetings of our stockholders. We have formalized this expectation in a written policy that has been approved by the Board. All directors attended the last annual meeting of stockholders either in person or by telephone.

# Stock Ownership Matters

## Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our directors, Section 16 officers and persons who beneficially own more than 10% of our common stock to file initial reports of ownership on Form 3 and reports of changes of ownership on Forms 4 and 5 with the SEC. These Section 16 officers, directors and 10% beneficial owners are also required to furnish us with copies of all Section 16(a) forms that they file. Specific due dates for these reports have been established by regulation, and we are required to report in this proxy statement any failure to file by these dates in 2015.

Based solely on our review of reports and written representations that we have received during the year ended December 31, 2015, we believe that all required reports were filed timely, except that one Form 4 for a single transaction filed for Ms. Uma Datla, our Chief Accounting Officer, was filed late.

## Security Ownership of Management and Certain Beneficial Owners

The following table sets forth, as of April 11, 2016, beneficial ownership of our common stock by our directors, the executive officers named in the Summary Compensation Table, all directors and executive officers as a group and all persons who were known to us to be the beneficial owners of more than 5% of our outstanding shares:

Name	Number of Shares of Common Stock Owned <sup>(1)</sup>	Percent <sup>(2)</sup>
<b>Directors and Executive Officers:</b>		
J. Ross Craft, P.E. <sup>(3)</sup>	1,428,722	3.4%
Qingming Yang, PhD <sup>(3)</sup>	543,766	1.3%
Sergei Krylov <sup>(3)</sup>	406,132	1.0%
J. Curtis Henderson <sup>(3)</sup>	537,181	1.3%
Alan D. Bell <sup>(3)</sup>	64,124	*
James H. Brandi <sup>(3)(4)</sup>	96,773	*
James C. Crain <sup>(3)(5)</sup>	110,490	*
Vean J. Gregg III <sup>(3)</sup>	90,049	*
Bryan H. Lawrence <sup>(6)(7)</sup>	693,450	1.7%
Sheldon B. Lubar <sup>(8)(9)</sup>	1,073,424	2.6%
Christopher J. Whyte <sup>(3)(10)</sup>	96,203	*
All executive officers and directors as a group (11 persons) <sup>(3)</sup>	5,140,314	12.4%
<b>Other Beneficial Owners:</b>		
First Manhattan Co. <sup>(11)</sup>	4,381,208	10.5%
Schneider Capital Management Corporation <sup>(12)</sup>	3,552,703	8.6%
Cove Street Capital, LLC <sup>(13)</sup>	2,778,315	6.7%
Boston Partners <sup>(14)</sup>	2,088,350	5.0%

\* Less than one percent.

(1) Unless otherwise indicated, all shares of stock are held directly with sole voting and investment power.

(2) Based on 41,541,578 shares of our common stock outstanding at April 11, 2015.

(3) c/o Approach Resources Inc., One Ridgmar Centre, 6500 West Freeway, Suite 800, Fort Worth, Texas 76116.

(4) Includes 400 shares owned by Mr. Brandi's wife.

(5) Has a principal business address of 300 Crescent Court, Suite 900, Dallas, Texas 75201.

**Stock Ownership Matters** (continued)

- (6) Has a principal business address of 410 Park Avenue, 19th Floor, New York, New York 10022.
- (7) Includes attribution of shares held by Yorktown Energy Partners V, L.P., Yorktown Energy Partners VI, L.P. and Yorktown Energy Partners VII, L.P. Mr. Lawrence disclaims beneficial ownership of these securities except to the extent of his pecuniary interest therein.
- (8) Has a principal business address of 700 N. Water Street, Suite 1200, Milwaukee, Wisconsin 53202.
- (9) Includes attribution of shares held by Lubar Equity Fund, LLC and Lubar Nominees. Mr. Lubar disclaims beneficial ownership of these securities except to the extent of his pecuniary interest therein.
- (10) Has a principal business address of 6363 Woodway Drive, Suite 350, Houston, Texas 77057.
- (11) Based on Schedule 13G/A filed February 11, 2016, reporting ownership as of December 31, 2015. First Manhattan Co. ("First Manhattan"), as an investment adviser and as a broker or dealer, has the sole power to vote and dispose of 889,900 shares, the shared power to vote 3,204,512 shares and the shared power to dispose of 3,491,308 shares. First Manhattan's principal business address is 399 Park Avenue, New York, New York 10022.
- (12) Based on a Schedule 13G filed February 12, 2016, reporting ownership as of December 31, 2015. Schneider Capital Management has the sole power to vote 1,932,227 shares and the sole power to dispose of 3,552,703 shares. Schneider Capital Management's principal business address is 460 E. Swedesford Rd., Suite 2000, Wayne, PA 19087.
- (13) Based on a Schedule 13G/A filed February 12, 2016, reporting ownership as of December 31, 2015. Cove Street Capital, LLC ("Cove Street"), as an investment adviser, has the sole power to vote 2,778,315 shares and the sole power to dispose of 2,778,315 shares. Cove Street's principal business address is 2101 East El Segundo Boulevard, Suite 302, El Segundo, California 90245.
- (14) Based on a Schedule 13G/A filed April 7, 2016, reporting ownership as of March 31, 2016. Boston Partners, as an investment adviser, has the sole power to vote 1,172,970 shares and the sole power to dispose of 2,088,350 shares. Boston Partners' principal business address is One Beacon Street, Boston, Massachusetts 02108.

## Executive Officers

The following table sets forth the names, ages and positions of our executive officers.

Name	Age	Position
J. Ross Craft, P.E.	59	Chairman of the Board, Chief Executive Officer and President
Qingming Yang, PhD	52	Chief Operating Officer
Sergei Krylov	38	Executive Vice President and Chief Financial Officer
J. Curtis Henderson	53	Chief Administrative Officer and Corporate Secretary

**J. Ross Craft, P.E.**, has been our Chief Executive Officer and President and a member of our Board since our inception in September 2002. In November 2014, Mr. Craft was appointed Chairman of the Board. For Mr. Craft's biographical information, please see "Proposal 1—Election of Directors—Directors."

**Qingming Yang, PhD**, joined us in July 2009 as Vice President—Exploration. In November 2010, Dr. Yang was named Executive Vice President—Business Development and Geosciences and, in December 2012, Dr. Yang was named Chief Operating Officer. Dr. Yang has over 25 years of domestic and international exploration, technical and operating experience in the oil and gas industry. Before joining Approach, Dr. Yang was employed by Pioneer Natural Resources for 12 years in a variety of positions, including Exploration Manager for Worldwide Exploration and Business Development, Geosciences Advisor and Technical Lead for Pioneer's Eagle Ford Shale team. Dr. Yang is a member of the American Association of Petroleum Geologists (AAPG) and served as an Associate Editor for the AAPG Bulletin from 2003-2009. In addition, Dr. Yang was Chairman of Dallas Geological Society International Committee in 2002. Dr. Yang earned his B.S. in Petroleum Geology from Chengdu University of Technology in the People's Republic of China, his M.A. in Geology from George Washington University and his Ph.D. in Structural Geology from the University of Texas at Dallas.

**Sergei Krylov** joined us in January 2014 as Executive Vice President and Chief Financial Officer. From 2000 to 2013, Mr. Krylov worked at J.P. Morgan Securities LLC in the Energy Investment Banking group, where he most recently served as Managing Director. While at J.P. Morgan, Mr. Krylov advised clients on strategic planning, mergers and acquisitions, and capital markets transactions. Mr. Krylov holds a B.B.A. in Finance, summa cum laude, from Pace University.

**J. Curtis Henderson** joined us in February 2007 as Executive Vice President, General Counsel and Corporate Secretary. In December 2013, Mr. Henderson was named Chief Administrative Officer and Corporate Secretary. From 2005 to 2007, Mr. Henderson served as President and Chief Executive Officer of Coterie Capital Partners, Ltd., a private equity partnership in Dallas, Texas. From 1996 to 2005, Mr. Henderson served as General Counsel of Nucentrix Broadband Networks, Inc., a public, broadband wireless telecommunications company based in Dallas. Mr. Henderson began his career as a lawyer in the corporate and securities section of Locke Lord (formerly Locke Purnell Rain Harrell). Mr. Henderson has over 25 years of experience in public and private securities, mergers and acquisitions, corporate finance and regulatory affairs. Mr. Henderson holds a B.A. in Political Science from Austin College and a J.D. from Washington and Lee University School of Law, where he served as Articles Editor of the Washington and Lee Law Review. Mr. Henderson is the brother-in-law of J. Ross Craft, our Chairman, Chief Executive Officer and President.

# Compensation Discussion and Analysis

The following Compensation Discussion and Analysis (“CD&A”) contains statements regarding future Company performance goals and measures. These goals and measures are disclosed in the limited context of the Company’s incentive compensation program and are not statements of management’s expectations or estimates of results or other guidance. The Company specifically cautions investors not to apply these statements to other contexts. Throughout this proxy statement, the individuals who served as our CEO and CFO during fiscal year 2015, as well as our other executive officers, are referred to as our “named executive officers” or “executive officers.” Specifically for 2015, our named executive officers were:

Name	Position During Fiscal Year 2015
J. Ross Craft, P.E.	Chairman of the Board, Chief Executive Officer (“CEO”) and President
Qingming Yang, PhD	Chief Operating Officer (“COO”)
Sergei Krylov	Executive Vice President and Chief Financial Officer (“CFO”)
J. Curtis Henderson	Chief Administrative Officer (“CAO”) and Corporate Secretary

## Introduction and Overview

The following discussion and analysis is intended to assist you in understanding our compensation program for our executive officers. It is intended to cover all of the compensation elements paid to our executive officers and the reasoning used by the Compensation Committee in structuring our executive compensation program, which is designed primarily to incentivize our executive officers to build long-term stockholder value.

We believe our success depends on the continued contributions of our executive officers. Our executive compensation program is designed with the philosophy of attracting, motivating and retaining experienced and qualified executive officers and directors with compensation that is competitive with comparable public companies and that recognizes both overall business and individual performance. Our policies are also intended to support the achievement of our strategic objectives by aligning the interests of our executive officers with those of our stockholders through operational and financial performance goals and the use of equity-based compensation.

## Executive Summary

We seek to pay our executive officers for performance, closely align the interests of our executive officers with the interests of our stockholders and attract, retain and motivate top executive talent. Below is a summary of our key performance results, achievements and compensation decisions in 2015 and 2016. In reporting our financial and operating results, natural gas is converted at a rate of six thousand cubic feet of gas to one barrel of oil equivalent (“Boe”), and natural gas liquids (“NGLs”) are converted at a rate of one barrel of NGLs to one Boe.

### Our Performance in 2015

We achieved strong operational results in the midst of a difficult commodity price environment in 2015, while protecting our balance sheet and maintaining compliance with our credit covenants. In addition, we were successful in increasing production and proved reserves, while continuing to lower our lease operating expenses and general and administrative expenses per Boe, as well as our capital expenditures, year-over-year. Our executive officers were critical in achieving these results, which reflect continued progress in executing our strategy of leading the horizontal development of the Wolfcamp shale oil play in the southern Midland Basin, while operating as a low-cost producer and maintaining financial flexibility.

In 2015, we drilled 20 and completed 28 horizontal Wolfcamp wells and replaced more than 600% of our 2015 production with additional proved reserves. As of December 31, 2015, we had drilled approximately 164 horizontal Wolfcamp shale oil

**Compensation Discussion and Analysis** (continued)

wells. Under the leadership of our executive team, through the first half of 2015 we continued development of our Wolfcamp shale oil play.

In response to continued decline in oil, NGL and gas prices, we suspended our drilling and completion activities in the third quarter of 2015. In addition, we reduced our workforce and reduced our general and administrative spending from \$6.36/Boe in 2014 to \$5.12/Boe in 2015, and reduced our lease operating expense from \$6.48/Boe in 2014 to \$5.24/Boe in 2015. These measures, consistent with our overall strategy of maintaining financial flexibility and striving to be the lowest-cost producer in the Permian Basin, have helped to position the Company for future growth, despite continued uncertainty of oil, NGL and gas prices.

We summarize key financial and operational results for 2015 that were important to our compensation decisions for 2015 and to-date for 2016. Target or excellent performance goals as they relate to our 2015 incentive plans are also highlighted, where they apply.

Category	Key Results Achieved
Net Long-term Debt to Adjusted EBITDAX <sup>(1)(4)</sup>	• Net long-term debt/2015 Adjusted EBITDAX ratio of 4.02x (target was 3.75)
Capital Efficiency <sup>(3)</sup>	• Cost for wells drilled and completed in 2015 totaled \$13.46 per Boe (target was \$17.50 per Boe)
General and Administrative Expense ("G&A") per Boe	• G&A totaled \$5.12 per Boe (target was \$6.50 per Boe)
Lease Operating Expense ("LOE") per Boe	• LOE totaled \$5.24 per Boe (target was \$6.50 per Boe)
Financial Strength at December 31, 2015 <sup>(2)(4)</sup>	• Achieved strong growth while maintaining solid balance sheet at year-end • Liquidity of over \$175 million

(1) EBITDAX and Adjusted EBITDAX are non-GAAP financial measures. See "Analysis of Executive Compensation Decisions—Short-Term Incentive Plan ("STIP")—2015 STIP Targets and Performance Categories" and "Analysis of Executive Compensation Decisions—Long-Term Incentive Plan ("LTIP")—2015 LTIP—Performance Stock Awards" for a description of how we calculate EBITDAX and Adjusted EBITDAX from our audited financial statements and related notes.

(2) Liquidity is a non-GAAP financial measure calculated by adding the net funds available under our revolving credit facility and cash and cash equivalents.

(3) Calculated by dividing total drilling and completion costs for wells drilled and completed in 2015 by net reserves booked for such wells as reported in the 2015 DeGolyer and MacNaughton reserve report, filed with our annual report on Form 10-K.

(4) Reconciliation to our audited financial statements and other information on non-GAAP financial measures used in this proxy statement can be found under "Supplemental Non-GAAP Financial Information and Cautionary Statements" following our annual report on Form 10-K.

In addition to our overall corporate goals, the Company achieved the following operational highlights in 2015:

- Continued improvement on already best-in-class horizontal well costs
- Production was 15.2 MBoe/d, a 10% increase over the prior year
- Increased proved reserves to 166.6 MMMBoe, a 14% increase over the prior year
- Per-unit cash operating expenses decreased from the prior-year quarter
- Placed additional hedges on oil and gas, continuing through 2016
- Reduced capital expenditures to \$151.2 million in 2015

**2015 TSR Performance**

Despite the strong operational and cost control results described above, our TSR in 2015 was negative 73%, as calculated under our TSR stock award agreements, compared to negative 54% for the median of our 2015 compensation peer group.

**Compensation Discussion and Analysis** (continued)

We believe that falling commodity prices contributed heavily to negative TSR among public E&P companies, and particularly among small-cap public E&P companies like us. In 2015, we saw crude oil prices continue, and accelerate, their decline from 2014.

As discussed throughout this CD&A, the TSR stock awards granted to our executive officers only begin to pay out if our TSR at the end of the applicable performance period ranks at or above a threshold level of our peer group's TSR performance. In addition, the value of the performance stock awards held by our executive officers depends upon our stock price. As a result of our stock price and our TSR relative to the TSR of our peer companies at December 31, 2015, the 2015 TSR stock awards held by our executive officers as of December 31, 2015, had no value, and the actual realizable value of the 2015 performance stock awards held by our executive officers as of December 31, 2015, was significantly less than the grant date value of the awards. See "Pay for Performance in 2015" for additional information.

