

CONTANGO OIL & GAS CO  
Form DEF 14A  
October 12, 2006

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, DC 20549**

**SCHEDULE 14A**

**(RULE 14a-101)**

**INFORMATION REQUIRED IN PROXY STATEMENT**

**SCHEDULE 14A INFORMATION**

**Proxy Statement Pursuant to Section 14(A) of The**

**Securities Exchange Act of 1934**

**(Amendment No. \_\_)**

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

**CONTANGO OIL & GAS COMPANY**

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(Name of Registrant as Specified in its Charter)

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(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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(4) Proposed maximum aggregate value of transaction:

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(5) Total fee paid:

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Fee paid previously with preliminary materials.

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

(1) Amount previously paid:

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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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**CONTANGO OIL & GAS COMPANY**

**3700 Buffalo Speedway, Suite 960**

**Houston, Texas 77098**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**NOVEMBER 17, 2006**

Dear Stockholder,

You are cordially invited to attend the 2006 Annual Meeting of Stockholders of Contango Oil & Gas Company, which will be held at 3700 Buffalo Speedway, Second Floor, Houston, Texas 77098, on Friday, November 17, 2006 at 9:00 a.m., Central Time.

At the Annual Meeting you will be asked to vote on the following matters:

- (1) To elect our board of directors to serve until the annual meeting of stockholders in 2007;
- (2) To ratify the appointment of Grant Thornton LLP as the independent auditors of the Company for the fiscal year ending June 30, 2007; and
- (3) To conduct any other business that is properly raised at the Annual Meeting.

**Stockholders who owned shares of Contango Oil & Gas Company's common stock, par value \$0.04 per share, and holders of Series D perpetual cumulative convertible preferred stock, par value \$0.04 per share, at the close of business on October 13, 2006 are entitled to receive notice of and to attend and vote at the meeting.**

**As a stockholder of Contango Oil & Gas Company, you have the right to vote on the proposals listed above. Please read the Proxy Statement carefully because it contains important information for you to consider when deciding how to vote. Your vote is important.**

This year, you have two options in submitting your vote prior to the Annual Meeting date:

- (1) You may sign and return the enclosed proxy card in the accompanying envelope; or

- (2) If your shares are held in street name, you can vote over the Internet at the address shown on your proxy card.

**Whether or not you plan to attend the Annual Meeting in person, please date, sign and return the enclosed proxy card promptly or vote over the Internet.** A postage-paid return envelope is enclosed for your convenience. If you decide to attend the Annual Meeting, you can, if you wish, revoke your proxy and vote in person. If you have any questions, please contact us through our Website at [www.contango.com](http://www.contango.com), send us an e-mail at [contango@contango.com](mailto:contango@contango.com) or write us at 3700 Buffalo Speedway, Suite 960, Houston, Texas 77098.

By order of the Board of Directors,

/s/ KENNETH R. PEAK  
Kenneth R. Peak

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*Chairman, Chief Executive Officer,  
Chief Financial Officer and Secretary*  
Houston, Texas

October 16, 2006

**CONTANGO OIL & GAS COMPANY**

**3700 Buffalo Speedway, Suite 960**

**Houston, Texas 77098**

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**PROXY STATEMENT**

**ANNUAL MEETING OF STOCKHOLDERS**

**NOVEMBER 17, 2006**

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To our Stockholders:

The board of directors (the **Board**) of Contango Oil & Gas Company, a Delaware corporation (the **Company** or **Contango**), is furnishing you with this Proxy Statement in connection with its solicitation of your proxy, in the form enclosed, for use at the 2006 Annual Meeting of Stockholders (the **Annual Meeting**) to be held at 3700 Buffalo Speedway, Second Floor, Houston, Texas 77098, on Friday, November 17, 2006 at 9:00 a.m., Central Time, for the purposes set forth in the accompanying Notice of Annual Meeting of Stockholders.

We are mailing this Proxy Statement to you on or about October 23, 2006, together with the accompanying proxy card and the Company's annual report on Form 10-K for the fiscal year ended June 30, 2006.

We cordially invite you to attend the Annual Meeting. Whether or not you plan to attend, please complete, date and sign the proxy card and return it promptly in the return envelope provided. If your shares are owned in **street name** and you prefer to vote over the Internet, please follow the instructions on the proxy card or other enclosed proxy material.

