



**DIAMOND OFFSHORE DRILLING, INC.**  
15415 Katy Freeway  
Houston, Texas 77094

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**  
**To Be Held On May 16, 2017**

To our Stockholders:

The 2017 annual meeting of stockholders of Diamond Offshore Drilling, Inc. will be held at the offices of Loews Corporation, 667 Madison Avenue, New York, New York 10065 on Tuesday, May 16, 2017, at 8:30 a.m. local time for the following purposes:

- (1) To elect 11 directors, each to serve until the next annual meeting of stockholders and until their respective successors are elected and qualified or until their earlier resignation or removal;
- (2) To ratify the appointment of Deloitte & Touche LLP as the independent auditor for our company and its subsidiaries for fiscal year 2017;
- (3) To hold an advisory vote on executive compensation;
- (4) To hold an advisory vote on the frequency of future advisory votes on executive compensation;
- (5) To consider and vote on a stockholder proposal, if properly presented; and
- (6) To transact such other business as may properly come before the annual meeting or any adjournments thereof.

Our stockholders of record at the close of business on March 24, 2017 are entitled to notice of, and to vote at, the annual meeting and any adjournments of the annual meeting. Stockholders who execute proxies solicited by our Board of Directors retain the right to revoke them at any time prior to the vote at the meeting. Unless you revoke your proxy, your shares of common stock represented by your proxy will be voted at the annual meeting in accordance with the directions given in your proxy. If you do not specify a choice on your proxy, the proxy will be voted FOR the nominees for director named in the attached proxy statement, FOR the ratification of the appointment of Deloitte & Touche LLP as our independent auditor, FOR the resolution approving executive compensation, to hold an advisory vote on executive compensation EVERY YEAR and AGAINST the stockholder proposal. Additional information regarding the annual meeting is included in the attached proxy statement.

YOUR VOTE IS IMPORTANT. WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING IN PERSON, PLEASE VOTE AS PROMPTLY AS POSSIBLE BY USING THE INTERNET OR TELEPHONE, OR IF YOU RECEIVED A PAPER COPY OF THE PROXY MATERIALS, BY SIGNING, DATING AND RETURNING THE INCLUDED PROXY CARD. THE PROXY IS REVOCABLE AND WILL NOT BE USED IF YOU ARE PRESENT AT THE ANNUAL MEETING AND PREFER TO VOTE YOUR SHARES IN PERSON.

By Order of the Board of Directors

Sincerely,

David L. Roland  
Senior Vice President, General Counsel and Secretary

March 28, 2017

**Important Notice Regarding the Availability of Proxy Materials  
for the Annual Meeting of Stockholders to be Held on May 16, 2017.**

**Our proxy statement, proxy card and 2016 annual report to stockholders are available at:  
[www.diamondoffshore.com/proxy](http://www.diamondoffshore.com/proxy)**



**DIAMOND OFFSHORE DRILLING, INC.  
15415 KATY FREEWAY  
HOUSTON, TEXAS 77094**

**PROXY STATEMENT  
For the 2017 Annual Meeting of Stockholders  
to be held on May 16, 2017**

**ABOUT THE ANNUAL MEETING**

**Why am I receiving these materials?**

The Board of Directors of Diamond Offshore Drilling, Inc. (which we refer to in this proxy statement as we, our, us, our company or the company) is providing you these proxy materials in connection with the Board's solicitation of proxies from our stockholders for our 2017 annual meeting of stockholders (which we refer to as the Annual Meeting) and any adjournments and postponements of the Annual Meeting. The Annual Meeting will be held at the offices of Loews Corporation, 667 Madison Avenue, New York, New York 10065 on Tuesday, May 16, 2017 at 8:30 a.m. local time. On or before April 6, 2017, we expect to begin mailing to our stockholders proxy materials or an Important Notice Regarding the Availability of Proxy Materials (which we refer to as a Notice), containing instructions on how to access our proxy materials, including this proxy statement and our Annual Report, by the Internet and how to vote your shares. If you receive a Notice by mail, you will not receive a printed copy of the proxy materials unless you specifically request it. Whether or not you plan to attend the Annual Meeting, you may submit a proxy to vote your shares by the Internet, telephone or mail as more fully described below.