**Key 2015 and 2016 Compensation Actions**

***In light of low commodity prices, the decline in our TSR in 2015, our desire to preserve liquidity and our focus on cost control, we made the following decisions impacting executive officer and non-employee director pay for 2015 and 2016:***

**Key 2015 and 2016 Compensation Actions**

- No increase in base salaries for our executive officers in 2015 or 2016.
- No increase in the amount of the individual STIP award opportunities for our executive officers in 2015 or 2016.
- Reduced the payout of the 2015 STIP cash awards to our executive officers by 50% of the amount actually achieved under the pre-established performance measures.
- Reduced the value of LTIP awards granted to our executive officers in 2016 by 70% from 2015.
- Increased the time-based vesting period for 2016 LTIP awards from three to four years.
- Reduced the size of the Board from eight directors to five directors, which reduces overall non-employee director compensation expenses.
- Reduced the aggregate value of the stock retainer granted to non-employee directors in 2016 by 70% from 2015.

Compensation Discussion and Analysis (continued)

## Corporate Governance Matters and Compensation Program—Highlights

We believe sound corporate governance principles and compensation programs are interrelated. Listed below is a summary of some highlights regarding corporate governance matters and our compensation program:

Focus	Description
Board Structure	<ul style="list-style-type: none"> <li>• <b>Lead Independent Director.</b> In 2014, in connection with combining the roles of Chairman and CEO, we appointed a Lead Independent Director to reinforce effective, independent leadership on the Board.</li> <li>• <b>Independence of other Board members.</b> All Board members except our Chairman and CEO are independent under SEC and NASDAQ rules and regulations.</li> <li>• <b>Independence of committee members.</b> All Board committee members are independent under SEC and NASDAQ rules and regulations.</li> <li>• <b>Related-party transactions.</b> Our Audit Committee is required to review and approve related-party transactions. There were no related-party transactions in 2015.</li> </ul>
Pay for Performance	<ul style="list-style-type: none"> <li>• <b>Performance-based LTIP.</b> Seventy-five percent (75%) of the base award value of our 2015 LTIP is comprised of performance-based LTIP awards with time-vesting restrictions (the “performance stock awards”).</li> <li>• <b>Total stockholder return in LTIP.</b> Twenty-five percent (25%) of the base award value of our 2015 LTIP is comprised of a three-year, relative TSR performance award (the “TSR stock awards”) with threshold, target and excellent performance levels. TSR is measured against our peer group.</li> <li>• <b>A range of goals for STIP.</b> The 2015 STIP includes threshold, target and excellent performance levels for each of the five performance categories to challenge management to deliver measured growth within a competitive cost structure.</li> </ul>
Recognition of Market Conditions	<ul style="list-style-type: none"> <li>• <b>No increase in annual compensation for 2015 and 2016.</b> Base salaries and individual STIP award opportunities for executive officers were frozen in 2015 and 2016.</li> <li>• <b>Exercise of negative discretion on compensation.</b> We reduced the payout of the 2015 STIP awards by 50% of the amount actually achieved based on 2015 performance goals and reduced the value of LTIP awards granted to our executive officers in 2016 by 70% from 2015. We also reduced the size of our Board from eight members to five members and reduced the aggregate value of the stock retainer granted to non-employee directors in 2016 by 70% from 2015, resulting in a corresponding reduction in overall non-employee director compensation expenses.</li> <li>• <b>Extended Service Requirements to Promote Retention.</b> We increased the service-vesting period for 2016 LTIP awards from three to four years to promote retention.</li> </ul>

## Compensation Discussion and Analysis (continued)

Focus	Description
Use of Equity	<ul style="list-style-type: none"> <li>• <b>Stock ownership guidelines.</b> During 2015, we had in place stock ownership guidelines for our executive officers and non-employee directors.</li> <li>• <b>Policy prohibiting hedging and other transactions.</b> Our Insider Trading Policy prohibits employees, including our executive officers, and members of the Board from engaging in short-term or speculative transactions in our stock, including short sales, options or other derivatives and from holding our stock in margin accounts or pledging our stock as collateral for loans.</li> <li>• <b>Stockholder friendly provisions in 2007 Plan.</b> Our 2007 Plan includes stockholder friendly provisions, including: <ul style="list-style-type: none"> <li>• a limit on the maximum number of shares available for issuance that cannot be increased without stockholder approval,</li> <li>• no reuse or “recycling” of shares used for stock option exercises, withholding taxes and net-settled stock appreciation rights,</li> <li>• a minimum three-year vesting period for stock options and stock appreciation rights, and</li> <li>• no re-pricing, replacement or re-granting of stock options or other stock awards without stockholder approval if the effect would be to reduce the exercise price of the award, except in the case of adjustments for recapitalizations or reorganizations. Also, we may not cancel an underwater option and replace it with another award.</li> </ul> <p>For additional information regarding the 2007 Plan and its key features, please see “Proposal 3: Approval of the Fifth Amendment to the 2007 Stock Incentive Plan to Increase the Maximum Number of Available Shares by 2,500,000 Shares.”</p> </li> <li>• <b>Burn rate—moderate use of equity under 2007 Plan.</b> At December 31, 2015, our three-year average annual “burn rate” or percentage of outstanding, weighted average shares awarded under the 2007 Plan in prior years, was 2.25%.</li> <li>• <b>Clawbacks—recovery of compensation.</b> All awards granted under the 2007 Plan contain a clawback provision that subject the awards to being clawed back to the extent required by applicable law.</li> </ul>
Termination and Change in Control	<ul style="list-style-type: none"> <li>• <b>Change-in-control provisions.</b> All of our executive officers, except our CEO, have double-trigger severance provisions upon a change in control in their respective employment agreements. The Compensation Committee’s current policy is to approve only double-trigger severance provisions in any future employment agreements. The employment agreement for our CEO provides for a higher level of severance benefits and retains a single-trigger payment provision upon a change in control, which has been part of the CEO’s employment agreement since 2003.</li> <li>• <b>No tax gross-up provisions.</b> We do not provide tax “gross-ups” on a change in control and our Compensation Committee’s current policy is not to approve any future tax gross-ups.</li> </ul>

## Compensation Program Objectives and Methodology

As discussed above, the primary objectives of our executive compensation program are as follows:

- Pay for performance, in which Company and individual performance substantially influence an executive officer’s total compensation opportunity;
- Align the interests of our executive officers and stockholders by motivating executive officers to increase stockholder value and rewarding executive officers when stockholder value increases; and

**Compensation Discussion and Analysis** (continued)

- Attract, retain and motivate talented and experienced executives in the highly competitive oil and gas industry, particularly in the Dallas-Fort Worth, Texas area.

To accomplish these objectives, we intend to provide a competitive total compensation package. Base salaries and total compensation are intended to be competitive with our industry peers, considering individual performance and experience, to ensure that each executive officer is appropriately compensated.

**Elements of Our Executive Compensation Program**

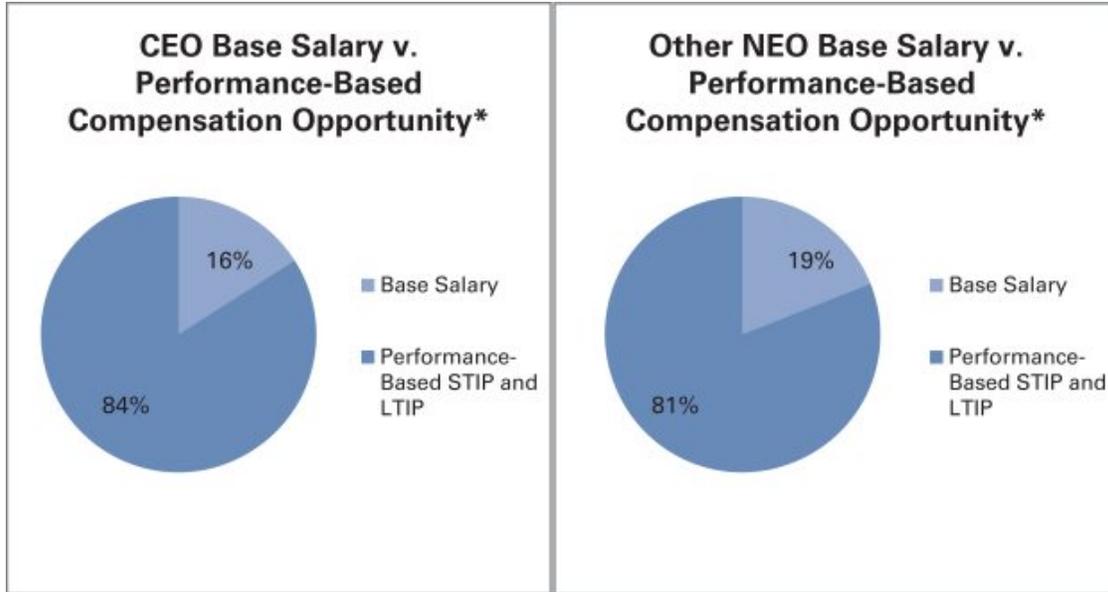
The three principal elements of our current executive compensation program are annual base salary, short-term or annual incentive awards (referred to as STIPs) and long-term equity incentives (referred to as LTIPs) in the form of performance stock awards and TSR stock awards under our 2007 Plan in 2015. In 2016, we also issued cash-settled performance awards that are otherwise substantially similar to the performance stock awards we granted in prior years.

The base salary component of our executive officer's compensation pays for skill and experience and is required for market competitiveness. Our STIPs are annual, cash performance awards for achievement of then-current business goals. Our LTIPs are typically stock-based awards (including, as discussed below, cash-settled awards that track our stock price) that provide a competitive, long-term incentive in direct alignment with stockholder interests. We also have employment agreements with our executive officers that contain employment terms, severance and change-in-control provisions. We believe these agreements are important to retain qualified executives in a competitive market for executive talent.

Element	Objective and Basis
Base Salary	<ul style="list-style-type: none"> <li>• Competitive for each role and respective responsibilities as well as with industry peers, particularly in the Dallas-Fort Worth area</li> <li>• Designed to attract and retain our executive officers with the goal of growing long-term stockholder value</li> <li>• Reviewed annually by the Compensation Committee with input from our CEO (except for the CEO's salary) and taking level of responsibility and individual performance into consideration</li> </ul>
Performance-Based STIP	<ul style="list-style-type: none"> <li>• Designed to drive strong annual Company performance and cost control, as well as individual performance</li> <li>• Target award opportunity set as a percent of each executive officer's base salary</li> <li>• Performance measures reviewed annually</li> <li>• Payout determined by Company and individual performance and certified by the Compensation Committee</li> </ul>
Performance-Based LTIP	<ul style="list-style-type: none"> <li>• Designed to link executives' pay to performance and align their interests with our stockholders</li> <li>• Initial vesting of 2015 performance stock awards based on Company achievement of annual performance measure</li> <li>• Additional, service-based vesting of these awards over three years (including the year of grant) encourages retention of key executive officers</li> <li>• 2015 TSR stock awards vest between 0% and 150% of the target shares at the end of 2017, subject to continued service, based on relative TSR compared to peer companies to create additional alignment with stockholder interests</li> </ul>

**Compensation Discussion and Analysis** (continued)

The charts below reflect the target allocation of direct compensation earned by our named executive officers in 2015 between the fixed and performance-based elements described on the previous page. For these purposes, (i) base salary reflects the actual amount of base salary earned for 2015, (ii) STIP reflects the maximum STIP payout opportunity for 2015, and (iii) LTIP reflects the aggregate grant date fair value of performance stock awards and TSR stock awards (at assumed vesting of 150% of target) granted in 2015.



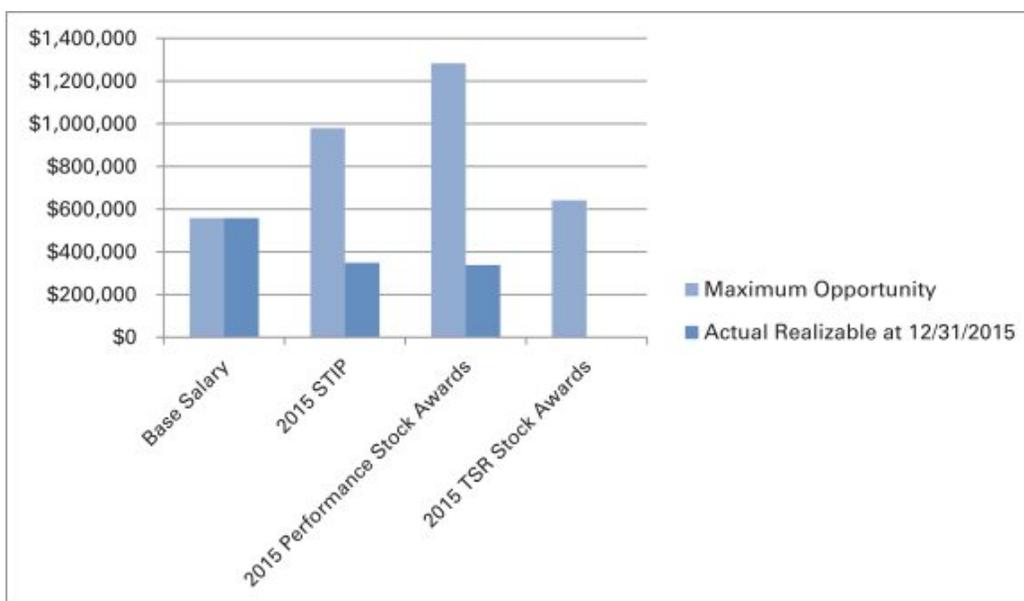
\* The Compensation Committee determined in its discretion that, in light of prevailing market conditions and a desire to preserve liquidity, it would pay 2015 (as paid in March of 2016) performance-based STIP awards at only 50% of the amount actually achieved under pre-established performance measures.

**Compensation Discussion and Analysis** (continued)

**Pay for Performance in 2015**

**CEO Compensation**

In early 2015, the Compensation Committee approved the total direct compensation opportunity for our CEO, which was made up of base salary, STIP bonus opportunity and LTIP opportunity (including both performance stock awards and TSR stock awards). Below is both a chart and table illustrating the difference between our CEO's 2015 maximum total direct compensation opportunity and the actual realizable value of the compensation at December 31, 2015. "Realizable value" is defined as the base salary, the actual STIP award paid relating to work performed in 2015, and the value of all LTIP grants based on the stock value and TSR as of December 31, 2015.



Due to our strong operational and cost-control performance in 2015, we met or exceeded the target level in three of four 2015 STIP Company performance categories. However, in light of low commodity prices, the decline in our TSR in 2015, our desire to preserve liquidity and our focus on cost control, the Compensation Committee reduced the STIP awards actually earned by 50%, resulting in our CEO receiving an actual payout equal to 36% of his STIP opportunity.

In addition, our 2015 TSR, as calculated under our LTIP award agreements, was negative 73%, as calculated under our TSR stock award agreements, compared to negative 54% for the median of our 2015 compensation peer group. As a result of our stock price and our TSR relative to the TSR of our peer companies, our CEO's actual realizable value of 2015 performance stock awards and TSR stock awards as of December 31, 2015, was significantly less than his maximum opportunity, which reinforces the program's alignment with stockholder interests.