**QUESTIONS AND ANSWERS**

**1. Q: Who is asking for my proxy?**

**A:** Your proxy is being solicited by our Board for use at our Annual Meeting. Our directors, officers or employees may also solicit proxies on behalf of our Board, in person or by telephone, facsimile, mail or e-mail. If our directors, officers or employees solicit proxies, they will not be specially compensated. Contango will pay all costs and expenses of this proxy solicitation.

**2. Q: What are stockholders being asked to vote on?**

**A:** At our Annual Meeting, stockholders will be asked to vote:

To elect our board of directors to serve until the annual meeting of stockholders in 2007;

To ratify the appointment of Grant Thornton LLP as the independent auditors of the Company for the fiscal year ending June 30, 2007; and

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On any other matter that may properly come before the Annual Meeting or any adjournment of the Annual Meeting.

**3. Q: Who is entitled to vote?**

**A:** The record of stockholders entitled to vote at the Annual Meeting was taken at the close of business on October 13, 2006 (the Record Date). As of the Record Date, the Company had outstanding 15,015,835 shares of common stock, par value \$0.04 per share (the Common Stock) and 2,000 shares of Series D perpetual cumulative convertible preferred stock, par value \$ 0.04 per share (Series D Preferred Stock). Approximately 833,330 shares of Common Stock are currently issuable upon conversion of the outstanding shares of Series D Preferred Stock.

**4. Q: How many shares may vote at the Annual Meeting?**

**A:** Holders of Common Stock and holders of Series D Preferred Stock will vote as one class at the Annual Meeting. Each record holder of Common Stock is entitled to one vote per share of Common Stock owned on the Record Date. Each record holder of Series D Preferred Stock is entitled to one vote per share for each share of Common Stock (including fractional shares) into which each share of Series D Preferred Stock is convertible, rounded to the nearest one-tenth of a share.

**5. Q: How do I vote my shares?**

**A:** A proxy card is included with the proxy materials being sent to you. The proxy card allows you to specify how you want your shares voted as to each proposal listed. The proxy card provides space for you to:

Vote for, or withhold authority to vote for, each nominee for director.

If the proxy card is properly signed and returned to us, shares covered by the proxy card will be voted in accordance with the directions you specify on the card. The person named as proxy on the proxy card is Kenneth R. Peak, the Company's Chairman, Chief Executive Officer, Chief Financial Officer and Secretary. Any stockholder who wishes to name a different person as his or her proxy may do so by crossing out Mr. Peak's name and inserting the name of another person to act as his or her proxy. In such a case, the stockholder would have to sign the proxy card and deliver it to the person named as his or her proxy, and that person would have to be present and vote at the Annual Meeting. Any proxy card so marked should not be mailed to the Company.

If you return a signed proxy card without having specified any choices, Mr. Peak, named as proxy, will vote the shares represented at the Annual Meeting and any adjournment thereof as follows:

**FOR** the election of each nominee for director;

**FOR** ratification of the appointment of Grant Thornton LLP as independent public accountants for the fiscal year ending June 30, 2007; and

At the discretion of Mr. Peak, as proxy, on any other matter that may properly come before the Annual Meeting or any adjournment of the Annual Meeting.

**6. Q: How does the Board recommend I vote?**

**A:** The Board unanimously recommends that you vote For each of the matters to be voted on at the Annual Meeting.



Our executive officers and directors who own shares of Common Stock have advised us that they intend to vote their shares in favor of the proposals presented in this Proxy Statement. As of the Record Date, executive officers and directors collectively owned or had voting control over 3,271,156 shares of Common Stock, representing approximately 22% of the total shares entitled to vote. See Security Ownership of Certain Beneficial Owners and Management .

**7. Q: What vote is required?**

**A:** Proposal 1, the election of directors, will require an affirmative vote of a majority of the shares present in person or by proxy and voting at the Annual Meeting. Proposal 2, the ratification of the appointment of Grant Thornton LLP as independent public accountants, will require an affirmative vote of a majority of the shares present in person or by proxy and voting at the Annual Meeting.

**8. Q: What is a quorum ?**

**A:** Presence at the Annual Meeting, in person or by proxy, of holders of a majority of the votes entitled to be cast by all record holders of the Company's Common Stock and Series D Preferred Stock will constitute a quorum for the transaction of business. If a quorum is not present, the Annual Meeting may be adjourned from time to time until a quorum is obtained.