**What is the purpose of the Annual Meeting?**

At the Annual Meeting, you and our other stockholders entitled to vote at the Annual Meeting are requested to vote on proposals to elect 11 members of our Board of Directors to serve until our 2018 annual meeting of stockholders, to ratify the appointment of Deloitte & Touche LLP as our independent auditor for fiscal year 2017, to approve executive compensation by advisory vote, to recommend the frequency of future advisory votes on executive compensation by advisory vote and to vote on a stockholder proposal, if properly presented.

**Who is entitled to vote at the Annual Meeting?**

Only holders of record of our common stock at the close of business on March 24, 2017, the record date for the Annual Meeting, are entitled to notice of and to vote at the Annual Meeting. Each stockholder is entitled to one vote for each share of common stock held. Shares of our common stock represented in person or by a properly submitted proxy will be voted at the Annual Meeting. On the record date, 137,180,617 shares of our common stock were outstanding and entitled to vote.

**Who can attend the Annual Meeting?**

Only stockholders of record as of the close of business on March 24, 2017 or the holders of their valid proxies may attend the Annual Meeting. A list of our stockholders will be available for review at our executive offices in Houston, Texas during ordinary business hours for a period of 10 days prior to the meeting. Each person attending the Annual Meeting will be asked to present a photo ID, such as a driver's license, before being admitted to the meeting. In addition, stockholders who hold their shares through a broker or nominee (*i.e.*, in street name) should provide proof of their beneficial ownership as of March 24, 2017, such as a

brokerage statement showing their ownership of shares as of that date. Cameras, recording devices and other electronic devices will not be permitted at the Annual Meeting, and attendees will be subject to security inspections.

### **What constitutes a quorum?**

The presence at the Annual Meeting in person or by proxy of the holders of a majority of the outstanding shares of our common stock entitled to vote at the Annual Meeting is required to constitute a quorum for the transaction of business.

### **What vote is required to approve each item to be voted on at the Annual Meeting?**

*Election of Directors.* A nominee for director will be elected to the Board if all votes cast for that nominee's election exceed the votes cast against his or her election. Under our Bylaws, any incumbent director nominee who does not receive a majority of the votes cast for election shall tender his or her resignation. For a more complete explanation of this requirement and process, please see "*Election of Directors—Majority Vote Standard for Election of Directors*" below.

*Frequency of Future Advisory Votes on Executive Compensation.* The affirmative vote of the holders of a majority of the shares of common stock present in person or represented by proxy and entitled to vote at the Annual Meeting is required for approval of the non-binding vote by stockholders (Proposal No. 4) on the frequency of future advisory votes on the compensation of our executive officers named in the Summary Compensation Table below. If none of the three frequency choices receives a majority of votes cast, the recommendation that receives the greatest number of votes cast will be the recommendation of the stockholders considered by the Board.

*Votes Required to Adopt Other Proposals.* The affirmative vote of the holders of a majority of the shares of common stock present in person or represented by proxy and entitled to vote at the Annual Meeting is required for approval of all other items being submitted to stockholders for consideration.

### **How are abstentions and broker non-votes counted?**

Abstentions and broker non-votes (i.e., shares with respect to which a broker indicates that it does not have authority to vote on a matter) will be counted for purposes of determining whether a quorum is present at the Annual Meeting. Abstentions will not affect the outcome of the election of directors or the non-binding vote on Proposal No. 4. Abstentions will have the same effect as votes against any matter other than the election of directors and the non-binding vote on Proposal No. 4. Broker non-votes will not affect the outcome of the election of directors or any other proposal to be voted on at the Annual Meeting.

### **How does the Board recommend that I vote?**

Our Board of Directors recommends that you vote:

- FOR each of the nominees for director named in this proxy statement;
- FOR the ratification of the appointment of Deloitte & Touche LLP as our independent auditor for fiscal year 2017;
- FOR the resolution approving executive compensation;
- to hold an advisory vote on executive compensation EVERY YEAR; and
- AGAINST the stockholder proposal.