Component	2015 Maximum Opportunity <sup>(1)</sup>	Actual Realizable at 12/31/2015 <sup>(2)</sup>
2015 Base salary	\$ 560,000	\$ 560,000
2015 STIP	980,000	350,000 <sup>(3)</sup>
2015 LTIP	—	—
Performance stock awards <sup>(4)</sup>	1,282,497	337,596
TSR stock awards <sup>(5)</sup>	641,242	—
Total	\$ 3,463,739	\$ 1,247,596
Percent difference: 2015 Maximum Opportunity vs. Actual Realizable at 12/31/2015		36%

**Compensation Discussion and Analysis** (continued)

- (1) Assumes grant date value (NASDAQ closing price) of performance stock awards and TSR stock awards (assuming maximum potential payout of 150% of target).
- (2) Assumes December 31, 2015, value (NASDAQ closing price) of actual performance stock awards earned for 2015 performance (100% of performance shares subject to the award) and the value of TSR shares that would be payable based on the Company's peer group TSR ranking at December 31, 2015 (0% of target number of shares subject to the award).
- (3) Reflects the Compensation Committee's decision to exercise their discretion to reduce all amounts earned under the 2015 STIP by 50%.
- (4) Performance stock awards remain subject to a "second trigger" of time-vesting conditions through December 31, 2017, described below under "Long-Term Incentive Plan ("LTIP") – 2015 LTIP – Performance Stock Awards."
- (5) TSR shares remain subject to achievement of TSR performance and continued employment with the Company at the end of the performance period, which ends December 31, 2017, described below under "Long-Term Incentive Plan ("LTIP") – 2015 LTIP – TSR Stock Awards." As a result of our TSR relative to the TSR of our peer companies at December 31, 2015, the 2015 TSR stock awards held no value as at December 31, 2015.

**Performance-Based STIP and LTIP – Other Executive Officers**

Consistent with our executive compensation program's emphasis on pay for performance, the compensation awarded to our executive officers other than our CEO for 2015 also reflected alignment with stockholder interests in 2015.

**Performance-Based STIP.** During 2015, we produced strong results on certain operating and financial measures and in the development of our core asset base, and we met or exceeded the target level of performance under three out of four Company performance measures. However, in light of low commodity prices, the decline in our TSR in 2015, our desire to preserve liquidity and our focus on cost control, the Compensation Committee reduced STIP awards to executive officers by 50%.

**Performance-Based LTIP.** Seventy-five percent (75%) of the total value of the 2015 LTIP was allocated to performance stock awards. Each executive officer was granted a performance stock award in 2015, subject to satisfaction of a performance measure. In addition, 25% of the total value of the 2015 LTIP was allocated to TSR stock awards. Due to our stock price and our TSR relative to the TSR of our peer companies, the actual realizable value of the 2015 LTIP awards, and the TSR stock awards specifically, was significantly less than the maximum opportunity for our other executive officers.

**Setting Executive Officer Compensation**

Our Compensation Committee is responsible for the approval, evaluation and oversight of all of our executive officer, director and stock incentive compensation plans, policies and programs. See "Board of Directors, Board Meetings and Committees—Compensation Committee" for additional information regarding the role of the Compensation Committee in determining executive officer and director compensation.

**Compensation Consultant**

The Compensation Committee has retained Meridian as its independent compensation consultant since 2011. In determining executive compensation for 2015 and 2016, the Committee considered information from Meridian regarding market data, peer group composition and compensation, STIP and LTIP design and general trends and developments in executive compensation. See "Board of Directors, Board Meetings and Committees—Compensation Committee—Role of Compensation Consultant" for more information about the Compensation Committee's engagement of Meridian.

**Use of Oil and Gas E&P Compensation Survey Information**

For 2016, the Committee held executive base salaries and individual STIP award opportunities flat for the third consecutive year in recognition of low commodity prices and a decline in TSR. In considering executive compensation matters in 2015, the Compensation Committee consulted the Oil and Gas E&P Compensation Surveys, prepared by Effective Compensation, Inc. ("ECI"). The ECI surveys contain compensation information from over 120 public and private E&P companies in the United States. The ECI surveys provide specific data on an aggregated basis within subcategories based on whether companies are public or private, revenues, E&P budget and geographic location, among others.

**Compensation Discussion and Analysis** (continued)**Use of Peer Group Comparisons**

For 2015 executive compensation matters, the Committee considered compensation data from the peer companies listed below. The 2015 peer group is similar to the 2014 peer group except that, based on consultations with Meridian, the Committee removed Abraxas Petroleum Corporation, Athlon Energy Inc., Kodiak Oil & Gas Corp., Laredo Petroleum Holdings, Inc., Oasis Petroleum Inc., Rosetta Resources Inc. and Stone Energy Corporation and added Bill Barrett Corporation, Callon Petroleum Company, Jones Energy, Inc., Northern Oil & Gas, Inc., Sanchez Energy Corporation, Swift Energy Company and Triangle Petroleum Corporation.

**2015 Peer Companies**

• Bill Barrett Corporation	• Northern Oil & Gas, Inc.
• Callon Petroleum Company	• PDC Energy, Inc.
• Carrizo Oil & Gas, Inc.	• Petroquest Energy, Inc.
• Comstock Resources, Inc.	• Resolute Energy Corporation
• Diamondback Energy, Inc.	• Rex Energy Corporation
• Goodrich Petroleum Corporation	• Sanchez Energy Corporation
• Gulfport Energy Corporation	• Swift Energy Company
• Jones Energy, Inc.	• Triangle Petroleum Corporation
• Matador Resources Company	

The Compensation Committee reviews the peer group annually. In determining the peer group companies, the Compensation Committee selects companies within the oil and gas industry that most closely resemble us in size (according to assets, market value and revenue), scope and nature of business operations (including position in the upstream E&P sector, production and reserve base, and areas of operation). Our industry peer group contains companies in our industry that are both larger and smaller in size and scope and that may operate in different geological basins than we do. The table below summarizes the median and range of asset size, market capitalization, annual revenues and PV-10 (as defined below) of the compensation peer group used for 2015 executive compensation decisions (in millions, at year-end 2014):

	Assets	Market Capitalization	Revenues	PV -10 <sup>(1)</sup>
Median	\$ 2,027	\$ 344	\$ 496	\$ 1,484
Range (Low – High)	\$ 722 – 3,095	\$ 103 – 3,570	\$ 152 – 856	\$ 601 – 3,450

(1) As disclosed in the peer companies' SEC filings. PV-10 (non-GAAP) is an estimate of the present value of future net revenues from proved oil and gas reserves after deducting estimated production and ad valorem taxes, future capital costs and operating expenses, but before deducting any estimates for future income taxes. Estimated future net revenues are discounted at an annual rate of 10% to determine their present value.

We compete with these companies for talent and believe the selected companies are currently the most appropriate for executive compensation comparison. The Committee considers the differences and similarities between us and the companies in our industry peer group when reviewing peer group data for executive compensation decisions. The Committee considers peer group data relevant to, but not determinative of, the Committee's consideration of overall executive compensation matters.

For the 2016 peer group, based on consultations with Meridian, the Committee removed Swift Energy Company.

## Compensation Discussion and Analysis (continued)

## Analysis of Executive Compensation Decisions

## Base Salary

***In light of low commodity prices, the decline in our TSR in 2015, our desire to preserve liquidity and our focus on cost control, the Compensation Committee froze base salaries for our executive officers in 2015 and 2016.***

We provide our executive officers with an annual base salary to compensate them for their services during the year. Although we have no written policies or guidelines for setting the base salaries of our executive officers within a specified range of the compensation levels of our industry peers, our executive officer salaries are typically intended to be competitive with our industry peers. Our Compensation Committee recognizes that a substantial amount of competition exists in the oil and gas industry for attracting and retaining qualified management teams, particularly in the Dallas-Fort Worth, Texas area. Our long-term philosophy is to set our executive officers' base salaries at levels that we believe will enable us to retain them, with the goal of growing stockholder value going forward. However, as they did in 2016, the Committee retains the discretion to adjust salaries, or freeze them, as they deem appropriate in light of market conditions.

We review salary ranges and individual salaries for our executive officers annually. We establish the base salary for each executive officer based on pay levels of industry peers and business requirements for certain skills, individual experience and contributions, the roles and responsibilities of the executive and other factors. We believe competitive base salaries are typically necessary to attract and retain an executive management team with the appropriate abilities and experience required to lead us.

## 2015 Base Salary

For 2015 base salaries, the Compensation Committee considered peer data provided by Meridian and from the 2014 ECI survey and the Company's revenues, assets and market capitalization relative to its peer group. In addition, the Compensation Committee considered market conditions at year-end 2014, including low oil and gas prices, as well as the Company's negative TSR in 2014. As a result of low commodity prices, the decline in our TSR and our focus on cost control, the Compensation Committee recommended, and the Board agreed, to hold base salaries flat for our named executive officers for 2015.

Accordingly, the Committee recommended, and the Board approved, the following 2015 base salaries for the Company's executive officers:

Executive Officer	2015 Base Salary	Salary Increase
Mr. Craft	\$ 560,000	0%
Mr. Yang	\$ 400,000	0%
Mr. Krylov	\$ 375,000	0%
Mr. Henderson	\$ 375,000	0%

## Short-Term Incentive Plan ("STIP")

***In light of low commodity prices, the decline in our TSR in 2015, our desire to preserve liquidity and our focus on cost control, the Compensation Committee froze the amount of the individual STIP award opportunities for our executive officers in 2015 and 2016. In addition, the Committee recommended, and the Board agreed, to reduce the 2015 STIP payout to executive officers by 50% of the amount actually achieved under pre-established performance measures.***

A core component of our executive compensation philosophy is that pay should be linked directly to performance and that a significant portion of total annual compensation should be placed at risk. We provide our executive officers the opportunity to earn an annual, performance-based, cash incentive award, or STIP award, in order to attract and retain an appropriate caliber of talent for these positions and to motivate executives to achieve our annual business goals. We

**Compensation Discussion and Analysis** (continued)

review STIP awards for our executive officers annually in the first 60 days of our fiscal year to determine award payments for the most recently completed fiscal year, and to establish award opportunities for the then-current fiscal year. The Committee's general policy is to determine any payout amounts for STIP awards before March 1 of the following year based on our performance against the performance measures established by the Committee and the Committee's determinations of the individual performance component of the awards.

**2015 STIP Overview**

Consistent with our philosophy of linking pay directly to performance, our Compensation Committee adopted, and our Board ratified, a performance-based STIP for 2015 pursuant to which cash performance awards were made under our 2007 Plan.

The Compensation Committee considered five performance categories, relative weighting among the performance categories and targets to be used for the 2015 STIP for the executive officers, and reviewed them with our CEO, except for incentive targets for our CEO, which the Committee determines independent from the CEO and other executive officers. The Committee adopted the applicable metrics in February 2015. The 2015 STIP award opportunities for each executive officer were expressed as a percentage of the executive officer's annual base salary, and awards are ultimately paid to the executive officers based on the achievement of specified Company performance targets, as well as the executive officer's individual performance, including overall duties, responsibilities, expertise and contributions to Company results, as determined in the Committee's discretion. The Committee also established, for each performance category, (i) a minimum, or threshold, performance level, (ii) a target performance level, and (iii) a maximum, or excellent, performance level.

The Company is required to reach the threshold level in a performance category before an executive officer receives any credit for such category in the calculation of his STIP award, except for the individual performance category, for which the Committee may award less than a threshold level, but not more than an excellent level. If the Company exceeds the threshold level for a performance category, the amount of the STIP award attributable to that category is capped at the excellent level. If actual results fall between the threshold and target or target and excellent performance levels, the percentile performance used to determine the payout percentage is proportionally adjusted on a linear, pro-rata basis between the appropriate levels according to actual results achieved. The scale of potential payout as a percentage of annual base salary among the performance levels was set by the Committee with input from Meridian so that the payout potential accelerates as the target and excellent performance levels are achieved to incentivize our executive officers to reach or exceed these "stretch" goals.

The Committee cannot increase payout amounts above the excellent level under performance categories that depend on the achievement of specific Company targets, as payments related to performance categories that are tied to the achievement of specific targets are capped once the excellent performance level is achieved. The Committee can, in its reasonable discretion, reduce the payout amounts for these performance categories after taking into account special or unusual factors that may have contributed to the achievement of target performance measures such as acquisitions, commodity prices or other factors considered appropriate by the Committee. The Committee may also, in its discretion, reduce the overall amount of award notwithstanding performance levels.

In addition to the performance categories tied to specific Company targets, the Committee approved an individual performance category for 2015 that allows the Committee, in its discretion, to determine a portion of an officer's STIP award based on the officer's individual performance, including overall duties, responsibilities, expertise and contribution to the Company's results for the year.

**2015 STIP Targets and Performance Categories**

For 2015, the Committee approved, after consultation with our CEO and Meridian, a 2015 STIP with annual incentive targets (expressed as a percentage of an executive's annual salary) for each of our executive officers except our CEO, for whom the Committee determined incentive targets without consultation with the CEO. Consistent with prior years, the Committee attempted to ensure that the potential payouts provide a meaningful incentive to each of our executive officers. For 2015, the annual incentive opportunities for our executive officers are set forth in the following table. The

**Compensation Discussion and Analysis** (continued)

percentages of annual salary used to establish the 2015 annual incentive opportunities for each of the executive officers remained the same as in 2014. The incentive opportunities for the executive officers reflect the amount that may be earned for the awards assuming that the threshold, target or excellent performance levels, as applicable, are met for each of the five performance categories discussed below:

Position	2015 STIP Award as Percent of Annual Base Salary		
	Threshold	Target	Excellent
CEO and President	50.00%	100.00%	175.00%
COO/CFO/CAO	43.75%	87.50%	150.00%

The five performance categories for the 2015 STIP are shown in the table below, together with the target levels of achievement, weight given to each category and actual results achieved in 2015 in each category. Four of the performance categories are Company-wide performance measures and the fifth performance category, individual performance, is personal to each executive officer. As a result of low commodity prices and a substantially reduced capital expenditure budget in 2015, the Committee dropped the three growth performance measures from prior STIPs (production, EBITDAX per share and reserves growth). To challenge management to continue to deliver results on debt leverage and cost control, the Committee added a net debt to adjusted EBITDAX measure, retained LOE and G&A per Boe cost measures and revised the former drill-bit F&D per Boe metric to reflect capital efficiency by measuring drilling and completion costs compared to reserves booked for wells drilled and completed during 2015. We believe the 2015 goals reflected a comparable level of difficulty to goals set on 2014. Finally, the Committee equally weighted all five performance measures, including the individual performance measure at 20%, so that 80% of the potential 2015 STIP awards was determined by objective, Company performance results, and 20% was based on each executive officer's individual performance, as determined by the Committee in consultation with the CEO (except that the CEO is not consulted on his own individual performance).

Performance Category	Weight	2015 Performance Targets			2015 Results
		Threshold	Target	Excellent	
1. Net debt to EBITDAX	20.00%	4.00	3.75	3.50	4.02
2. LOE per Boe	20.00%	\$ 7.25	\$ 6.50	\$ 5.75	\$ 5.24
3. G&A per Boe	20.00%	\$ 7.00	\$ 6.50	\$ 6.00	\$ 5.12
4. Capital efficiency	20.00%	\$ 20.00	\$ 17.50	\$ 15.00	\$ 13.46
5. Individual performance <sup>(1)</sup>	20.00%	8.75-10.00%	17.50-20.00%	30.00-35.00%	17.5-20%
	100.00%				

(1) Threshold, target and excellent percentiles for individual performance are expressed as a percentage of annual base salary and fall within the ranges reflected in the table above.

The Committee has determined that a ratio of net debt to EBITDAX is appropriate because it is widely accepted by the investment community as a financial indicator of a company's ability to internally fund development and exploration activities and it reflects a company's ability to adapt to the impact of changing commodity prices as well as oilfield service costs.

LOE per Boe is our annual lease operating expense divided by our annual production as measured in Boe, and G&A per Boe is our general and administrative expense divided by our annual production as measured in Boe. LOE and G&A are two financial measures under GAAP from our audited financial statements. Our Committee believes that, in the current commodity price environment, it is critical to incentivize management to control costs.

Capital efficiency is calculated by dividing the sum of drilling and completion costs for wells drilled and completed in 2015 by the net reserves booked for such wells in our year-end 2015 reserves report. The Committee believes this measure is important to evaluate how efficiently we can add proved reserves through our own drilling program.