**9. Q: What is the effect of an abstention or a broker non-vote?**

**A:** Abstentions and broker non-votes are counted for purposes of determining the presence or absence of a quorum for the transaction of business. A broker non-vote occurs when a nominee holding shares of the Company's Common Stock for a beneficial owner does not vote on a particular proposal because the nominee does not have discretionary voting power with respect to that item and has not received instructions from the beneficial owner. Abstentions are counted in tabulations of the votes cast on proposals presented to stockholders as a vote against, whereas broker non-votes are not counted for purposes of determining whether a proposal has been approved.

**10. Q: What does it mean if I receive more than one proxy card?**

**A:** If your shares are registered differently or in more than one account, you will receive more than one proxy card. Sign and return all proxy cards to ensure that all your shares are voted.

**11. Q: Can I revoke my proxy?**

**A:** You may revoke your proxy at any time before it is exercised at the Annual Meeting by filing with or transmitting to our corporate secretary either a notice of revocation or a properly created proxy bearing a later date. You also may attend the Annual Meeting and revoke your proxy by voting your shares in person.

**12. Q: How will the Company solicit proxies?**

**A:** Proxies may be solicited in person, by telephone, facsimile, mail or e-mail by directors, officers and employees of the Company without additional compensation. The Company will reimburse brokerage houses and other custodians, nominees and fiduciaries for

their reasonable out-of-pocket expenses for forwarding proxy materials to stockholders.

**13. Q: How can a stockholder communicate with the Company's independent directors?**

**A:** The Audit Committee is authorized to receive communications from stockholders. Mail should be addressed to the Independent Directors in care of the Chairman of the Audit Committee, Contango Oil & Gas Company, 3700 Buffalo Speedway, Suite 960, Houston, Texas 77098. Mail will not be opened but will be forwarded to the Chairman of the Audit Committee or the named independent director. Mail addressed to the Board of Directors will be delivered to Kenneth R. Peak, Chairman, Chief Executive Officer, Chief Financial Officer and Secretary. Mr. Peak is not an independent director.

**PROPOSAL 1**

**ELECTION OF DIRECTORS**

At the Annual Meeting, we will present the nominees named below and recommend that they be elected to serve as directors until the next annual stockholders meeting or until their successors are duly elected and qualified. Each nominee has consented to being named in this Proxy Statement and to serve if elected.

Your proxy will be voted for the election of the five nominees named below unless you give instructions to the contrary. Your proxy cannot be voted for a greater number of persons than the number of nominees named.

**Nominees**

Presented below is a description of certain biographical information, occupations and business experience for the past five years of each person nominated to become a director. Five directors are to be elected at the Annual Meeting. All nominees are current directors standing for reelection to the Board. If any nominee should become unavailable for election, your proxy may be voted for a substitute nominee selected by the Board, or the Board's size may be reduced accordingly. The Board is unaware of any circumstances likely to render any nominee unavailable. Directors of the Company hold office until the next annual stockholders meeting, until successors are elected and qualified or until their earlier resignation or removal.

The Company does not have a standing nominating committee or nominating committee charter. Instead, the Board has adopted, by Board resolution, a process of nominating directors wherein nominees must be selected, or recommended for the Board's selection, by a majority of independent directors as defined in Section 121(A) of the American Stock Exchange listing standards. The Board believes that the independent members of the Board can satisfactorily carry out the responsibility of properly selecting or approving nominees for the Board without the formation of a standing nominating committee. Each Board member other than Kenneth R. Peak is an independent director. The Board will also consider nominees recommended by stockholders. The Company's Bylaws contain provisions which address the process by which a stockholder may nominate an individual to stand for election to the Board of Directors at our Annual Meeting of Stockholders. The procedures include a requirement that notices regarding a person's nomination be received in writing from the stockholder and by the Company's Secretary not less than 60 days nor more than 90 days prior to the first anniversary of the preceding year's annual meeting. Moreover, the notice must include such nominee's written consent to be named in the Company's proxy statement and to serve if elected. Minimum qualifications include extensive entrepreneurial experience and a solid understanding of financial statements. Each nominee below has been recommended by the Board.