**How do I vote?**

You may vote in person at the Annual Meeting or you may give us your proxy. We recommend that you vote by proxy even if you plan to attend the Annual Meeting. As described below, you can change your vote at the Annual Meeting. You can vote by proxy over the telephone by calling a toll-free number, electronically by using the Internet or through the mail as described below. If you would like to vote by telephone or by using the Internet, please refer to the specific instructions set forth on the Notice or proxy card. If you are a holder of record and received your proxy statement and Annual Report by mail, you can vote by signing, dating and completing the enclosed proxy card and returning it by mail in the enclosed postpaid envelope. If you received a Notice and wish to vote by traditional proxy card, you may receive a full printed set of the proxy materials for the Annual Meeting at no charge through one of the following methods:

- by the Internet at [www.proxyvote.com](http://www.proxyvote.com);
- by telephone at 1-800-579-1639; or
- by e-mail at [sendmaterial@proxyvote.com](mailto:sendmaterial@proxyvote.com).

Once you receive the proxy statement, Annual Report and proxy card, please sign, date and complete the proxy card and return it in the enclosed postpaid envelope. No postage is necessary if the proxy card is mailed in the United States. If you hold your shares through a bank, broker or other nominee, it will give you separate instructions for voting your shares.

**Can I change my vote after I return my proxy card?**

Yes. Your proxy may be revoked at any time before its exercise by sending written notice of revocation to David L. Roland, Corporate Secretary, Diamond Offshore, 15415 Katy Freeway, Suite 100, Houston, Texas 77094, or by submitting a valid proxy that is dated later, or, if you attend the Annual Meeting in person, by giving notice of revocation to the Inspectors of Election referred to below at the Annual Meeting.

**How will votes be recorded?**

Votes will be tabulated by Broadridge Financial Solutions, Inc., and the results will be certified by one or more Inspectors of Election, who are required to resolve impartially any interpretive questions as to the conduct of the vote. In tabulating votes, the Inspectors of Election will make a record of the number of shares voted for or against each nominee and each other matter voted upon, the number of shares abstaining with respect to each nominee or other matter, and the number of shares held of record by broker-dealers and present at the Annual Meeting but not voting.

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

We plan to announce preliminary voting results at the Annual Meeting and to publish the final results in a current report on Form 8-K following the Annual Meeting.

## SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

The table below shows certain information as of March 24, 2017 (unless otherwise indicated) as to all persons who, to our knowledge, were the beneficial owners of 5% or more of the outstanding shares of our common stock, which is our only outstanding class of voting securities. All shares reported were owned beneficially by the persons indicated unless otherwise indicated below.

| <u>Title of Class</u>  | <u>Name and Address of Beneficial Owner</u>                              | <u>Amount and Nature of Beneficial Ownership</u> | <u>Percent of Class</u> |
|------------------------|--|--|-------------------------|
| Common Stock . . . . . | Loews Corporation<br>667 Madison Avenue<br>New York, NY 10065-8087       | 73,119,047(1)                                    | 53.3%                   |
| Common Stock . . . . . | BlackRock, Inc.<br>55 East 52 <sup>nd</sup> Street<br>New York, NY 10055 | 7,166,698(2)                                     | 5.2%                    |
| Common Stock . . . . . | The Vanguard Group, Inc.<br>100 Vanguard Blvd.<br>Malvern, PA 19355      | 7,078,985(3)                                     | 5.2%                    |

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- (1) Loews Corporation has sole investment power and sole voting power over the shares.
  - (2) This information is based solely on a Schedule 13G filed with the Securities and Exchange Commission (which we refer to as the Commission) on January 30, 2017 by BlackRock, Inc., a parent holding company for a number of investment management subsidiaries, which indicates that BlackRock, Inc. has sole voting power over 6,833,121 shares and sole dispositive power over 7,166,698 shares.
  - (3) This information is based solely on a Schedule 13G filed with the Commission on February 9, 2017 by The Vanguard Group, Inc. (which we refer to as Vanguard), an investment adviser, which indicates that Vanguard has sole voting power over 37,886 shares, sole dispositive power over 7,036,499 shares, shared voting power over 8,000 shares and shared dispositive power over 42,486 shares. It further indicates that Vanguard Fiduciary Trust Company, a wholly-owned subsidiary of Vanguard, is the beneficial owner of 34,486 shares as a result of its serving as investment manager of collective trust accounts, and Vanguard Investments Australia, Ltd., a wholly-owned subsidiary of Vanguard, is the beneficial owner of 11,400 shares as a result of its serving as investment manager of Australian investment offerings.