**Compensation Discussion and Analysis** (continued)

The Committee believes that these performance categories and targets, taken together, are objective indicators of our overall performance, including the successful execution of our strategic objectives, development and management of our project inventory and cost-structure improvements. The Committee designed the specified goals for each performance category for 2015 to be challenging, while ultimately reflecting our true performance and recognizing uncertainties inherent to the oil and gas E&P industry.

The individual performance category allows the Committee to use discretion in assessing individual officers' performance. In determining the individual performance component of the STIP, the Committee considers specific measures, such as achievement of strategic objectives, successful supervision of significant Company projects, cost reductions, demonstrated departmental leadership, individual contributions to Company results and TSR and other contributions to the Company. The Committee is in regular contact with our CEO, is knowledgeable about Company operations and believes that it is in a position to accurately and fairly judge individual performance, with the specific recommendations of the CEO for the executive officers other than the CEO, after year-end.

**2015 STIP Awards**

For 2015, the STIP award amount actually paid to each executive officer was equal to the amount earned based on the Company's performance in the four Company-wide performance categories and the individual performance of each executive officer, reduced by 50%. As set forth above in the "2015 Results" column of the table entitled "2015 Performance Targets," the Company achieved strong results across the performance categories, meeting or exceeding target level in three out of four Company-wide performance categories. For individual performance, the Committee made awards at the target level for all executive officers. In making this determination for executive officers, the Committee exercised its discretion and considered each of the executive officer's overall duties, responsibilities, expertise and individual contributions to the Company's achievements in 2015 discussed above in "Our Performance in 2015." Once each performance factor was determined, including the individual performance, and the resulting factor was multiplied by each executive officer's target awards, the award was reduced by 50%.

After reviewing the above considerations, the Company's 2015 results, performance of the CEO and the CEO's recommendations on the performance of the other executive officers and applying the 50% discretionary reduction, the Committee approved the 2015 STIP payments in the table below. The 2015 award percent is the sum of the percentage performance results for each performance category including individual performance, reduced by 50%. The 2015 award payments are also included in the Summary Compensation Table below under the "Non-Equity Incentive Plan Compensation" column.

Executive Officer	2015 STIP Award Percent <sup>(1)</sup>	2015 STIP Earned (without 50% reduction) <sup>(2)</sup>	2015 STIP Actual Award Amount Paid
Mr. Craft	63%	\$700,000	\$350,000
Mr. Yang	54%	\$430,000	\$215,000
Mr. Krylov	54%	\$403,126	\$201,563
Mr. Henderson	54%	\$403,126	\$201,563

(1) The individual performance factor was 20% for Mr. Craft, and 17.5% for Messrs. Yang, Krylov and Henderson.

(2) This reflects the amount earned by each executive based on the Company's performance in the four Company-wide performance categories and the individual performance of each executive officer, before the Compensation Committee's 50% reduction of the STIP awards.

**2016 STIP**

As part of its annual review and in consultation with Meridian, the Compensation Committee kept the basic structure of the 2016 STIP substantially the same as in 2015. The percentages of salary used to determine bonus opportunities for the executive officers remain the same for 2016 as they were in 2015 and 2014.

**Compensation Discussion and Analysis** (continued)

Going forward, our Compensation Committee will determine appropriate methods of evaluating our Company's achievement relative to various performance metrics and will determine if the current categories and associated metrics should be adjusted for future fiscal years, including making adjustments to the performance metrics. In addition, the Committee retains its discretion to grant the full value of STIP awards in future years, or to again exercise its discretion and reduce the total amount payable under future STIPs.

**Long-Term Incentive Plan ("LTIP")**

***In light of low commodity prices, the decline in our TSR in 2015, our desire to preserve liquidity and our focus on cost control, the Compensation Committee recommended, and the Board agreed, to reduce the value of LTIP awards granted to our executive officers in 2016 by 70% from 2015 levels, and granted 75% of such awards in the form of cash-settled performance awards.***

We use annual LTIP equity-based grants to attract, retain and motivate our executive officers as part of our total compensation package. Stock incentive awards are granted under our 2007 Plan. The 2007 Plan allows for the grant of restricted stock, stock options, stock appreciation rights, restricted stock units, stock awards and other incentive awards. The primary purpose of the 2007 Plan is to attract and retain highly qualified officers, directors, key employees and other persons, and to motivate these persons to improve our business results by providing an opportunity to acquire or increase a direct, proprietary interest in our operations and future success. We expense stock awards under Financial Accounting Standards Board, Accounting Standards Codification Topic 718 ("ASC 718").

Since our initial public offering in 2007 through 2015, the Committee generally has used restricted stock that vests over three to four years to align the compensation of our executive officers with an increase in long-term stockholder value. We believe awards of restricted stock can effectively balance our objectives of focusing the recipient on delivering long-term value to our stockholders and providing value to the recipient. Restricted stock awards offer recipients the opportunity to receive shares of our common stock that are subject to a risk of forfeiture and other restrictions until certain specified service or performance requirements are satisfied. In this regard, we believe that restricted stock serves both to reward and retain the recipients. Restricted stock awards also, in many cases, allow the Company to budget for charges to earnings under ASC 718 with greater certainty than other types of awards such as stock options.

For 2015, our LTIP program consisted of grants of (1) performance-based restricted stock awards with service-based vesting conditions (referred to as performance stock awards), and (2) three-year, relative TSR performance restricted stock awards with threshold, target and excellent performance levels (referred to as TSR stock awards).

Recipients of restricted stock awards (though not cash-settled performance awards) are entitled to receive and retain all cash dividends that may be paid with respect to the shares. The Committee does not make, nor has the Committee in the past made, incentive stock grants in coordination with the release of material, non-public information. Instead, the Committee will grant equity awards at the times dictated by our normal compensation process as that process is developed by the Committee.

**2015 LTIP Awards**

For 2015, as part of its annual review of executive compensation and in consultation with Meridian, the Committee recommended, and the Board approved in February 2015, a LTIP in the form of performance stock awards (with a combination of a performance measure and time-vesting restrictions) and TSR stock awards. Seventy-five percent (75%) of the total 2015 LTIP award to each executive officer was made up of performance stock awards and the remaining 25% of the total 2015 LTIP award to each executive officer was comprised of TSR stock awards (approximately 33% if maximum TSR is achieved).

In determining the number of shares to be awarded under the 2015 LTIP, the Committee considered long-term incentive compensation among our peer group and 2014 ECI survey data, Committee members' own experience and knowledge of executive compensation matters at other public E&P companies, the potential dilutive effect of stock awards, the charge to Company earnings under ASC 718, internal pay equity among our executives and the then-current economic and market environment. The Committee further considered existing stock ownership of our executive officers and the importance of retention and alignment of objectives with stockholders' interests as goals of any effective long-term incentive stock award

**Compensation Discussion and Analysis** (continued)

grant. The Committee also reviewed the Company's annual "burn rate," or percentage of weighted average shares outstanding granted under the 2007 Plan in prior years. At the time of the 2015 LTIP grant in February 2015, the Company's three-year average annual burn rate was 1.6%. The Committee also gave weight to the individual contributions of each of the executive officers in 2014.

After considering all of the factors noted above, the Committee decided on an aggregate of approximately 724,000 shares of restricted stock to be awarded to our executive officers as a group under the 2015 LTIP. This number of shares assumes that the maximum performance level applicable to the TSR portion of the award is achieved and remains subject to the achievement of the performance and service-based conditions applicable to each portion of the awards. The grant date value (NASDAQ closing price) of the "base" number of total shares subject to the 2015 LTIP (approximately 644,000 shares, assuming 100% of target TSR is achieved) was approximately \$4.5 million. This aggregate grant date value did not change from 2014 and reflects the Committee's consideration of all of the factors discussed in the preceding paragraph, plus the Company's positive operational results but negative TSR in 2014. Our executive officers' percentage of the total 2015 LTIP award pool remained as follows: Mr. Craft—38%, Mr. Yang—23%, Mr. Krylov—22%, and Mr. Henderson—17%.

The table below summarizes the number of restricted shares subject to LTIP stock awards, as allocated among performance stock awards and TSR stock awards, made to each of our executive officers for 2015. The aggregate grant date fair value of the awards under ASC 718 is set forth in the Summary Compensation Table under the column "Stock Awards."

Executive Officer	2015 LTIP Award	Allocation Among Awards	
		Performance Shares	TSR Shares (150% of target) <sup>(1)</sup>
Mr. Craft	275,213	183,476	91,737
Mr. Yang	166,578	111,052	55,526
Mr. Krylov	159,335	106,223	53,112
Mr. Henderson	123,123	82,082	41,041

(1) TSR shares are calculated based on the maximum shares potentially earned as a percent of target or 150%.

**2015 LTIP – Performance Stock Awards**

**First Trigger.** The Committee believes that performance stock awards provide incentives for achieving results that strongly correlate with our business objectives and increasing stockholder value. The Committee determined that the performance measure for the 2015 performance stock awards should incentivize cost and debt control, to build stockholder value while preserving a sustainable capital structure in the current low commodity price environment.

In order for any of the awarded restricted shares to become eligible to vest, the performance measure must be satisfied. If the performance measure for the 2015 awards was not satisfied during the applicable performance period (fiscal year 2015), the entire award would be forfeited, and the award shares would be returned to the 2007 Plan. The table below summarizes the performance measure required to be achieved for the 2015 performance stock awards and 2015 actual results.

2015 Performance Stock Awards – Performance Measure	2015 Actual Results
EBITDAX to interest coverage ratio must be a minimum of 4.0	4.87

For the performance stock award portion of the 2015 LTIP, the Committee selected an EBITDAX-to-interest-coverage ratio, which was calculated under the terms of our credit agreement. This performance measure was intended to emphasize strong credit metrics in a year of expected low commodity prices and reduced drilling activity.

The Committee certified the results of the 2015 LTIP performance measure in March 2016. The performance measure applicable to the 2015 performance stock awards was achieved, and the awards became eligible to vest in accordance with the service-based vesting conditions described below.

**Compensation Discussion and Analysis** (continued)

**Second Trigger.** Because the applicable performance measure was satisfied, the 2015 performance stock awards will now ratably vest in one-half increments on December 31, 2016 and December 31, 2017, provided the executive officer is employed by the Company on the applicable vesting dates.

**Acceleration of Awards.** The performance stock awards granted in 2015 will vest in full upon a change in control or disability (each as defined in the 2007 Plan) or death of the executive.

**2015 LTIP – TSR Stock Awards**

The 2015 TSR stock awards are earned based on the Company’s relative TSR performance against the Company’s 2015 compensation peer group, plus one or more specified alternate companies. See “Setting Executive Officer Compensation—Use of Peer Group Comparisons” for a discussion of our 2015 peer group. The scale of payout ranges between maximum, or 150% of target, and threshold, or 50% of target, as set forth below, to incentivize our executive officers to maximize stockholder value. If the Company’s TSR ranks below the 41st percentile of the peer group, then no payout will be made with respect to the TSR stock awards.

TSR Company Ranking	Percentile Ranking	Percentage of Target TSR Shares Earned
Company 1	100%	150%
Company 2	94%	150%
Company 3	88%	150%
Company 4	82%	150%
Company 5	76%	140%
Company 6	71%	130%
Company 7	65%	120%
Company 8	59%	110%
Company 9	53%	100%
Company 10	47%	75%
Company 11	41%	50%
Company 12	35%	0%
Company 13	29%	0%
Company 14	24%	0%
Company 15	18%	0%
Company 16	12%	0%
Company 17	6%	0%
Company 18	0%	0%

To the extent that TSR performance measures are met and the TSR shares become earned, the TSR shares will cliff vest at the end of the three-year performance period, or December 31, 2017, provided the executive officer remains employed on that date.

If any of the peer companies undergoes a change in corporate capitalization or a corporate transaction (including a going-private transaction, bankruptcy, liquidation, merger, consolidation, etc.) during the performance period, the Committee will determine whether such peer company will be replaced. If the Company’s TSR for the performance period is negative, then the awards are capped at the target level.

If an executive officer’s employment is terminated due to death or “disability” (as defined in the 2007 Plan), then the executive officer will be deemed, at the time of termination, to have earned the target number of TSR shares. If a “change in control” (as defined in the 2007 Plan) occurs during the performance period, we will determine the number of TSR shares earned by each executive officer assuming the performance period ends on the date of the change in control.

**Compensation Discussion and Analysis** (continued)**2016 LTIP Awards and Performance Measures**

In March 2016, the Committee granted LTIP awards for 2016, 75% in the form of cash-settled performance awards, and 25% in the form of TSR stock awards (approximately 33% if maximum TSR is achieved). The cash-settled performance awards are substantially similar to the performance stock awards granted in prior years and include both a performance measure and time-vesting requirements over four years. The cash-settled performance awards track the value of the Company's stock, but have no voting rights, no rights to receive dividends and settle in cash instead of stock. Because the cash-settled performance awards track the value of the Company's stock, we believe these awards also align the compensation of our executive officers with an increase in long-term stockholder value in an identical manner as performance stock awards. In addition, we elected to use cash-settled awards for a portion of the 2016 LTIP grants due to the limited availability of shares under our 2007 Plan and to lessen the dilutive impact of equity-based awards on our stockholders in the current low stock price environment.

In determining the amount of the base LTIP award pool for the executive officers for 2016, the Compensation Committee considered market conditions at year-end 2015, including low oil and gas prices, as well as negative TSR in 2015. The Compensation Committee recommended, and the Board agreed, to reduce the value of granted LTIPs by 70% for our executive officers for 2016. Therefore, the grant date value of the "base" number of total shares subject to cash-settled performance awards (assuming 100% of target TSR is achieved) was approximately \$1.35 million, instead of the approximately \$4.5 million grant date fair value for 2015. The allocation of the 2016 LTIP award pool was also held the same as 2015: Mr. Craft—38%, Mr. Yang—23%, Mr. Krylov—22% and Mr. Henderson—17%. For the cash-settled performance award portion of the 2016 LTIP, the Committee selected a cash operating expense per Boe ratio to emphasize our low-cost approach and focus on reducing operating expenditures in a year of expected low commodity prices and reduced drilling activity.

If the performance measure is met during the performance period (fiscal year 2016), then one-third of the cash-settled performance awards will ratably vest on each of December 31, 2017, December 31, 2018, and December 31, 2019; provided the executive officer remains employed by the Company on the applicable vesting dates.

The TSR stock award component of the 2016 LTIP is earned based on the Company's relative TSR performance against the Company's 2016 compensation peer group. For purposes of the 2016 TSR stock award, the TSR peer group is the same as the 2016 compensation peer group.

**Special Equity Awards**

In certain circumstances, we grant discretionary equity awards to attract and retain key executives, recognize expanded roles and responsibilities and reward past performance. The Compensation Committee did not make any grants of special equity awards to our executive officers in 2015, and the Compensation Committee has not made any grants of special equity awards to our executive officers to date in 2016.

**Stock Ownership Guidelines and Additional Holding Periods**

The Committee believes that meaningful stock ownership by our officers and directors is critical in aligning management's interests with the interests of our stockholders. Therefore, in January 2012, the Committee established minimum stock ownership requirements for our executive officers and directors. The Company's CEO is expected to own shares of the Company's common stock having a market value (measurable either on the grant date or the date of determination of compliance with the guidelines) of at least five times his base salary, and each of the Company's other executive officers is expected to own shares of the Company's common stock having a market value (measurable either on the grant date, or the date of determination of compliance with the guidelines) of at least three times his base salary. Executives have up to five years to meet the stock ownership guidelines. Currently, each executive officer satisfies the guidelines. Because of our adoption of these ownership guidelines, our executives' current level of stock ownership, and the three- to four-year service vesting requirements applicable to our LTIP stock awards, we have not adopted additional holding periods on equity awards after they become vested. Please see "Director Compensation" for a description of stock ownership guidelines for our non-employee directors.