Name	Age	Position	Year First Became a Director
Kenneth R. Peak	61	Chairman, Chief Executive Officer, Chief Financial Officer and Secretary	1999
Jay D. Brehmer	41	Director	2000
Charles M. Reimer	61	Director	2005
Steven L. Schoonover	61	Director	2005
Darrell W. Williams	63	Director	1999

*Kenneth R. Peak.* Mr. Peak has been Chairman, Chief Executive Officer, Chief Financial Officer and Secretary of Contango since its formation in September 1999. Mr. Peak entered the energy industry in 1972 as a commercial banker and held a variety of financial and executive positions in the oil and gas industry prior to starting Contango in 1999. Mr. Peak served as an officer in the U.S. Navy from 1968 to 1971. Mr. Peak received a BS in physics from Ohio University in 1967, and an MBA from Columbia University in 1972. He currently serves as a director of Patterson-UTI Energy, Inc., a provider of onshore contract drilling services to exploration and production companies in North America.

*Jay D. Brehmer.* Mr. Brehmer has been a director of Contango since October 2000. Mr. Brehmer is Managing Director of Catalina Capital Advisors LP, a boutique financial advisory, merger and acquisition investment bank. From November 2002 until August 2004, he advised various energy and energy-related companies on corporate finance and merger and acquisition activities through Southplace, LLC. From May 1998 until November 2002, Mr. Brehmer was responsible for structured-finance energy related transactions at Aquila Energy Capital Corporation. Prior to joining Aquila, Mr. Brehmer founded Capital Financial Services, which provided mid-cap companies with strategic merger and acquisition advice coupled with prudent financial capitalization structures. Mr. Brehmer holds a BBA from Drake University in Des Moines, Iowa.

*Charles M. Reimer.* Mr. Reimer was elected as a director of Contango in 2005. Mr. Reimer is President of Freeport LNG Development, L.P, and has experience in exploration, production, liquefied natural gas ( LNG ) and business development ventures, both domestically and abroad. From 1986 until 1998, Mr. Reimer served as the senior executive responsible for the VICO joint venture that operated in Indonesia, and provided LNG technical support to P. T. Badak. Additionally, during these years he served, along with Pertamina executives, on the board of directors of the P.T. Badak LNG plant in Bontang, Indonesia. Mr. Reimer began his career with Exxon Company USA in 1967 and held various professional and management positions in Texas and Louisiana. Mr. Reimer was named President of Phoenix Resources Company in 1985 and relocated to Cairo, Egypt, to begin eight years of international assignments in both Egypt and Indonesia. Prior to joining Freeport LNG Development, L.P. in December 2002, Mr. Reimer was President and Chief Executive Officer of Cheniere Energy, Inc.

*Steven L. Schoonover.* Mr. Schoonover was elected as a director of Contango in 2005. Mr. Schoonover currently serves as Chief Executive Officer of Cellxion, L.L.C., a company specializing in construction and installation of telecommunication buildings and towers, as well as the installation of high-tech telecommunication equipment. From 1990 until its sale in November 1997 to Telephone Data Systems, Inc., Mr. Schoonover served as President of Blue Ridge Cellular, Inc., a full-service cellular telephone company he co-founded. From 1983 to 1996, he served in various positions, including President and Chief Executive Officer, with Fibrebond Corporation, a construction firm involved in cellular telecommunications buildings, site development and tower construction. Mr. Schoonover has been awarded, on two occasions with two different companies, Entrepreneur of the Year, sponsored by Ernst & Young, Inc Magazine and USA Today.

*Darrell W. Williams.* Mr. Williams has been a director of Contango since 1999. Mr. Williams is President and CEO of Porta-Kamp International LP, which specializes in the manufacture, supply and construction of remote area housing, and CEO of Clearwater Environmental Systems, a manufacturer of sewage and water treatment systems. From 2002 until 2005, Mr. Williams was Managing Director of Catalina Capital Advisors, LP. Prior to joining Catalina, Mr. Williams was in senior executive positions with Deutug Drilling, GmbH (1993-2002), Nabors Drilling (1988-1993), Pool Company (1985-1988), Baker Oil Tools (1980-1983), SEDCO (1970-1980), Tenneco (1966-1970), and Humble Oil (1964-1966). Mr. Williams graduated from West Virginia University with a degree in Petroleum Engineering in 1964. Mr. Williams is past Chairman of the Houston Chapter of International Association of Drilling Contractors, a life member of the Society of Petroleum Engineers and a registered professional engineer in Texas.

All directors and nominees for director of the Company are United States citizens. There are no family relationships between any of our directors, executive officers or nominees for director.