Loews Corporation (which we refer to as Loews) is a holding company. In addition to us, its principal subsidiaries are CNA Financial Corporation, a 90%-owned subsidiary engaged in commercial property and casualty insurance; Boardwalk Pipeline Partners, LP, a 51%-owned subsidiary engaged in the transportation and storage of natural gas and natural gas liquids; and Loews Hotels Holding Corporation, a wholly-owned subsidiary engaged in the operation of a chain of hotels.

Because Loews holds a majority of the outstanding shares of our common stock, Loews has the power to approve matters submitted for consideration at the Annual Meeting without regard to the votes of the other stockholders. We understand that Loews intends to vote FOR the election of the 11 nominees for the Board of Directors, FOR the ratification of the appointment of Deloitte & Touche LLP as our independent auditor, FOR the resolution approving executive compensation, to hold an advisory vote on executive compensation EVERY YEAR and AGAINST the stockholder proposal. There are no agreements between us and Loews with respect to the election of our directors or officers or with respect to the other matters that may come before the Annual Meeting.

## SECURITY OWNERSHIP OF MANAGEMENT AND DIRECTORS

The following table sets forth, as of March 1, 2017, the shares of our common stock and common stock of Loews (which we refer to as Loews Common Stock) beneficially owned by each of our directors, each of our executive officers named in the *2016 Summary Compensation Table* below, and all of our directors and executive officers as a group. Our directors and executive officers individually and as a group own less than 1% of our common stock. Except as otherwise noted, the named beneficial owner has sole voting power and sole investment power with respect to the number(s) of shares shown below. The number of shares included with respect to stock appreciation rights (SARs) granted under our Equity Incentive Compensation Plan (which we refer to as our Equity Plan) is the number of shares of our common stock each person would have received had they exercised their SARs, based on the fair market value per share (\$17.19) of our common stock, determined in accordance with the terms of our Equity Plan, on March 1, 2017.

| <u>Name of Beneficial Owner</u>   | <u>Shares of Our<br/>Common Stock</u> | <u>Shares of Loews<br/>Common Stock</u> | <u>% of Loews<br/>Common Stock</u> |
|---|---------------------------------------|---|------------------------------------|
| James S. Tisch (1) . . . . .  | 5,000                                 | 16,324,925                              | 4.8%                               |
| Marc Edwards (2) . . . . .  | 21,764                                | —                                       | *                                  |
| John R. Bolton . . . . .  | 854                                   | —                                       | *                                  |
| Charles L. Fabrikant (3) . . . . .  | 2,500                                 | 1,200                                   | *                                  |
| Paul G. Gaffney II (4) . . . . .  | 2,000                                 | —                                       | *                                  |
| Edward Grebow . . . . .   | 7,000                                 | 1,500                                   | *                                  |
| Herbert C. Hofmann . . . . .  | —                                     | —                                       | *                                  |
| Kenneth I. Siegel (5) . . . . .   | —                                     | 147,368                                 | *                                  |
| Clifford M. Sobel . . . . .   | —                                     | —                                       | *                                  |
| Andrew H. Tisch (6) . . . . .   | —                                     | 15,239,829                              | 4.5%                               |
| Raymond S. Trough . . . . .   | 5,000                                 | 30,000                                  | *                                  |
| David L. Roland (7) . . . . .   | 725                                   | —                                       | *                                  |
| Ronald Woll . . . . .   | —                                     | —                                       | *                                  |
| Kelly Youngblood . . . . .  | —                                     | —                                       | *                                  |
| Beth G. Gordon . . . . .  | —                                     | —                                       | *                                  |
| Lyndol L. Dew (8) . . . . .   | —                                     | —                                       | *                                  |
| Gary T. Krenek (9) . . . . .  | 1,000                                 | —                                       | *                                  |
| All Directors and Executive Officers as a<br>Group (16 persons, including those listed<br>above other than Messrs. Dew and<br>Krenek) . . . . . | 45,843                                | 31,744,822                              | 9.4%                               |

\* Less than 1% of the Loews Common Stock.