**Compensation Discussion and Analysis** (continued)**Prior Compensation**

In general, prior compensation, such as gains from prior stock options or stock awards, is not taken into account in setting other elements of compensation, such as base pay or STIP awards. However, the Committee will generally consider prior stock purchases by, and prior stock and stock option awards to, our named executive officers when considering additional stock award grants. For new executive officers, we expect to take into account their prior base salary, annual cash incentives, the value of any equity compensation or other benefits that the new officer would forfeit to accept employment with us, as well as the contributions expected to be made by the new officer, our business needs and the role of the officer with us.

**“Say-On-Pay” Advisory Vote on Executive Compensation**

At our 2015 annual meeting, we provided stockholders a “say-on-pay” advisory vote on the compensation of our named executive officers under Section 14A of the Exchange Act. Our stockholders expressed significant support for the compensation of our executive officers, with approximately 82% of the votes cast for approval of the “say-on-pay” advisory vote on executive compensation. As we evaluated our compensation practices and objectives for 2015 and 2016, we were mindful of the strong support of our stockholders for our compensation design and philosophy of linking pay to performance and building long-term stockholder value. As a result, the Committee decided to retain our general approach to executive compensation, with an emphasis on short-term and long-term incentive compensation programs that encourage, reward and retain our key executives when they deliver strong financial and operational results as well as value for our stockholders, although the Committee did make adjustments to our compensation programs in 2016 in light of the challenging conditions facing our Company and the industry as a whole.

**Employment Agreements**

In January 2011, the Company entered into an amended and restated employment agreement with Mr. Craft and new employment agreements with Mr. Henderson and Mr. Yang. In addition, in January 2014, the Company entered into an employment agreement with Mr. Krylov in connection with his appointment as our Executive Vice President and CFO. All employment agreements have an initial term of two years with one-year extensions. The agreements provide for potential severance payments upon the termination of the officers’ employment in certain situations.

After the initial term of the agreements with Messrs. Craft, Henderson and Yang, which ended January 1, 2013, the agreement with each executive officer was automatically renewed for an additional one-year term. On January 1, 2014, January 1, 2015 and again on January 1, 2016, the agreements with each of these officers were automatically renewed for additional one-year terms. Currently, the term of the employment agreements with each of Messrs. Craft, Henderson and Yang ends on January 1, 2017, and, at the end of the current term, the agreements will be automatically renewed for additional one-year terms unless either party elects not to renew an agreement or an agreement is otherwise terminated according to its terms.

The agreements provide, among other things, for a minimum level of annual base salary for each executive officer, subject to annual review and adjustment by the Board, provided that for Mr. Craft, once established at an increased amount, his base salary will not be reduced below that increased amount during the term. The employment agreements also provide that the executive officer is eligible to receive annual performance-based bonuses each year during the employment term, has the opportunity to participate in the employee benefit arrangements offered to similarly situated executives and may periodically receive LTIP grants.

The severance and change-in-control provisions contained in the employment agreements are described in greater detail below under “Executive Compensation—Potential Payments Upon Termination or Change in Control.” The agreements are intended to retain qualified executives in a competitive market for executive talent. The employment agreements do not contain any tax gross-up provisions in the event any named executive officer receives potential parachute payments under Section 280G of the Code. The Committee believes that the severance and change-in-control arrangements in these agreements provide important protection to the Company’s executive officers, are consistent with the practices of peer companies and are appropriate for the retention of executive talent.

**Compensation Discussion and Analysis** (continued)**Health and Welfare Benefits**

Named executive officers receive the same health and welfare benefits, including medical, prescription drug, dental and vision, that are offered to all employees. The same contribution amounts and plan design provisions apply to all employees, including executive officers. The named executive officers also participate in the same qualified 401(k) plan as other employees. Under the plan, the Company currently matches 100% of an employee's elective deferrals up to 3% of annual base salary, plus an additional 50% of elective deferrals on the next 2% of annual base salary. All contributions are subject to applicable federal limitations under the Code and U.S. Treasury regulations. These benefits are part of our overall compensation program and are designed to encourage continuity in employment and executive leadership and to remain competitive in the market for talent and experience in the E&P business. We do not provide any supplemental executive retirement benefits to our executive officers.

**Perquisites**

We do not provide any perquisites or personal benefits to our executive officers except for a long-term disability plan for Mr. Craft, for which we pay a monthly premium of approximately \$355 per month, and reimbursement of certain professional and club membership dues and expenses. Please see the Summary Compensation Table for all compensation received by our named executive officers.

**Policy on Recovery of Compensation and Clawbacks**

All awards granted to our executive officers contain a provision that provides that (i) the Company will not be required to comply with any term of the agreement if and to the extent prohibited by applicable law or to the extent doing so would require that the officer reimburse the Company for such amounts under the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act") or the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), and (ii) the officer shall reimburse the Company for incentive-based or equity-based compensation and profits realized from the sale of award shares covered by the agreement as required by applicable law, including but not limited to the Sarbanes-Oxley Act or the Dodd-Frank Act.

**Indemnification Agreements**

The Company has entered into indemnification agreements with each of our directors and executive officers. Each indemnification agreement requires the Company to indemnify each indemnitee to the fullest extent permitted by the Delaware General Corporation Law. This means, among other things, that the Company must indemnify the director or executive officer against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement that are actually and reasonably incurred in a legal proceeding because the person was a director, officer, employee or agent of the Company or was serving at the request of the Company as a director, officer, employee or agent of another entity if the indemnitee meets the standard of conduct provided under Delaware law. Also as permitted under Delaware law, the indemnification agreements require the Company to advance expenses in defending such an action, provided that the director or executive officer undertakes to repay the amounts if the person ultimately is determined not to be entitled to indemnification from the Company. The Company will also make the indemnitee whole for taxes imposed on the indemnification payments and for costs in any action to establish the indemnitee's right to indemnification, whether or not wholly successful. The Company also maintains customary directors' and officers' insurance coverage.

**Policy Prohibiting Hedging Transactions and Pledging Company Shares**

Our Insider Trading Policy prohibits Company employees, including our named executive officers, and members of the Board from engaging in short-term or speculative transactions in the Company's securities, including short sales, options and other derivatives, and from holding Company securities in a margin account or pledging securities as collateral for a loan.

**Compensation Discussion and Analysis** (continued)**Deductibility of Executive Compensation**

Section 162(m) of the Code, as clarified by the IRS and applicable regulations, generally disallows a federal income tax deduction to public companies for compensation in excess of \$1 million paid for any fiscal year to each of the Company's "covered employees" (within the meaning of Section 162(m)) as of the end of any fiscal year. However, the regulations currently exempt qualified, "performance-based compensation" from the \$1 million deduction limit if certain requirements are met.

Our policy is to have a compensation program that recognizes and rewards performance that increases stockholder value, and, to the extent consistent with this policy, to seek to maintain the favorable tax treatment of that compensation. As a result, the 2007 Plan is intended to be designed so that we may grant awards of qualified, "performance-based compensation" to our covered employees. We believe, however, that under some circumstances, such as to attract or retain key executives or to recognize outstanding performance, it is in the Company's and our stockholders' best interests to provide compensation to selected executives even if it is not deductible.

# Compensation Committee Report

The Compensation Committee has reviewed and discussed the CD&A with our management. Based on this review and discussion, the Compensation Committee recommended to the Board that the CD&A be included in this proxy statement and incorporated by reference in the Company's annual report on Form 10-K for the fiscal year ended December 31, 2015.

Respectfully submitted by the Compensation Committee of the Board,

Vean J. Gregg III, Chairman  
Alan D. Bell  
Christopher J. Whyte



# Compensation Practices as They Relate to Risk Management

The Compensation Committee believes that an appropriate part of total compensation is fixed for our executive officers, while another equally appropriate portion is variable and linked to performance. Although the majority of the compensation provided to the named executive officers is performance-based, we believe our compensation program does not encourage excessive and unnecessary risk taking by our executive officers (or other employees) because the program is designed to encourage our officers and other employees to remain focused on both our near- and long-term goals.

STIP awards comprise a portion of the variable compensation we provide and are determined based on Company performance on a variety of measures, which the Committee believes mitigates excessive risk taking that could produce unsustainable gains in one area of performance at the expense of our overall long-term interests. In addition, the Committee sets performance goals that it believes are reasonable in light of our past performance, then-current business projections and market conditions. Additionally, our STIP includes maximum payout caps to limit the amount of incentive compensation that may be earned by the named executive officers.

A portion of the variable compensation we provide is made up of performance stock awards (cash-settled performance awards that track the value of our stock, in the case of 2016) that are subject to service-based vesting conditions once initial performance-based conditions are attained. These awards can retain value even in a depressed market, so executives are less likely to take unreasonable risks. In addition, we provide TSR stock awards that measure our TSR over a specified three-year period relative to the TSR of certain peer companies over the same period, which aligns the interests of our executive officers with the interests of our stockholders. We believe our adoption of meaningful stock ownership guidelines further reduces the likelihood of unnecessary risk-taking because our executive officers are required to own a significant amount of Company stock.

# Compensation Committee Interlocks and Insider Participation

None of our executive officers serves as a member of the board or compensation committee of any entity that has one or more of its executive officers serving as a member of our Board or Compensation Committee.



# Executive Compensation

Set forth below is the compensation awarded to, earned by or paid to our named executive officers for services rendered for 2013, 2014 and 2015 in all capacities, consisting of base salaries, restricted stock awards, non-equity incentive plan compensation and other compensation.

## Summary Compensation Table

Name and Principal Position (a)	Year (b)	Salary (\$) (c)	Bonus (\$) <sup>(1)</sup> (d)	Stock Awards (\$) <sup>(2)</sup> (e)	Non-Equity Incentive Plan Compensation (\$) <sup>(3)</sup> (g)	All Other Compensation (\$) <sup>(4)</sup> (i)	Total (\$) (j)
J. Ross Craft, P.E. <i>Chairman of the Board, Chief Executive Officer and President</i>	2015	560,000	—	1,713,661	350,000	38,955	2,662,616
	2014	560,000	—	1,728,121	807,408	38,771	3,134,300
	2013	525,000	—	1,423,530	644,070	39,290	2,631,890
Qingming Yang, PhD <i>Chief Operating Officer</i>	2015	400,000	—	1,037,223	215,000	28,506	1,680,729
	2014	400,000	—	1,034,863	496,480	27,881	1,959,224
	2013	340,000	—	869,958	361,080	28,785	1,599,823
Sergei Krylov <i>Executive Vice President and Chief Financial Officer</i>	2015	375,000	—	992,125	201,563	28,506	1,597,194
	2014	375,000	350,000	2,494,674	465,450	63,161	3,748,285
J. Curtis Henderson <i>Chief Administrative Officer and Corporate Secretary</i>	2015	375,000	—	766,648	201,563	28,506	1,371,717
	2014	375,000	—	763,588	465,450	29,101	1,633,139
	2013	310,000	—	711,777	278,132	29,995	1,329,904

(1) The amount reported for Mr. Krylov reflects a cash sign-on bonus paid to him in connection with his acceptance of an offer of employment with the Company, which amount was subject to repayment if his employment with the Company were terminated within the first year of his employment.

(2) Stock awards represent the aggregate grant date fair value for restricted stock and other stock awards granted under the 2007 Plan, calculated according to ASC 718. The amounts are consistent with the estimate of aggregate compensation cost to be recognized over the service period for accounting purposes for the awards, excluding the effect of estimated forfeitures, and do not necessarily correspond to the actual value that will be recognized by the named executive officers. Additional information on the assumptions used in the computation of our share-based compensation is included in Note 5 to our consolidated financial statements in our annual report on Form 10-K for the year ended December 31, 2015. For 2015, the amounts in the "Stock Awards" column reflect the grant of performance stock awards and TSR stock awards under the 2015 LTIP covering an aggregate of 724,249 shares of common stock (assuming target TSR is achieved). The grant date fair value for the performance stock awards is based on the closing price of our common stock on February 23, 2015, the grant date for those awards, which was \$6.99 per share. The grant date fair value for the TSR stock awards were calculated based on the target number of TSR stock awards granted at a price per share of \$7.05, which reflects the probability of achieving the applicable conditions for the TSR stock award and was determined using a Monte Carlo simulation model.

Assuming the maximum number of TSR shares granted, the following summarizes the grant date fair value for the performance and TSR stock awards granted to each officer under the 2015 LTIP:

Mr. Craft	\$	1,929,243
Mr. Yang	\$	1,167,711
Mr. Krylov	\$	1,116,939
Mr. Henderson	\$	863,092

**Executive Compensation** (continued)

See "Analysis of Executive Compensation Decisions—Long-Term Incentive Plan ("LTIP")—2015 LTIP Awards," "— 2015 LTIP—Performance Stock Awards" and "— 2015 LTIP—TSR Stock Awards" for additional information regarding the 2015 equity awards.

For Mr. Krylov, 2014 "Stock Awards" includes the aggregate grant date fair value, calculated according to ASC 718, of the following awards made in connection with his appointment as Executive Vice President and CFO: (i) 26,441 vested shares of the Company's common stock under the 2007 Plan, and (ii) 52,882 shares of restricted stock under the 2007 Plan, subject to cliff vesting on the third anniversary of the grant date.

- (3) Represents awards paid under the 2015 STIP. In light of low commodity prices, the decline in our TSR in 2015, our desire to preserve liquidity and our focus on cost control, the Compensation Committee recommended, and the Board agreed, to exercise discretion to reduce the 2015 STIP payout to executive officers by 50% of the amount actually achieved based on results in the five performance categories. The reduced amounts reported in the table above were paid to the named executive officers in the first quarter of 2016. The 2015 STIP awards are described in more detail in "Analysis of Executive Compensation Decisions—Short-Term Incentive Plan ("STIP")—2015 STIP Overview," "— 2015 STIP Targets and Performance Criteria" and "— 2015 STIP Awards."
- (4) The following items are reported in the "All Other Compensation" column for fiscal year 2015:

Name	Insurance Premiums	401(k) Plan Match	Professional Membership and Club Dues	Total
Mr. Craft	\$ 22,160	\$ 10,600	\$ 6,195	\$ 38,955
Mr. Yang	\$ 17,906	\$ 10,600	\$ —	\$ 28,506
Mr. Krylov	\$ 17,906	\$ 10,600	\$ —	\$ 28,506
Mr. Henderson	\$ 17,906	\$ 10,600	\$ —	\$ 28,506

**Grants of Plan-Based Awards for Year Ended December 31, 2015**

The table below sets forth the range of potential STIP awards for 2015 performance as a dollar amount for each of the named executive officers under the 2015 STIP. The table also sets forth (i) the number of shares and grant date fair value of performance stock awards granted during 2015 to the named executive officers under the 2007 Plan, and (ii) the range of potential payouts for the TSR stock awards granted during 2015 to the named executive officers under the 2007 Plan.