### **Board Operations and Organization**

**Mission Statement.** The Company's primary objective is to maximize stockholder value, while at all times observing the highest ethical standards. The Company will pursue this objective through participation in the energy industry.

**Corporate Authority & Responsibility.** All corporate authority resides in the Board, as the representative of the stockholders. Authority is delegated to management by the Board in order to implement the Company's mission. Such delegated authority includes the authorization of spending limits and the authority to hire employees and terminate their services. The independent members of the Board retain responsibility for selection, evaluation and the determination of compensation of the chief executive officer of the Company, oversight of the succession plan, approval of the annual budget, assurance of adequate systems, procedures and controls, and all matters of corporate governance. Additionally, the Board provides advice and counsel to senior management.

**Compensation of Directors.** Directors are compensated in the form of both a cash payment and Company equity. During the fiscal year ended June 30, 2006, each outside director received a quarterly retainer of \$5,000 and a quarterly stock option grant to purchase 3,000 shares of Common Stock. The options vest in three equal annual installments, with the first installment vesting on the date of grant. Each outside director also received a \$1,000 cash payment for each board meeting and separately scheduled Audit Committee meeting attended. The Chairman of the Audit Committee receives an additional quarterly stock option grant to purchase 1,500 shares of Common Stock.

Beginning on the date of this year's annual shareholder meeting and until further notice, in lieu of the stock option grants, each outside director will receive an annual retainer of approximately \$36,000 payable in Common Stock of the Company valued as of the day immediately preceding the date of the annual shareholder meeting (subject to rounding up or down such that the number of shares issued to each Director is evenly divisible by two). One-half of the shares will vest immediately, and one-half will vest in one year. The Chairman of the Audit Committee will receive an additional quarterly retainer of \$3,000, in lieu of the stock option grant to purchase 1,500 shares of Common Stock. Additionally, the quarterly retainer payable to each outside director will increase from \$5,000 to \$8,000.

**Board Size.** In general, smaller to mid-size boards are more cohesive, work better together and tend to be more effective monitors than larger boards. Our Bylaws currently provide for at least three and not more than seven directors.

**Annual Election of Directors.** In order to create greater alignment between the Board's and our stockholders' interests and to promote greater accountability to the stockholders, directors shall be elected annually.

**Meetings.** Our Board has meetings as necessary. During the fiscal year ended June 30, 2006, the Board held six meetings. During the fiscal year ended June 30, 2006, the Board passed resolutions by

unanimous written consent on eleven occasions. Each director attended at least 75% of all Board and applicable committee meetings. We encourage our Board to attend our annual meeting of stockholders. During fiscal year 2005, the Company had four directors, all of whom were present at the 2005 annual meeting.

**Committee Structure.** It is the general policy of the Company that the Board as a whole will consider all major decisions. As a consequence, the committee structure of the Board is limited to the Audit Committee. The Audit Committee is composed solely of independent directors. The Board may form other committees as it determines appropriate.

**Audit Committee.** The Audit Committee was established by the Board for the purpose of overseeing the accounting and financial reporting processes of the Company and audits of the financial statements of the Company. The Audit Committee recommends the appointment of independent public accountants to conduct audits of our financial statements, reviews with the accountants the plan and results of the auditing engagement, approves other professional services provided by the accountants and evaluates the independence of the accountants. The Audit Committee also reviews the scope and adequacy of our system of internal controls and procedures over financial reporting. Members of the Audit Committee are Messrs. Brehmer (Audit Committee Chairman), Reimer and Schoonover. The Audit Committee met formally four times during the fiscal year ended June 30, 2006. The Board has determined that Mr. Brehmer is an audit committee financial expert as defined by the rules of the Securities and Exchange Commission ( SEC ).

**THE BOARD RECOMMENDS A VOTE FOR THE ELECTION OF THE FIVE  
NOMINEES AS DIRECTORS OF CONTANGO, TO SERVE UNTIL THE NEXT  
ANNUAL MEETING OF STOCKHOLDERS OR UNTIL THEIR SUCCESSORS  
ARE DULY ELECTED AND QUALIFIED.**

**PROPOSAL 2**

**RATIFICATION OF THE SELECTION OF OUR AUDITORS**

The Board has appointed Grant Thornton LLP, independent public accountants, for the examination of the accounts and audit of our financial statements for the fiscal year ending June 30, 2007. Grant Thornton LLP also served in such capacity for the fiscal year ended June 30, 2006. At the Annual Meeting, the Board will present a proposal to the stockholders to approve and ratify the engagement of Grant Thornton LLP. The Board expects that representatives of Grant Thornton LLP will be present and will have the opportunity to make a statement, if they desire, and to respond to appropriate questions. The Audit Committee will consider the failure to ratify its selection of Grant Thornton LLP as independent public accountants as a direction to select other auditors for the fiscal year ending June 30, 2007.