- (1) The number of shares of Loews Common Stock includes 508,377 shares of Loews Common Stock issuable upon the exercise of awards granted under the Loews Corporation Stock Option Plan that are currently exercisable. The number of shares of Loews Common Stock also includes 10,407,359 shares held by trusts of which Mr. J.S. Tisch is the managing trustee (inclusive of 145,000 shares held in trust for his benefit) and 500,000 shares held by a charitable foundation as to which Mr. J.S. Tisch has shared voting and investment power.
- (2) The number of shares of our common stock represents shares issued in connection with restricted stock units, as to which Mr. Edwards shares voting and investment power with his spouse.
- (3) The number of shares of Loews Common Stock includes 600 shares held by a trust of which Mr. Fabrikant and his sister are the trustees and share voting and investment power.
- (4) The number of shares of our common stock includes 1,000 shares held by a trust of which Mr. Gaffney is the trustee and 1,000 shares held by a trust of which his spouse is the trustee.
- (5) The number of shares of Loews Common Stock represents 147,368 shares of Loews Common Stock issuable upon the exercise of stock awards granted under the Loews Corporation Stock Option Plan that are currently exercisable.
- (6) The number of shares of Loews Common Stock includes 508,377 shares of Loews Common Stock issuable upon the exercise of stock awards granted under the Loews Corporation Stock Option Plan that are currently exercisable. The

number of shares of Loews Common Stock also includes 11,742,780 shares held by trusts of which Mr. A.H. Tisch is the managing trustee (inclusive of 2,393,797 shares held in trust for his benefit) and 510,000 shares held by a charitable foundation as to which Mr. A.H. Tisch has shared voting and investment power.

- (7) The number of shares of our common stock represents shares held by virtue of Mr. Roland's investment in our common stock pursuant to our Retirement Plan.
- (8) Prior to December 1, 2016, Mr. Dew served as our Senior Vice President—Worldwide Operations. On December 1, 2016, Mr. Dew became our Senior Vice President—Special Projects and Strategic Initiatives and ceased to be an executive officer.
- (9) The number of shares of our common stock represents shares as to which Mr. Krenek shares voting and investment power with his spouse. Mr. Krenek retired from our company on May 3, 2016.

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

Section 16(a) of the Securities Exchange Act of 1934, as amended (which we refer to as the Exchange Act), requires our directors, executive officers and beneficial owners of more than 10% of our common stock to file initial reports of ownership and reports of changes in ownership of our equity securities with the Commission. Based on our records and other information, we believe that all reports that were required to be filed under Section 16(a) during 2016 were timely filed.

## ELECTION OF DIRECTORS

### (Proposal No. 1)

Our Board of Directors consists of 11 directors. All directors are elected annually to serve until their respective successors are duly elected and qualified at the next annual meeting of stockholders or until their earlier resignation or removal. The names and information regarding our nominees, including their business experience during the past five years and other background information and individual qualifications, attributes and skills, are described below. Each of the nominees is currently a director, and Mr. J.S. Tisch and Mr. A.H. Tisch are brothers. Each of the 11 directors to be elected at the Annual Meeting will serve a term of one year to expire at our 2018 annual meeting of stockholders.