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards <sup>(1)</sup>			Estimated Future Payouts Under Equity Incentive Plan Awards <sup>(2)</sup>			All Other Stock Awards: Number of Shares of Stock or Units (#) <sup>(3)</sup>	Grant Date Fair Value of Stock Awards (\$) <sup>(4)</sup>
		Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)		
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(l)
Mr. Craft	2/23/15	280,000	560,000	980,000					
	2/23/15				30,579	61,158	91,737		\$ 431,164
	2/23/15							183,476	\$ 1,282,497
Mr. Yang	2/23/15	175,000	350,000	600,000					
	2/23/15				18,509	37,017	55,526		\$ 260,970
	2/23/15							111,052	\$ 776,253
Mr. Krylov	2/23/15	164,063	328,125	562,500					
	2/23/15				17,704	35,408	53,112		\$ 249,626
	2/23/15							106,223	\$ 742,499
Mr. Henderson	2/23/15	164,063	328,125	562,500					
	2/23/15				13,680	27,361	41,041		\$ 192,895
	2/23/15							82,082	\$ 573,753

**Executive Compensation** (continued)

- (1) These columns show the range of potential values for the payout of the STIP awards for 2015 performance for each named executive officer, including the portion of the STIP award attributable to individual performance. The actual payout is determined 80% by Company-wide performance and 20% by individual performance. Amounts included in the threshold column assume that the threshold level of all Company-wide and individual performance measures were met under the 2015 STIP. Amounts included in the target column assume that the target levels of all Company-wide and individual performance measures were met, and amounts included in the maximum column assume that the excellent levels of all Company-wide and individual performance measures were met under the 2015 STIP. The actual amount of the STIP award paid to each named executive officer for 2015 performance is set forth above in the Summary Compensation Table in the "Non-Equity Incentive Plan Compensation" column for 2015. For a detailed description of the 2015 STIP, see "Compensation Discussion and Analysis—Analysis of Executive Compensation Decisions—Short-Term Incentive Plan ("STIP")."
- (2) These columns show a range of the potential number of shares that may be earned pursuant to the TSR stock awards granted as part of the 2015 LTIP. The number of units paid at the end of the performance period may vary from the target amount, based on our TSR achievement relative to the TSR of the specified peer companies. If the Company's TSR ranks below the 41<sup>st</sup> percentile of the peer group at the end of the applicable performance period, then no payout will be made with respect to the TSR stock awards. The awards are described in greater detail above under "Compensation Discussion and Analysis—Analysis of Executive Compensation Decisions—Long-Term Incentive Plan ("LTIP")—2015 LTIP Awards" and "—2015 LTIP—TSR Stock Awards."
- (3) The performance stock awards granted on February 23, 2015, were subject to a performance measure in 2015, the year of grant. The Compensation Committee certified that the performance measure was achieved as of December 31, 2015; however, these awards remain subject to time-based vesting restrictions through December 31, 2017. See "Compensation Discussion and Analysis—Analysis of Executive Compensation Decisions—Long-Term Incentive Plan ("LTIP")—2015 LTIP Awards" and "—2015 LTIP—Performance Stock Awards" for a more detailed discussion of these awards.
- (4) This column represents the aggregate grant date fair value of each LTIP award granted in 2015, in each case, calculated according to ASC 718. The grant date fair value for the TSR stock awards is based on the target number of TSR shares granted at a price per share of \$7.05, which reflects the probability of achieving the applicable conditions for the TSR stock awards determined using a Monte Carlo simulation model. The amounts reported do not necessarily correspond to the actual value that will be recognized by the named executive officers for these awards. See footnote (2) to the Summary Compensation Table for additional information about the assumptions used in calculating these amounts.

**Outstanding Equity Awards at Fiscal Year-End**

The following table summarizes the number of securities underlying outstanding, unvested stock awards under the 2007 Plan for each named executive officer as of December 31, 2015. None of the named executive officers held any outstanding stock options under the 2007 Plan during 2015.

Name (a)	Stock Awards			
	Number of Shares of Stock That Have Not Vested (#) <sup>(1)</sup> (g)	Market Value of Shares of Stock That Have Not Vested (\$) <sup>(2)</sup> (h)	Equity Incentive Plan Awards: Number of Unearned Shares That Have Not Vested (#) <sup>(3)</sup> (i)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares That Have Not Vested (\$) <sup>(4)</sup> (j)
Mr. Craft	229,405	\$ 422,105	40,991	\$ 75,423
Mr. Yang	152,236	\$ 280,114	24,744	\$ 45,529
Mr. Krylov	177,083	\$ 325,833	23,697	\$ 43,603
Mr. Henderson	103,230	\$ 189,943	18,281	\$ 33,637

**Executive Compensation** (continued)

(1) These restricted stock awards remain subject to service-based vesting conditions. The treatment of all of these awards under certain termination and change-in-control events is described below under "Potential Payments Upon Termination or Change in Control." For each executive officer, the number of shares of stock that have not vested is made up of:

Name	Grant Date	Number of Shares of Stock That Have Not Vested
Mr. Craft	February 20, 2013 (a)	14,694
	February 21, 2014 (b)	31,235
	February 23, 2015 (c)	183,476
Mr. Yang	January 24, 2012 (d)	13,500
	February 20, 2013 (a)	8,980
	February 21, 2014 (b)	18,704
	February 23, 2015 (c)	111,052
Mr. Krylov	January 3, 2014 (e)	52,882
	February 21, 2014 (b)	17,978
	February 23, 2015 (c)	106,223
Mr. Henderson	February 20, 2013 (a)	7,347
	February 21, 2014 (b)	13,801
	February 23, 2015 (c)	82,082

(a) Awards granted on February 20, 2013, vest in three equal annual installments on December 31, 2014, December 31, 2015, and December 31, 2016, as long as the executive officer remains employed by the Company through the applicable vesting date.

(b) Awards granted on February 21, 2014, vest in two equal annual installments on December 31, 2015, and December 31, 2016.

(c) Awards granted on February 23, 2015, vest in two equal annual installments on December 31, 2016, and December 31, 2017. See "Compensation Discussion and Analysis—Analysis of Executive Compensation Decisions—Long-Term Incentive Plan ("LTIP")—2015 LTIP Awards" above for more information.

(d) The award granted to Mr. Yang on January 24, 2012, vested in 4 equal installments, with the final 13,500 shares vesting on January 24, 2016.

(e) The award granted to Mr. Krylov on January 3, 2014, vests in full on January 3, 2017, as long as Mr. Krylov remains employed by the Company through such date.

(2) Based on the closing price of our common stock on NASDAQ of \$1.84 per share on December 31, 2015.

(3) In accordance with SEC rules, the number of unearned shares reported in this column represent (a) 50% of the target number of TSR stock awards granted to the executive officers on February 21, 2014, and (b) 50% of the target number of TSR stock awards granted to the executive officers on February 23, 2015, in each case, assuming achievement of the threshold or minimum level of performance that would result in any payout under the awards. If the Company's TSR ranks below the 41st percentile of the peer group at the end of the applicable performance period, then no payout will be made with respect to the TSR stock awards. Due to our relative TSR falling below threshold level at December 31, 2015, if the performance period applicable to the outstanding TSR stock awards had actually ended as of December 31, 2015, no payout would be made with respect to the awards. Vesting and payout of the TSR stock awards is contingent on continuous active employment with the Company at the end of the applicable performance period, which ends December 31, 2016 (for the 2014 TSR stock awards), and December 31, 2017 (for the 2015 TSR stock awards), and our relative TSR at the end of the performance period compared to the TSR of the specified peer companies. See "Compensation Discussion and Analysis—Analysis of Executive Compensation Decisions—Long-Term Incentive Plan ("LTIP")—2015 LTIP Awards" and "— 2015 LTIP—TSR Stock Awards" above for more information.

(4) Based on the closing price of our common stock on NASDAQ of \$1.84 per share on December 31, 2015, multiplied by the number of shares determined in accordance with footnote (3) above.

**Executive Compensation** (continued)**Option Exercises and Stock Vested**

The following table reflects stock awards that vested for each of our named executive officers during 2015.

Name (a)	Stock Awards	
	Number of Shares Acquired on Vesting (#) <sup>(1)</sup>	Value Realized on Vesting (\$) <sup>(2)</sup>
	(d)	(e)
Mr. Craft	56,032	\$103,099
Mr. Yang	45,876	\$146,107
Mr. Krylov	17,978	\$ 33,080
Mr. Henderson	25,841	\$ 47,547

(1) Includes 0% of the target number of TSR stock awards granted on February 20, 2013, based on our relative TSR at the end of the performance period, which ended December 31, 2015, compared to the TSR of the specified peer companies.

(2) Based on the closing price of our common stock on NASDAQ on the vesting date, as follows:

(a) For Messrs. Craft, Krylov and Henderson, all of the reported shares vested on December 31, 2015, when the closing price of our common stock was \$1.84 per share.

(b) For Mr. Yang, 13,500 shares vested on Saturday, January 24, 2015. The closing price of our common stock on Friday, January 23, 2015 was \$6.41 per share. All other shares reported for Mr. Yang vested on December 31, 2015, when the closing price of our common stock was \$1.84 per share.

**Pension Benefits**

We do not have any plan that provides for payments or other benefits at, following or in connection with retirement, other than our 401(k) plan.

**Non-Qualified Deferred Compensation**

We do not have any plan that provides for the deferral of compensation on a basis that is not tax qualified.

**Potential Payments upon Termination or Change in Control****Employment Agreements**

During 2015, we had an employment agreement with each of our named executive officers that provided, among other things, certain severance benefits in the event an executive officer's employment terminated under specified circumstances.

As discussed in more detail below, the terms of our employment agreement with Mr. Craft vary in some respects from the terms of our employment agreements with other named executive officers. For example, Mr. Craft's employment agreement provides for a higher level of severance benefits and single-trigger payments upon a change in control rather than double-trigger severance, which is provided in the employment agreements with other named executive officers. The differences in Mr. Craft's employment agreement are the result of the Committee's competitiveness review of Mr. Craft's prior employment agreement. The Committee considered the level of severance benefits provided to similarly situated CEOs in the oil and gas industry and determined that the level of severance benefits in Mr. Craft's prior employment agreement was not competitive for our industry. In addition to adjusting Mr. Craft's severance benefits in the amended employment agreement, the Committee determined that it was in the best interest of stockholders to retain the single-trigger payment provision contained in Mr. Craft's prior employment agreement. The single-trigger provision in the prior

**Executive Compensation** (continued)

employment agreement was the result of good faith negotiations by the Company and Mr. Craft, and after significant arms-length discussions regarding potential terms of a new agreement in 2010, both parties agreed to keep the provision. None of our other named executive officers has a single-trigger payment upon a change in control, none is contemplated by the Committee, and the Committee does not expect to approve any additional, single-trigger payment provisions in the future.

In addition, the terms of our employment agreement with Mr. Krylov regarding the amount of his severance benefits under certain circumstances are different than the terms of our employment agreements with other named executive officers and are noted in the discussion below, where relevant.

**Severance Payments and Benefits under the Employment Agreements**

The employment agreements with our named executive officers provide for potential severance payments upon the termination of a named executive officer's employment in certain situations, including in connection with a change in control, without cause by the Company or for good reason by the executive officer, due to nonrenewal by the Company and upon the death or permanent disability of the executive officer.

**Termination for Cause, without Good Reason, or due to Executive's Nonrenewal.** In the event of an executive's termination by the Company for cause, by the executive without good reason or by the executive's proper notice of nonrenewal of the agreement, the Company shall have no severance obligation to the executive other than payment of accrued obligations, which are (i) earned but unpaid base salary through the date of termination, (ii) any employee benefits to which the executive has a vested entitlement as of the date of termination, (iii) accrued but unused vacation, and (iv) approved but unreimbursed eligible business expenses.

**Death or Permanent Disability.** Under the terms of the employment agreements, in the event of an executive's death or if he becomes subject to a permanent disability, the agreements will terminate and we will pay the executive or his estate the accrued obligations and a lump sum severance payment, payable between 20 and 60 days after the date of termination following the executive's proper execution of a release of claims in favor of the Company, equal to (i) 100% of the executive's then-current annual base salary, and (ii) 100% of the average of any bonuses received by the executive in the two years immediately before the separation from service (or, if the executive has been employed for less than two years, the executive's target bonus amount).

**Termination without Cause, for Good Reason or due to Company's Nonrenewal.** If the agreements are terminated by the Company without cause, by the executive for good reason, or by the Company's proper notice of nonrenewal of the agreement, the Company will pay each named executive officer (i) the accrued obligations, (ii) a lump sum severance payment, payable between 20 and 60 days after the date of termination following the executive's proper execution of a release of claims in favor of the Company, equal to 150% (or 200%, in the case of Mr. Craft and Mr. Krylov) of the greater of (A) the executive officer's then-current base salary or (B) the executive officer's base salary at any time within two years immediately before the separation from service, and (iii) the bonus that the named executive officer would have received based on actual achievement of applicable performance goals in the year of termination (prorated for any partial year of service, except, for Mr. Craft and Mr. Krylov, in the case of a termination without cause or for good reason), payable on the date that annual bonuses are paid to the named executive officers still employed by the Company. The Company will also reimburse the named executive officers for certain premiums paid under the Consolidated Omnibus Reconciliation Act of 1985 ("COBRA"), for up to 18 months (or up to 24 months, in the case of Mr. Craft; in the case of all executives, up to 12 months if an executive terminates his employment for good reason), depending on the executive's eligibility for continuation of coverage under COBRA.

**Change in Control.** If Mr. Craft is employed by the Company at the time of a change in control, Mr. Craft's employment agreement will automatically terminate, without regard to whether Mr. Craft experiences a separation from service, and Mr. Craft will receive the accrued obligations and a lump sum cash payment, payable between 20 and 60 days after the date the change in control occurs following Mr. Craft's proper execution of a release of claims in favor of the Company, equal to (i) 200% of the greater of Mr. Craft's then-current base salary and Mr. Craft's base salary at any time within the two years before the change in control, and (ii) 200% of the average of any bonuses received by Mr. Craft in the two years before the change in control. We will also reimburse Mr. Craft for certain premiums paid under COBRA for up to 24

**Executive Compensation** (continued)

months following his separation from service, subject to Mr. Craft's eligibility for continuation of coverage under COBRA. These payments and benefits are in lieu of any severance amounts that may otherwise become due under the agreement.

If one of the other named executive officers is employed by us at the time of a change in control and his agreement is terminated without cause or by the executive for good reason within one year of the change in control, the executive will receive a lump sum cash payment, payable between 20 and 60 days after the date of termination following the executive's proper execution of a release of claims in favor of the Company, equal to (i) 150% (or 200%, in the case of Mr. Krylov) of the greater of the executive's then-current base salary and his base salary at any time within the two years immediately before the change in control, and (ii) 100% (or 200%, in the case of Mr. Krylov) of the average of bonuses received by the executive in the two years before the change in control (or, if the executive has been employed for less than two years, the executive's target bonus amount). We will also reimburse the executive for certain premiums paid under COBRA for a period of up to 18 months, depending on the executive's eligibility for continuation of coverage under COBRA.

If a named executive officer is terminated by the Company without cause or if he terminates his employment for good reason, in either case, within 120 days before the occurrence of a change in control, then the named executive officer will be entitled to receive, in addition to the benefits described above for termination without cause or for good reason, a lump sum equal to the excess, if any, of the severance benefits he would have received if he had been employed on the date of the change in control over the severance benefits he actually received in connection with his termination of employment.

**Conditions to Receipt of Severance**

All payments and benefits due under the employment agreements are conditioned upon the execution and non-revocation by the executive officer of a release for the Company's benefit. Under the agreements, the executive officers have also agreed to certain confidentiality, non-competition and non-solicitation covenants with respect to the Company. The confidentiality covenants apply during the term of the agreement and for a one-year period following the executive officer's termination of employment. The non-competition and non-solicitation covenants apply during the term of the agreement and for one year following the executive officer's termination of employment (or for six months following termination of employment in the case of (i) Mr. Craft, in the event of his termination from employment for good reason or in connection with a change in control, or (ii) the other named executive officers, if an executive officer is terminated without cause or for good reason within one year following a change in control). Violation of any restrictive covenant entitles the Company to complete relief, which includes restitution. In addition, in the event of the breach of a restrictive covenant during an executive officer's employment with us, the executive could be terminated for cause (provided that the breach constituted a material violation of the employment agreement). The employment agreements do not prohibit the Company from waiving a breach of a restrictive covenant.