**THE BOARD RECOMMENDS A VOTE FOR THE RATIFICATION OF THE SELECTION OF GRANT THORNTON LLP AS  
INDEPENDENT PUBLIC ACCOUNTANTS.**

**CORPORATE GOVERNANCE**

We believe that good corporate governance is important to assure that the Company is managed for the long term benefit of its stockholders. The Board and management are committed to good business practices, transparency in financial reporting and the highest level of corporate governance and ethics. During the past year, the Board has reviewed existing corporate governance policies and practices of other public companies. It has specifically reviewed the provisions of the Sarbanes-Oxley Act of 2002, the rules of the SEC and the listing standards and rules of the American Stock Exchange.

The Board has reaffirmed existing policies and initiated actions adopting policies consistent with the new rules and listing standards. In particular, we have:

A majority of independent directors.

An Audit Committee consisting solely of independent directors.

Adopted a formal Audit Committee Charter in May 2000, which is reviewed annually by the Audit Committee.

An Audit Committee empowered to engage independent auditors.

Provided the Audit Committee with access to independent auditors, legal counsel and all management and employee levels.

Established executive sessions for the Board of Directors consisting exclusively of independent directors.

Adopted a formal code of ethical conduct for management, a copy of which was filed as an exhibit to our Form 10-KSB for the year ended June 30, 2003.

Adopted a formal whistleblower protection policy.

Adopted a formal process for stockholders to communicate with the independent directors.

Expanded disclosures regarding critical accounting policies.

Determined chief executives officer's compensation by the independent directors.

No history of personal loans to officers and directors.

Taken appropriate Board and management action to achieve timely compliance with Section 404 of the Sarbanes-Oxley Act of 2002 regarding controls and procedures over financial reporting.

More information about the Company's corporate governance practices and procedures is available on the Company's website at [www.contango.com](http://www.contango.com).

#### **SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following tables show the ownership of our Common Stock and Series D Preferred Stock as of October 13, 2006 by (i) each person known by us to beneficially own 5% or more of our outstanding shares of Common Stock and/or Series D Preferred Stock, (ii) each of our non-employee nominee directors, (iii) our executive officers and (iv) our executive officers and nominee directors taken together as a group. Unless otherwise indicated, each person named in the following table has the sole power to vote and dispose of the shares listed next to his name.

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**Our 5% Stockholders**

To the Company's knowledge, the following stockholders beneficially owned more than 5% of our outstanding shares of Common Stock and/or Series D Preferred Stock, as set forth below, as of October 13, 2006:

<b>Title Of Class</b>	<b>Name and Address of Beneficial Owner (1)</b>	<b>Amount of Beneficial Ownership</b>	<b>Percent Of Class</b>
Common Stock	Kenneth R. Peak (2)	2,366,649	15.20%
Common Stock	West Coast Asset Management, Inc. (3)	1,318,305	8.80%
Series D Preferred Stock	Brightwater Fund, LLC (4)	17	0.85%
Series D Preferred Stock	Brightwater Master Fund, LP (4)	83	4.15%
Series D Preferred Stock	Ironman Energy Capital, LP (5)	600	30.00%
Series D Preferred Stock	DE Shaw Laminar Portfolios (6)	850	42.50%
Series D Preferred Stock	Crow Public Securities (7)	100	5.00%
Series D Preferred Stock	RR Advisors (7)	200	10.00%
Series D Preferred Stock	T2, LTD (8)	100	5.00%

**Directors Who Are Not Employees**

	Common Shares Beneficially Owned Issuable Upon Exercise of Stock			Percent of Total Common Stock Outstanding
	Outstanding	Options (9)	Total	
Jay D. Brehmer	6,000	43,500	49,500	*
Charles M. Reimer	235,001	4,000	239,001	1.5%
Steven L. Schoonover	246,300	4,000	250,300	1.6%
Darrell W. Williams	135,724	7,000	142,724	*