In the absence of contrary instructions, the proxies received from holders of our common stock will be voted at the Annual Meeting for the election of each of the below nominees. Although we do not contemplate that any of the nominees will be unable to serve, decline to serve or otherwise be unavailable as a nominee at the time of the Annual Meeting, if that occurs we expect that the proxies will be voted for such other candidate or candidates as our Board of Directors may nominate or our Board of Directors may adopt a resolution reducing the number of directors constituting our full Board.

| <u>Name</u>                    | <u>Position</u>             | <u>Age as of<br/>January 31,<br/>2017</u> | <u>Director<br/>Since</u> |
|--------------------------------|-----------------------------|---|---------------------------|
| James S. Tisch . . . . .       | Chairman of the Board       | 64  | 1989                      |
| John R. Bolton . . . . .       | Director                    | 68  | 2007                      |
| Marc Edwards . . . . .         | Director, President and CEO | 56  | 2014                      |
| Charles L. Fabrikant . . . . . | Director                    | 72  | 2004                      |
| Paul G. Gaffney II . . . . .   | Director                    | 70  | 2004                      |
| Edward Grebow . . . . .        | Director                    | 67  | 2008                      |
| Herbert C. Hofmann . . . . .   | Director                    | 74  | 1992                      |
| Kenneth I. Siegel . . . . .    | Director                    | 60  | 2014                      |
| Clifford M. Sobel . . . . .    | Director                    | 67  | 2011                      |
| Andrew H. Tisch . . . . .      | Director                    | 67  | 2011                      |
| Raymond S. Troubh . . . . .    | Director                    | 90  | 1995                      |

*James S. Tisch* has served as our Chairman of the Board since 1995. He served as our Chief Executive Officer (which we refer to as CEO) from 1998 to 2008. Mr. Tisch is the President and CEO and a member of the Office of the President of Loews, and has been a director of Loews since 1986. Mr. Tisch also serves as a director of General Electric Company and CNA Financial Corporation, a subsidiary of Loews.

Mr. Tisch’s extensive background with our company provides him with unique knowledge of and insight into our business and operations, and enables him to more effectively provide us and our Board with strategic direction and operational oversight. In addition, Mr. Tisch’s status as the President and CEO of Loews, a significant stockholder of our company, enables our Board to have direct access to the perspective of our stockholders and ensures that the Board will take into consideration the interests of our stockholders in all Board decisions.

*John R. Bolton* is a Senior Fellow of the American Enterprise Institute and is Of Counsel to Kirkland & Ellis LLP. Mr. Bolton also served as a director of EMS Technologies, Inc. from 2009 to 2011. Mr. Bolton served in the U.S. Department of State as the U.S. Permanent Representative to the United Nations from 2005 to 2006 and as Under Secretary for Arms Control and International Security from 2001 to 2005.

Mr. Bolton’s extensive experience in international affairs and governmental service provides a valuable resource for our Board. Particularly with regard to our international operations, Mr. Bolton’s unique perspective



gained from his wide-ranging public policy experience and background in public affairs enables him to make important contributions to our Board.

*Marc Edwards* served as a member of Halliburton Company's Executive Committee and as its Senior Vice President responsible for its Completion and Production Division from 2010 to 2014, prior to joining our company as President and CEO. He served as Vice President for Production Enhancement of Halliburton Company from 2008 through 2009. Since January 2017, Mr. Edwards has also served as the Lead Director, Chairman of the Nominating and Corporate Governance Committee and a member of the Audit and Risk and Compensation Committees of Keane Group, Inc., a NYSE-listed integrated well completion service company.

Mr. Edwards developed an extensive background in the global energy industry during his tenure at Halliburton Company that enables him to provide valuable contributions and perspective to our Board. His broad experience and understanding of the worldwide energy services industry provides valuable insight to our Board's strategic and other deliberations. In addition, Mr. Edwards' day-to-day leadership and involvement with our company as our President and CEO provides him with personal knowledge and insight regarding our operations.

*Charles L. Fabrikant* is the Executive Chairman of the Board and CEO of SEACOR Holdings Inc. (which we refer to as SEACOR), which operates offshore support vessels servicing oil and gas exploration and development. Mr. Fabrikant served as SEACOR's Executive Chairman of the Board from 2010 until 2015, and as Chairman of the Board, CEO and President from 1989 to 2010. Since 2011, Mr. Fabrikant has also served as the Chairman of the Board of Era Group Inc., which provides helicopter transportation services to the offshore drilling industry and was wholly owned by SEACOR prior to 2013. He also served as President and CEO of Era Group Inc. from 2011 to 2012. Mr. Fabrikant served on the Board of Directors of Dorian LPG Ltd., a liquefied petroleum gas shipping company, from 2013 to 2015.