**Section 280G**

If amounts payable to an executive officer under his employment agreement (together with any other amounts that are payable by us as a result of a change in ownership or control) (collectively, the "Payments") exceed the amount allowed under Section 280G of the Internal Revenue Code for such executive (thereby subjecting the executive to an excise tax), then the Payments due to the executive under the employment agreement will either (i) be reduced so that the present value of the Payments is \$1.00 less than the amount which would cause the executive to incur an excise tax under Section 4999, or (ii) be paid in full, whichever produces the better net, after-tax result for the executive (taking into account any applicable excise or income taxes). We do not provide any of our named executive officers with gross-up payments to cover Section 280G excise taxes.

**Employment Agreement Definitions**

For purposes of the employment agreements, the following terms have been given the meanings set forth below:

"Change in control" is generally defined as (i) any consolidation or merger of the Company in which the Company is not the continuing or surviving corporation or under which shares of the Company's common stock would be converted into cash, securities or other property, other than a merger of the Company in which the holders of the Company's common stock immediately before the merger have the same proportionate ownership of common stock of the surviving

**Executive Compensation** (continued)

corporation immediately after the merger, (ii) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all or substantially all, of the assets of the Company and its subsidiaries to any other person or entity (other than an affiliate of the Company), (iii) the stockholders of the Company approve any plan or proposal for liquidation or dissolution of the Company, (iv) any person or entity (other than Yorktown Energy Partners V, L.P., or any of its affiliated funds), including a “group” as contemplated by Section 13(d)(3) of the Exchange Act, acquires or gains ownership or control (including, without limitation, power to vote) of more than 50% of the outstanding shares of the Company’s voting stock (based on voting power), or (v) as a result of or in connection with a contested election of directors, the persons who were directors of the Company before such election shall cease to constitute a majority of the Board. A change in control does not include a public offering of the Company’s common stock or a transaction with its sole purpose to change the state of the Company’s incorporation or to create a holding company that will be owned in substantially the same proportions by the persons who held the Company’s securities immediately before such transaction.

“Cause” is generally defined as (i) the willful and continued failure by the executive substantially to perform his duties, responsibilities or authorities (other than any such failure resulting from the executive becoming permanently disabled), (ii) the willful engaging by the executive in misconduct that is materially injurious to the Company, (iii) any misconduct by the executive in the course and scope of the executive’s employment, including but not limited to dishonesty, disloyalty, disorderly conduct, insubordination, harassment of other employees or third parties, abuse of alcohol or controlled substances or other violations of the Company’s personnel policies, rules or Code of Conduct, (iv) any material violation by the executive of his employment agreement, or (v) any violation by the executive of any fiduciary duty owed by the executive to the Company or its affiliates. For these purposes, no act, or failure to act, on the executive’s part shall be considered “willful” unless done, or omitted to be done, by him not in good faith and without reasonable belief that his action or omission was in the best interest of the Company.

“Good reason” is generally defined as, without the executive’s consent, (i) a material diminution in the executive’s annual base salary, duties, responsibilities or authorities, (ii) a requirement that the executive report to an officer or employee other than the Board (or, in the case of executive officers other than Mr. Craft, to an officer or employee other than the president or the Board), (iii) a material relocation of the executive’s primary work location more than 50 miles from the Company’s corporate headquarters (or 25 miles, in the case of Mr. Craft), or (iv) any other material breach by the Company of its obligations under the employment agreement.

An executive will be deemed to have become “Permanently Disabled” when (i) he receives disability benefits under either Social Security or the Company’s long-term disability plan, if any, (ii) the Board, upon the written report of a qualified physician designated by the Board or its insurers, shall have determined (after a complete physical examination of the executive at any time after he has been absent from the Company for a total period of 180 or more calendar days in any 12-month period) that the executive has become physically and/or mentally incapable of performing his essential job functions with or without reasonable accommodation as required by law, or (iii) he is otherwise unable for a continuous period of 90 calendar days to perform his essential job functions with or without reasonable accommodation as required by law due to injury, illness or other incapacity (or 120 days, in the case of Mr. Craft).

**Executive Compensation** (continued)

**Table of Severance Benefits.** The following table summarizes the potential severance payments payable to our executive officers at December 31, 2015, under their employment agreements. The table is only intended to summarize various terms of the employment agreements and is qualified in its entirety by reference to the full text of the actual agreements, copies of which are on file with the SEC.

Executive Officer	Change in Control ("CIC") <sup>(1)</sup>	By Company Without Cause or by Executive For Good Reason	Notice of Nonrenewal by Company	Death or Permanent Disability
Mr. Craft	(a) 200% of base salary, (b) 200% of average bonus during two years before CIC, and (c) COBRA premiums for up to 24 months.	(a) 200% of base salary, (b) 100% of bonus, and (c) COBRA premiums for up to 24 months (12 months if executive terminates for good reason).	(a) 200% of base salary, (b) 100% of bonus, prorated for partial year of service, and (c) COBRA premiums for up to 24 months.	(a) 100% of base salary, and (b) 100% of average bonus during two years before separation of service.
Mr. Krylov	(a) 200% of base salary, (b) 200% of target bonus, and (c) COBRA premiums for up to 18 months.	(a) 200% of base salary, (b) 100% of bonus, and (c) COBRA premiums for up to 18 months (12 months if executive terminates for good reason).	(a) 200% of base salary, (b) 100% of bonus, prorated for partial year of service, and (c) COBRA premiums for up to 18 months.	(a) 100% of base salary, and (b) 100% of target bonus.
Mr. Yang and Mr. Henderson	(a) 150% of base salary, (b) 100% of average bonus during two years before CIC, and (c) COBRA premiums for up to 18 months.	(a) 150% of base salary, (b) 100% of bonus, prorated for partial year of service, and (c) COBRA premiums for up to 18 months (12 months if executive terminates for good reason).	(a) 150% of base salary, (b) 100% of bonus, prorated for partial year of service, and (c) COBRA premiums for up to 18 months.	(a) 100% of base salary, and (b) 100% of average bonus during two years before separation of service.

(1) Change in control must be followed by termination of employment by the Company without cause or by the executive for good reason, each within one year of the change in control, for severance to be payable to the named executive officers, except for Mr. Craft. Amounts due to Mr. Craft are automatically payable upon change in control regardless of termination of employment.

**Stock Incentive Plan**

In addition to potential severance payments under the executive employment agreements discussed above, certain outstanding restricted stock awards granted to our named executive officers under the 2007 Plan are subject to accelerated vesting in the event of a change in control or certain termination events.

**Performance Stock Awards**

The outstanding performance stock award agreements provide that unvested restricted shares will automatically vest in full upon termination of employment by reason of death or disability. In addition, in accordance with the terms of the 2007 Plan, unvested restricted shares will automatically vest in full upon the occurrence of a change in control.

**TSR Stock Awards**

The outstanding TSR stock award agreements provide that, if an executive officer's employment is terminated due to death or disability, then the executive officer will be deemed, at the time of termination, to have earned the target number of TSR shares. If a change in control occurs during the performance period, we will determine the number of TSR shares earned by each executive officer assuming the performance period ends on the date of the change in control.

**Executive Compensation** (continued)***Special Equity Awards***

The restricted stock awards granted to Mr. Yang in January 2012 and the restricted stock awards granted to Mr. Krylov in January 2014 will automatically become fully vested upon the occurrence of a change in control, in accordance with the terms of the 2007 Plan.

The definition of change in control under the 2007 Plan and the restricted stock award agreements is the same definition as under the employment agreements, and is discussed above under “Employment Agreement Definitions.” Under the 2007 Plan and the restricted stock award agreements, “disability” is generally defined as (i) the inability of an executive to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, or (ii) an executive’s receipt of income replacement benefits for a period of not less than three months under an accident or health plan covering employees of the Company or an affiliate, due to any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months.

**Executive Compensation** (continued)**Quantification of Payments**

The table below summarizes the dollar amounts of potential payments to each named executive officer upon a qualifying termination of employment or change in control assuming that each of the events described in the table below occurred on December 31, 2015, when the closing price of the Company's common stock was \$1.84. The values below are our best estimates of the severance payments and benefits the executives would receive upon a termination of employment or a change in control as of December 31, 2015, and we believe the amounts below have been calculated using reasonable assumptions. All amounts reported below are before taxes, which would reduce amounts ultimately received by our named executive officers. Any actual payments that may be made under the agreements described above depend on various factors, which may or may not exist at the time a change in control actually occurs and/or the named executive officer is actually terminated. Therefore, the amounts and disclosures below should be considered "forward-looking statements."

Executive Officer	Change in Control or CIC <sup>(1)</sup>	By Company Without Cause or by Executive For Good Reason	Notice of Nonrenewal by Company	Death or Permanent Disability
<b>Mr. Craft</b>				
Salary	\$ 1,120,000	\$ 1,120,000	\$ 1,120,000	\$ 560,000
Bonus	1,451,478	807,408	807,408	725,739
Accelerated Equity	422,105	—	—	572,950
Continued Medical (COBRA) <sup>(2)</sup>	46,174	46,174	46,174	—
Total <sup>(3)</sup>	\$ 3,039,757	\$ 1,973,582	\$ 1,973,582	\$ 1,858,689
<b>Mr. Yang</b>				
Salary	\$ 600,000	\$ 600,000	\$ 600,000	\$ 400,000
Bonus	428,780	496,480	496,480	428,780
Accelerated Equity	280,114	—	—	346,330
Continued Medical (COBRA) <sup>(2)</sup>	34,631	34,631	34,631	—
Total <sup>(3)</sup>	\$ 1,343,525	\$ 1,131,111	\$ 1,131,111	\$ 1,175,110
<b>Mr. Krylov</b>				
Salary	\$ 750,000	\$ 750,000	\$ 750,000	\$ 375,000
Bonus	656,250	465,450	465,450	328,125
Accelerated Equity	325,833	—	—	315,733
Continued Medical (COBRA) <sup>(2)</sup>	34,631	34,631	34,631	—
Total <sup>(3)</sup>	\$ 1,766,714	\$ 1,250,081	\$ 1,250,081	\$ 1,018,858
<b>Mr. Henderson</b>				
Salary	\$ 562,500	\$ 562,500	\$ 562,500	\$ 375,000
Bonus	371,791	465,450	465,450	371,791
Accelerated Equity	189,943	—	—	257,217
Continued Medical (COBRA) <sup>(2)</sup>	34,631	34,631	34,631	—
Total <sup>(3)</sup>	\$ 1,158,865	\$ 1,062,581	\$ 1,062,581	\$ 1,004,008

(1) As described above, for the named executive officers other than Mr. Craft, the change in control must be followed by a termination of employment by the Company without cause or by the executive for good reason, in either case within one year of the change in control, in order for the "Salary," "Bonus" and "Continued Medical (COBRA)" amounts reported above to become payable. Accelerated vesting of equity awards and all payments due to Mr. Craft are triggered upon the occurrence of a change in control regardless of termination of employment. As a result of our stock price and our TSR relative to the TSR of our peer companies at December 31, 2015, the TSR stock awards held by our named executive officers have no value and therefore the amounts reported

**Executive Compensation** (continued)

for accelerated vesting of equity awards include no value attributable to TSR stock awards, other than in the event of a termination due to death or disability, in which case the executive officer will be deemed to have earned the target number of TSR stock awards.

- (2) Based on assumptions used for financial reporting purposes under GAAP. In the event of a termination by the executive for good reason, the duration of continued medical benefits would only last up to 12 months; however, for purposes of quantifying amounts in this table, the "By Company Without Cause or by Executive For Good Reason" column reports up to 18 months of continued coverage (or 24 months, in the case of Mr. Craft) in the event of a termination without cause or for good reason, which is what would be provided in the event of a termination without cause by the Company.
- (3) "Total" amounts are calculated without regard to the potential 280G reduction described above under "Employment Agreements –Section 280G." The amount of any potential reduction would be determined at the time of payment.



# Director Compensation

## Annual Retainer and Meeting Fees

*In 2016, in light of low commodity prices, the decline in our TSR in 2015 and potential dilution, the Board reduced the value of the 2016 annual stock retainer by 70%, from \$80,000 to \$24,000.*

Each of our non-employee directors received an annual retainer of \$80,000 in fully vested common stock for services rendered in 2015, under our director compensation plan.

Each of our non-employee directors also received an annual retainer of \$50,000 in cash, stock or a combination of both, at the election of each director, payable in four equal installments on the first trading day of each quarter.

Each non-employee director received cash meeting fees of \$1,500 for each Board meeting attended and \$1,000 for each committee meeting attended. The Lead Independent Director received an annual retainer of \$25,000 in cash, stock or a combination of both, at the election of the Lead Independent Director, and payable in four equal installments on the first trading day of each quarter. In addition, the chairmen of the Audit Committee, the Compensation Committee and the Nominating and Governance Committee received an annual retainer of \$15,000 in cash, stock or a combination of both, at the election of each chairman, and payable in four equal installments on the first trading day of each quarter.

In addition, each non-employee director is reimbursed for travel and miscellaneous expenses incurred to attend meetings and activities of the Board or its committees, as well as travel and miscellaneous expenses related to such director's participation in general education and programs for directors.

The following table sets forth a summary of the compensation we paid to our non-employee directors in 2015. The amounts shown under the "Stock Awards" column reflect the grant date fair value of the fully-vested common stock received by each non-employee director and were calculated according to ASC 718, based on the NASDAQ closing price of our common stock on the date of grant. Neither Mr. Craft, who is a full-time employee, nor Mr. Lawrence, who is affiliated with Yorktown Energy Partners, receives compensation for serving as a director or for attending Board, Audit Committee or Compensation Committee meetings. All compensation paid to Mr. Craft for 2015 services is included in the Summary Compensation Table.

Name (a)	Fees Earned or Paid in Cash (\$) (b)	Stock Awards (\$) (c)	Total (\$) (h)
Mr. Bell	\$ 89,648	\$ 79,999	\$ 169,647
Mr. Brandi	45,831	104,993	150,824
Mr. Crain	20,190	144,979	165,169
Mr. Gregg	22,437	169,970	192,407
Mr. Lubar	12,500	129,988	142,488
Mr. Whyte	49,093	104,992	154,085

## Director 2016 Annual Retainer Reduction; Board Reduction

In 2016, in light of the continued decline in commodity prices, a decline in TSR in 2015 and our focus on cost control, the Board (i) reduced the value of the annual 2016 stock retainer by 70%, from \$80,000 to \$24,000, and (ii) reduced the size of the Board from eight members to five members, effective immediately following the 2016 annual meeting.

## Director Stock Ownership Guidelines

The Compensation Committee believes that meaningful stock ownership by our directors is important in aligning directors' interests more closely with those of the Company's stockholders. Therefore, the Compensation Committee has

**Director Compensation** (continued)

established director stock ownership guidelines under which directors who are not also named executive officers of the Company are expected to own shares of the Company's common stock having a market value (measurable either on the grant date or the date of determination of compliance with the guidelines) of five times the portion of the annual retainer payable in cash, common stock or a combination of both, which is currently set at \$50,000 for 2016. Directors have up to five years to meet the stock ownership guideline. Each non-employee director currently satisfies the guidelines.



# Certain Relationships and Related-Party Transactions

Our Board has approved a written policy that requires our Audit Committee to review on an annual basis all transactions with related parties, or in which a related party has a direct or indirect interest, and to determine whether to ratify or approve the transaction after consideration of the related party's interest in the transaction. For these purposes, a related-party transaction is a transaction between the Company and any related party, such as an officer, director or 5% stockholder of the Company, other than transactions available to all employees generally or transactions involving less than \$5,000 when combined with all similar transactions. We had no related-party transactions in 2015.