**Executive Officers**

	Common Shares Beneficially Owned Issuable Upon Exercise of Stock			Percent of Total Common Stock Outstanding
	Outstanding	Options (9)	Total	
Kenneth R. Peak, Chairman, Chief Executive Officer, Chief Financial Officer and Secretary	1,984,149	382,500	2,366,649	15.2%
Lesia Bautina, Senior Vice President and Controller	56,882	121,250	178,132	1.1%
Sergio Castro, Vice President and Treasurer	1,500		1,500	*
Marc Duncan, President and Chief Operating Officer, Contango Operators, Inc.	5,600	16,250	21,850	*

**Directors and Executive Officers Together**

	Common Shares Beneficially Owned Issuable Upon Exercise of Stock			Percent of Total Common Stock Outstanding
	Outstanding	Options (9)	Total	
All current directors and executive officers as a group (8 persons)	2,671,156	578,500	3,249,656	20.8%

\* Less than 1%.

- (1) Unless otherwise noted, the address of the members of the Board and our executive officers is 3700 Buffalo Speedway, Suite 960, Houston, Texas 77098.
- (2) In addition, Mr. Peak maintains voting control over 600,000 shares that were transferred to a family member. Inclusion of the 600,000 shares would increase his Percent of Total Common Stock Outstanding to 19.0%
- (3) West Coast Asset Management, Inc.'s address is 2151 Alessandro Drive, Ste 100 Ventura, CA 93001
- (4) Brightwater Fund, LLC's and Brightwater Master Fund, LP's, address is 598 Madison Ave, Floor 5, New York, NY 10022
- (5) Ironman Energy Capital, LP's address is 4545 Bissonnett, Suite 291, Houston, TX 77401

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- (6) DE Shaw Laminar Portfolios address is 120 West 45 St., New York, NY 10036
- (7) Crow Public Securities and RR Advisors address is 2100 McKinney Ave. Suite 700, Dallas, TX 75201
- (8) T2, LTD s address is 25 Highland Park Village, Ste 100-382, Dallas TX 75205
- (9) Includes shares underlying options to purchase shares that currently are vested and exercisable or will vest or be exercisable within 60 days.

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

Section 16(a) of the Exchange Act of 1934 requires our officers and directors and persons who own more than 10% of our Common Stock to file reports of ownership and changes in ownership with the SEC. These persons are required by SEC regulations to furnish us with copies of all Section 16(a) reports they file. Based on our review of the copies of such reports, we believe that all such filing requirements were complied with during the fiscal year ended June 30, 2006.

**Certain Relationships and Related Transactions**

Charles M. Reimer, a director, is President of Freeport LNG Development, L.P. ( Freeport LNG ), a limited partnership formed to develop a 1.5 billion cubic feet per day ( Bcf/d ) liquefied natural gas ( LNG ) receiving terminal in Freeport, Texas. During the fiscal year ended June 30, 2006, the Company invested approximately \$0.2 million in Freeport LNG. As of June 30, 2006, the Company had invested a total of \$3.2 million and owned a 10% limited partnership interest in Freeport LNG.

**Equity Compensation Plans and Other Compensation Arrangements**

The following table provides information as of June 30, 2006 about our Common Stock that may be issued upon the exercise of stock options and warrants under (i) all compensation plans previously approved by stockholders and (ii) individual compensation arrangements not approved by stockholders.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average	
		exercise price of outstanding options, warrants and rights	Number of securities reserved for future issuance under equity compensation plans
Plans approved by stockholders (1)	955,000	\$ 8.00	642,583
Other compensation arrangements not approved by stockholders (2)	5,500	\$ 3.15	
<b>Total</b>	<b>960,500</b>	<b>\$ 7.97</b>	<b>642,583</b>

(1) Other than indicated, the Company has no other equity compensation plans that have not been approved by the stockholders.

(2) Consists of various stock options and warrants granted by the Company's Board of Directors, including stock options to purchase 5,500 shares of Contango Common Stock granted for services as a director of the Company.