As the Executive Chairman and CEO of SEACOR, Mr. Fabrikant has an extensive background and practical, hands-on experience in the offshore energy industry. This background provides Mr. Fabrikant unique insight into many of the business decisions that come before our Board.

*Paul G. Gaffney II* is a retired Navy Vice Admiral and President Emeritus of Monmouth University, having served as President from 2003 to 2013. He was President of the National Defense University from 2000 to 2003. Prior to assuming those duties, Mr. Gaffney was the chief of naval research with responsibility for the Department of the Navy's science and technology investment and commanded the Navy's Meteorology and Oceanography program. He was also the commanding officer of the Naval Research Laboratory. Mr. Gaffney was appointed to the U.S. Ocean Policy Commission in 2001, and served during its full tenure from 2001 to 2004. Mr. Gaffney has been recognized with a number of military decorations and the Naval War College's J. William Middendorf Prize for Strategic Research. He chaired the federal Ocean Research/Resources Advisory Panel (ORRAP) and the federal Ocean Exploration Advisory Board and is a member of the National Academy of Engineering, a private nonprofit institution that advises the federal government and conducts independent studies to examine important topics in engineering and technology. He is also a fellow in the Urban Coast Institute at Monmouth University and a member of the National Academy's Gulf Research Program Advisory Board.

Mr. Gaffney's military experience, leadership in academia and expertise in ocean policy have provided him with valuable knowledge of the complex management and oversight issues faced by large institutions as well as policy and operational issues affecting the offshore drilling industry. His distinguished naval career spanned over three decades and included duty at sea, overseas and ashore in executive and command positions. While a military officer, his career focused on oceanography, research administration and education, and his experience includes oceanographic operations, global weather forecasting and marine science sponsorship, including severe weather prediction research. As a result of this knowledge and experience, Mr. Gaffney provides our Board meaningful insights and a unique perspective to benefit the Board's decision-making processes.

*Edward Grebow* has served as Managing Director of TriArtisan Capital Advisers, LLC, an investment and merchant bank, since 2013. He served as President and CEO of Amalgamated Bank, a commercial bank, from 2011 to 2013. Mr. Grebow also served as managing director of J.C. Flowers & Co. LLC, a private equity firm, from 2007 to 2011, and as President of ULLICO Inc., an insurance and financial services firm, from 2003 to 2006. Since 2016, Mr. Grebow has also served as a director and Chairman of the Audit Committee of Alcentra Capital Corporation, a NASDAQ-listed closed-end management investment company, and on the Board of Directors and Audit Committee of Xenith Bankshares, Inc., a NASDAQ-listed holding company for Xenith Bank, a full-service commercial bank.

Mr. Grebow is an experienced financial leader with the skills necessary to lead our Audit Committee. His broad experience in commercial and investment banking, private equity, insurance and financial services enables him to provide our Board with valuable insight. This experience and knowledge also qualifies him to serve as the financial expert on our Audit Committee.

*Herbert C. Hofmann* served as a Senior Vice President of Loews for over five years until 2012 and was the President and CEO of Bulova Corporation, a former subsidiary of Loews that distributes and sells watches and clocks, from 1989 until 2008.

Mr. Hofmann has had extensive experience in his positions at Loews and practical, hands-on experience as the former CEO of Bulova Corporation. He also has had an extended involvement with our company, having served as a director since 1992. Mr. Hofmann's management background and institutional knowledge of our company provide particular insight relevant to many of the business decisions that come before our Board.

*Kenneth I. Siegel* has served as a Senior Vice President of Loews since 2009. He has also served as a director of the general partner of Boardwalk Pipeline Partners, LP, a subsidiary of Loews, since 2009 and as its Chairman of the Board since 2011. Mr. Siegel served as a senior investment banker at Barclay's Capital from 2008 to 2009, and he served in a similar capacity at Lehman Brothers from 2000 to 2008.