# Independent Registered Public Accountants

The Audit Committee has appointed Hein & Associates LLP as our independent registered public accounting firm to audit our consolidated financial statements and internal control over financial reporting as of and for the fiscal year ending December 31, 2016. Stockholders are being asked to ratify the appointment of Hein at the 2016 annual meeting of stockholders under Proposal 5.

Representatives of Hein are expected to be present at the 2016 annual meeting. Hein representatives will have an opportunity to make a statement, if they desire, and are expected to be available to respond to appropriate questions at the 2016 annual meeting.

## Audit Fees

Our independent registered public accounting firm for 2015 and 2014 was Hein & Associates LLP. The audit fees billed to us by Hein totaled \$434,228 and \$426,325 during the years ended December 31, 2015 and 2014, respectively.

Audit fees consist of fees billed for professional services for the audit of our annual financial statements, reviews of the financial statements included in our quarterly reports and services that are normally provided in connection with statutory and regulatory filings, and the audit of our internal control over financial reporting. For 2015 and 2014, these services also include the review of our prospectuses for equity offerings. During the past two years, no tax, audit-related or other fees were billed to us by Hein.

## Preapproval Policy and Procedures

The Audit Committee must give prior approval to any management request for any amount or type of service (audit, audit-related and tax services or to the extent permitted by law, non-audit services) our independent registered public accounting firm provides. All audit and audit-related services rendered by Hein in 2015 and 2014 were approved by the Audit Committee before Hein was engaged for such services. No services of any kind were approved pursuant to a waiver permitted under 17 CFR 210.2-01(c)(7)(i)(C).

# Audit Committee Report

*The following statement is furnished by our Audit Committee and is not incorporated by reference into any document that we file with the SEC.*

This statement is being provided to inform stockholders of the Audit Committee's oversight with respect to our financial reporting.

The Audit Committee has reviewed and discussed the audited financial statements as of and for the year ended December 31, 2015, and related notes with management and the independent registered public accounting firm. In addition, the Audit Committee has discussed with the independent registered public accounting firm the matters required to be discussed by Auditing Standard No. 16. The Audit Committee discussed with our independent registered public accounting firm the independence of this firm from our management, including a review of audit and non-audit fees, and received the written disclosures and the letter from the independent registered public accounting firm required by applicable requirements of the Public Company Accounting Oversight Board (United States) (the "PCAOB") regarding the independent registered public accounting firm's communications with the Audit Committee concerning independence. The Audit Committee has also discussed with our management and the independent registered public accounting firm such other matters and received such assurance from them, as the Audit Committee deemed appropriate.

Management is responsible for the preparation and presentation of the Company's audited financial statements, the establishment and maintenance of our disclosure controls and procedures and the establishment, maintenance and evaluation of the effectiveness of our internal control over financial reporting. The independent registered public accounting firm is responsible for performing an independent audit of our financial statements and internal control over financial reporting according to the standards of the PCAOB and issuing reports. The Audit Committee's responsibility is to monitor and oversee this process.

Based on the foregoing review and discussions with management and the independent registered public accounting firm, and relying thereon, we have recommended to the Company and the Board the inclusion of the audited financial statements in the Company's annual report on Form 10-K for the year ended December 31, 2015, for filing with the SEC.

The members of the Audit Committee are not professionally engaged in the practice of auditing or accounting for the Company and are not experts in auditor independence standards. Members of the Audit Committee rely, without independent verification, on the information provided to them and on the representations made by management and the Company's 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 according to the standards of the PCAOB, that the financial statements are presented according to GAAP standards or that Hein & Associates LLP is in fact independent.

Respectfully submitted by the Audit Committee of the Board,

Alan D. Bell, Chairman  
James H. Brandi  
James C. Crain  
Christopher J. Whyte

# Other Matters

## Other Proposals at the Annual Meeting of Stockholders

Our Board does not know of any other matters that are to be presented for action at the 2016 annual meeting. However, if any other matters properly come before the annual meeting or any adjournment(s) or postponement(s) thereof, it is intended that the enclosed proxy will be voted according to the judgment of the persons voting the proxy.

The information contained in this proxy statement in the sections entitled “Compensation Committee Report” and “Audit Committee Report” shall not be deemed to be “soliciting material” or to be “filed” with the SEC, nor shall such information be incorporated by reference into any future filings with the SEC, or subject to the liabilities of Section 18 of the Exchange Act, except to the extent that we specifically incorporate it by reference into a document filed under the Securities Act or the Exchange Act.

## Submission of Stockholder Proposals and Other Deadlines for the 2017 Annual Meeting of Stockholders

Pursuant to Rule 14a-8 under the Exchange Act, some stockholder proposals may be eligible for inclusion in our 2017 proxy statement. Under the SEC’s rules and regulations, stockholders interested in submitting proposals in our proxy materials and for presentation at our 2017 annual meeting of stockholders may do so by following the procedures set forth in Rule 14a-8 under the Exchange Act. In general, stockholder proposals must be received by our Corporate Secretary at Approach Resources Inc., One Ridgmar Centre, 6500 West Freeway, Suite 800, Fort Worth, Texas 76116 no later than December 21, 2016, to be eligible for inclusion in our proxy materials.

Alternatively, as specified in our bylaws, a stockholder making a nomination for election to our Board or a proposal of business (other than proposals to be included in our proxy statement and proxy as discussed in the previous paragraph) for our 2017 annual meeting of stockholders must deliver proper notice to our Corporate Secretary at Approach Resources Inc., One Ridgmar Centre, 6500 West Freeway, Suite 800, Fort Worth, Texas 76116 not less than 90 and no more than 120 calendar days before the one-year anniversary of the date of this proxy statement. As a result, for a stockholder nomination for election to our Board or a proposal of business to be considered at the 2017 annual meeting of stockholders, it must be properly submitted to our Corporate Secretary no earlier than December 21, 2016, and no later than January 20, 2017.

Pursuant to Rule 14a-4(c) of the Exchange Act, our Board may exercise discretionary voting authority under proxies solicited by it with respect to any matter properly presented by a stockholder at the 2017 annual meeting that the stockholder does not seek to have included in our proxy statement if (except as described in the following sentence) the proxy statement discloses the nature of the matter and how our Board intends to exercise its discretion to vote on such matter, unless we are notified of the proposal on or before January 20, 2017, and the stockholder satisfies the other requirements of Rule 14a-4(c)(2). If we first receive notice of such matter after January 20, 2017, and the matter nonetheless is permitted to be presented at the 2017 annual meeting of stockholders, our Board may exercise discretionary voting authority with respect to any such matter without including any discussion of the matter in the proxy statement for the 2017 annual meeting of stockholders. We reserve the right to reject, rule out of order or take other appropriate action with respect to any proposal that does not comply with the requirements described above and other applicable requirements.

For each individual that a stockholder proposes to nominate as a director and for each matter of business proposed to be considered, the stockholder must provide notice to our Corporate Secretary within the time limits described above for delivering notice of such stockholder proposal and comply with the information requirements in our bylaws relating to stockholder nominations. See “Corporate Governance—Identifying and Evaluating Nominees for Director” for additional information about stockholder nominations.

Detailed information for submitting stockholder proposals is available upon written request to our Corporate Secretary at Approach Resources Inc., One Ridgmar Centre, 6500 West Freeway, Suite 800, Fort Worth, Texas 76116. These

**Other Matters** (continued)

requirements are separate from, and in addition to, the SEC's rules and regulations that a stockholder must meet to have a stockholder proposal included in our proxy statement for the 2017 annual meeting of stockholders.

**2015 Annual Report to Stockholders**

Our 2015 annual report to stockholders accompanies this proxy statement. The 2015 annual report to stockholders is not a part of the proxy soliciting material.

**Stockholder List**

In accordance with the Delaware General Corporation Law, we will maintain at our corporate offices in Fort Worth, Texas a list of the stockholders entitled to vote at the 2016 annual meeting. The list will be open to the examination of any stockholder, for purposes relevant to the 2016 annual meeting, during ordinary business hours for at least 10 days prior to the 2016 annual meeting. The stockholder list will also be produced and kept at the time and place of the 2016 annual meeting for the duration of the meeting and may be inspected by any stockholder who is present.

**Additional Information About Approach Resources Inc.**

If you would like to receive further information about Approach Resources Inc., please visit our website at [www.approachresources.com](http://www.approachresources.com). The "Investors" section of our website contains management presentations, financial information, stock quotes and links to our filings with the SEC.

**A copy of our annual report on Form 10-K for the fiscal year ended December 31, 2015, including the financial statements, but not including exhibits, will be provided at no charge to each person to whom this proxy statement is delivered upon the written request of such person addressed to Approach Resources Inc., Attn: Investor Relations, One Ridgmar Centre, 6500 West Freeway, Suite 800, Fort Worth, Texas 76116, or by contacting Investor Relations at (817) 989-9000 or via our website at [www.approachresources.com](http://www.approachresources.com).**

You may read without charge, and copy at prescribed rates, all or any portion of the proxy statement or any reports, statements or other information in the files at the public reference facilities of the SEC's principal office at Room 1580, 100 F Street, N.E., Washington, D.C., 20549. You can request copies of these documents upon payment of a duplicating fee by writing to the SEC. You may call the SEC at 1-800-SEC-0330 for further information on the operation of its public reference rooms. Our filings are also available on the Internet website maintained by the SEC at [www.sec.gov](http://www.sec.gov).

In this proxy statement, we state that information and documents are available on our website. These references are merely intended to suggest where our stockholders may obtain additional information. The materials and other information presented on our website are not incorporated in and should not otherwise be considered part of this proxy statement.

BY ORDER OF THE BOARD OF DIRECTORS,



J. Curtis Henderson  
Chief Administrative Officer and Corporate Secretary

Fort Worth, Texas  
April 20, 2016

APPENDIX 1

FIFTH AMENDMENT TO THE  
APPROACH RESOURCES INC.  
2007 STOCK INCENTIVE PLAN

This Fifth Amendment (the “**Fifth Amendment**”) to the Approach Resources Inc. 2007 Stock Incentive Plan, as amended from time to time (the “**Plan**”), is made effective as of June 2, 2016 (the “**Amendment Effective Date**”), by Approach Resources Inc., a Delaware corporation (“**Approach**”), subject to approval by Approach’s stockholders.

WITNESSETH:

WHEREAS, Approach established the Plan, originally effective as of June 28, 2007 and most recently amended effective March 2, 2016, under which Approach is authorized to grant equity-based incentive awards to certain employees and service providers of Approach and its subsidiaries;

WHEREAS, Section 14.1 of the Plan provides that Approach’s board of directors (the “**Board**”) may amend the Plan to increase the Plan’s share limitation with the approval of Approach’s stockholders; and

WHEREAS, the Board now desires to amend the Plan in the manner contemplated hereby, subject to approval by Approach’s stockholders at the Company’s 2016 annual meeting, to increase the number of shares available for grant under the Plan by 2,500,000 shares.

NOW, THEREFORE, the Plan shall be amended as of the Amendment Effective Date, subject to approval by Approach’s stockholders, as set forth below:

1. The first sentence of Section 4.1(a) of the Plan is hereby deleted and replaced in its entirety with the following:

(a) Subject to adjustment as provided in Section 4.2, the maximum number of shares of Common Stock that shall be available for grant of Awards under the Plan, on or after May 31, 2012, shall not exceed 6,125,000 shares.

2. Except as set forth above, the Plan shall continue to read in its current state.

IN WITNESS WHEREOF, Approach has caused the execution of this Fifth Amendment by its duly authorized officer, effective as of the Amendment Effective Date.

APPROACH RESOURCES INC.

By: \_\_\_\_\_ / s / J. R O S S C R A F T

J. Ross Craft  
Chairman, Chief Executive Officer  
and President

**APPROACH RESOURCES INC.**  
**6500 WEST FREEWAY, SUITE 800**  
**ONE RIDGMAR CENTRE**  
**FORT WORTH, TEXAS 76116**



**VOTE BY INTERNET - [www.proxyvote.com](http://www.proxyvote.com) or scan the QR Barcode above**  
 Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 P.M. Eastern Time on June 1, 2016. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

**ELECTRONIC DELIVERY OF FUTURE PROXY MATERIALS**  
 If you would like to reduce the costs incurred by our company in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access proxy materials electronically in future years.

**VOTE BY PHONE - 1-800-690-6903**  
 Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M. Eastern Time on June 1, 2016. Have your proxy card in hand when you call and then follow the instructions.

**VOTE BY MAIL**  
 Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS: E10191-P74366 KEEP THIS PORTION FOR YOUR RECORDS

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 DETACH AND RETURN THIS PORTION ONLY

**THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.**

**APPROACH RESOURCES INC.**

<b>For All</b>	<b>Withhold All</b>	<b>For All Except</b>	To withhold authority to vote for any individual nominee(s), mark "For All Except" and write the number(s) of the nominee(s) on the line below.
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

**The Board of Directors recommends you vote FOR the following:**

1. Election of Directors

**Nominees:**

- 01) J.Ross Craft, P.E.
- 02) VeanJ. Gregg, III

**The Board of Directors recommends you vote FOR proposals 2, 3, 4 and 5.**

	<b>For</b>	<b>Against</b>	<b>Abstain</b>
2. To approve, on an advisory basis, executive compensation.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. To approve the Fifth Amendment to our 2007 Stock Incentive Plan to increase the maximum number of available shares by 2,500,000 shares.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. To approve the material terms of the 2007 Stock Incentive Plan, as amended by the Fifth Amendment, for purposes of complying with Section 162(m) of the Internal Revenue Code.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. To ratify the appointment of Hein & Associates LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2016.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. To transact such other business as may properly come before the meeting or any adjournment or postponement thereof.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

<b>Yes</b>	<b>No</b>
<input type="checkbox"/>	<input type="checkbox"/>

Please indicate if you plan to attend this meeting.

Please sign exactly as your name(s) appear(s) hereon. When signing as attorney, executor, administrator, or other fiduciary, please give full title as such. Joint owners should each sign personally. All holders must sign. If a corporation or partnership, please sign in full corporate or partnership name by authorized officer.

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Signature [PLEASE SIGN WITHIN BOX]

Date

Signature (Joint Owners)

Date

**Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting:**  
The Notice and Proxy Statement and 2015 Annual Report to Stockholders are available at [www.proxyvote.com](http://www.proxyvote.com).

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E10192-P74366

**APPROACH RESOURCES INC.  
Annual Meeting of Stockholders  
June 2, 2016, 10:00 AM CDT  
This proxy is solicited by the Board of Directors**

The undersigned stockholder of Approach Resources Inc. (the "Company") acknowledges receipt of the notice of annual meeting of stockholders and accompanying proxy statement, proxy card and 2015 annual report to stockholders of the Company and hereby appoints J. Ross Craft and J. Curtis Henderson (the "Named Proxies"), and each of them, with full power of substitution, to act as attorneys and proxies for the undersigned to vote all the shares of common stock of the Company that the undersigned is entitled to vote at the 2016 Annual Meeting of Stockholders of the Company to be held at Approach Resources Inc., located at One Ridgmar Centre, 6500 West Freeway, Suite 800 in Fort Worth, Texas, on June 2, 2016 at 10:00 a.m. (Central Daylight Time), and at all postponements or adjournments thereof, as indicated on this proxy, and, in their discretion, such other business that may properly come before the meeting and at all postponements or adjournments thereof.

**You are encouraged to specify your choice by marking the appropriate box (SEE REVERSE SIDE), if no direction is made, this proxy will be voted in accordance with the Board of Directors' recommendations. The Named Proxies cannot vote the shares unless you sign and return this card.**

**Continued and to be signed on reverse side**