**DIRECTOR COMPENSATION**

The following table below sets forth information about the compensation awarded to, earned by or paid to our directors during the fiscal year ended June 30, 2006:

Name	Fees earned or paid in cash	Options Granted (1)	Option Awards Value (2)	Total
Jay D. Brehmer	\$ 31,000	16,500	\$ 88,315	\$ 119,315
Charles M. Reimer	\$ 23,000	9,000	\$ 48,917	\$ 71,917
Steven L. Schoonover	\$ 23,000	9,000	\$ 48,917	\$ 71,917
Darrell W. Williams	\$ 27,000	12,000	\$ 63,856	\$ 90,856

(1) The options granted vest 1/3 immediately, and 1/3 on each of the following two anniversaries from the date of grant.



(2) The option awards value are based on a Black-Scholes valuation per option utilizing the exercise price, maturity term of five years, price volatility of 40%, average risk free interest rate of 4.51% and dividend yield of 0%.

**EXECUTIVE OFFICERS AND OTHER KEY EMPLOYEES**

The following sets forth the names, ages and positions of our executive officers together with certain biographical information:

<b>Name</b>	<b>Age</b>	<b>Position</b>
Kenneth R. Peak	61	Chairman, Chief Executive Officer, Chief Financial Officer and Secretary
Lesia Bautina	35	Senior Vice President and Controller
Sergio Castro	37	Vice President and Treasurer
Marc Duncan	54	President and Chief Operating Officer of Contango Operators, Inc.

*Kenneth R. Peak.* Mr. Peak has been Chairman, Chief Executive Officer, Chief Financial Officer and Secretary of Contango since its formation in September 1999. Mr. Peak entered the energy industry in 1972 as a commercial banker and held a variety of financial and executive positions in the oil and gas industry prior to starting Contango in 1999. Mr. Peak served as an officer in the U.S. Navy from 1968 to 1971. Mr. Peak received a BS in physics from Ohio University in 1967, and an MBA from Columbia University in 1972. He currently serves as a director of Patterson-UTI Energy, Inc., a provider of onshore contract drilling services to exploration and production companies in North America.

*Lesia Bautina.* Ms. Bautina joined Contango in November 2001 as Controller and was appointed Vice President and Controller in August 2002. In July 2005, Ms. Bautina was promoted to Senior Vice President. Prior to joining Contango, Ms. Bautina worked as an auditor for Arthur Andersen LLP from 1997 to 2001. Her primary experience is accounting and financial reporting for exploration and production companies. Ms. Bautina received a degree in History from the University of Lvov in the Ukraine in 1990 and a BBA in Accounting in 1996 from Sam Houston State University, where she graduated with honors. Ms. Bautina is a Certified Public Accountant and member of the Petroleum Accounting Society of Houston.

*Sergio Castro.* Mr. Castro joined Contango in March 2006 as Treasurer and was appointed Vice President and Treasurer in April 2006. Prior to joining Contango, Mr. Castro spent two years as a consultant for UHY Advisors TX, LP. From 2001 to 2004, Mr. Castro was a lead credit analyst for Dynegy Inc. From 1997 to 2001, Mr. Castro worked as an auditor for Arthur Andersen LLP, where he specialized in energy companies. Mr. Castro was honorably discharged from the U.S. Navy in 1993 as an E-6, where he served onboard a nuclear powered submarine. Mr. Castro received a BBA in Accounting in 1997 from the University of Houston, graduating summa cum laude. Mr. Castro is a Certified Public Accountant and a Certified Fraud Examiner.

*Marc Duncan.* Mr. Duncan joined Contango in June 2005 as President and Chief Operating Officer of Contango Operators, Inc. Mr. Duncan has over 25 years of experience in the energy industry and has held a variety of domestic and international engineering and senior-level operations management positions relating to natural gas and oil exploration, project development, and drilling and production operations. Prior to joining Contango, Mr. Duncan served in a senior executive position with USENCO International, Inc. and related companies in China and Ukraine from 2000-2004 and as a senior project and drilling engineer for Hunt Oil Company from 2004-2005. He holds an MBA in Engineering Management from the University of Dallas, an MEd from the University of North Texas and a BS in Science and Education from Stephen F. Austin University.

Our executive officers are elected annually by the Board and serve until their successors are duly elected and qualified or until their earlier resignation or removal. All executive officers of the Company are United States citizens. There are no family relationships between any of our directors or executive officers.

### EXECUTIVE COMPENSATION

#### Summary Compensation Tables

The following tables and discussion below set forth information about the compensation awarded to, earned by or paid to our executive officers during the fiscal years ended June 30, 2006, 2005 and 2004.

**Fiscal**

**Year      Annual Compensation**