Mr. Siegel has extensive experience with capital markets and merger and acquisition transactions as a result of his positions at Loews, Barclay's Capital and Lehman Brothers. Mr. Siegel's experience in his position at Loews also provides him with knowledge of the energy industry and broad knowledge of and insight into the operations of Loews and the businesses in which it is engaged, including our company. This experience, combined with his financial and transactional expertise, enables Mr. Siegel to provide valuable insight to our Board.

*Clifford M. Sobel* served as U.S. Ambassador to The Netherlands from 2001 until 2005 and U.S. Ambassador to Brazil from 2006 until 2009. Mr. Sobel is presently Managing Partner of Valor Capital Group LLC, an investment group investing in Brazil. Previously he served as Chairman of Net2Phone, a NASDAQ-listed Internet provider, and on the Boards of Directors of Aegon Insurance, a NYSE-listed insurance company, and Alpinvest, a global private equity fund. Mr. Sobel has served on the Millennium Promise Board, a non-governmental organization supporting the UN Millennium Development Goals, and on the Advisory Boards to the American Military Commander of Europe and NATO, as well as the Command for American Forces for Central and South America.

Mr. Sobel's experience in foreign service and diplomatic background in important markets for our offshore drilling services provide a unique perspective that adds significant value to our Board. His investment expertise and experience and involvement in international affairs enable him to provide valuable insight and contributions to our Board, particularly with respect to our international operations.

*Andrew H. Tisch* is Co-Chairman of the Board of Directors of Loews, as well as Chairman of the Executive Committee and a member of the Office of the President of Loews. Since 2001, Mr. Tisch has served as a director of K12 Inc., a NYSE-listed technology-based education company, and served as Chairman of the Board from

2007 until 2012. He is also a director of CNA Financial Corporation and of the general partner of Boardwalk Pipeline Partners, LP, each a subsidiary of Loews. Mr. Tisch has been a director of Loews since 1985.

Mr. Tisch's extensive executive leadership experience provides him with broad knowledge of and insight into the operations of Loews and the businesses in which it is engaged, including our company. This experience, coupled with Mr. Tisch's institutional knowledge, is especially beneficial to our Board.

*Raymond S. Troubh* is a financial consultant. Previously, Mr. Troubh served as Governor of the American Stock Exchange and general partner of Lazard Freres & Co., an investment banking firm. Mr. Troubh is a director of General American Investors Company, a NYSE-listed closed-end management investment company. He served as a director of The Wendy's Company from 1994 to 2014 and as a director of Gentiva Health Services, Inc. from 1999 to 2015.

Mr. Troubh's experience as a director of a number of companies in a variety of industries, as well as his skills and extensive background in finance and capital markets, enable him to provide valuable insight into business deliberations and judgments that come before our Board.

### **Director Independence**

Because more than 50% of our outstanding common stock is held by Loews, we are a "controlled company" under the corporate governance listing standards (which we refer to as the NYSE Listing Standards) of the New York Stock Exchange (which we refer to as the NYSE). Although the NYSE Listing Standards do not require controlled companies to have a majority of independent directors, the majority of our Board of Directors is comprised of independent directors. In determining independence, each year our Board determines whether directors have any "material relationship" with our company or with any members of our senior management. On an annual basis, each director and each executive officer is obligated to disclose any transactions with our company in which the director or executive officer, or any member of his or her immediate family, has a direct or indirect material interest. When assessing the materiality of a director's relationship with us, the Board considers all relevant facts and circumstances known to it, not merely from the director's standpoint, but from that of the persons or organizations with which the director has an affiliation, and the frequency or regularity of the services provided by the director or such other persons or organizations to us or our affiliates, whether the services are being carried out at arm's length in the ordinary course of business and whether the services are being provided substantially on the same terms to us as those prevailing at the time from unrelated parties for comparable transactions.

Our Board has determined that Messrs. Bolton, Fabrikant, Gaffney, Grebow, Hofmann, Sobel and Troubh (whom we refer to as our Independent Directors) are independent under the NYSE Listing Standards and our independence guidelines described below. In making their determination, the Board considered all relevant facts and circumstances known to it and applied the independence guidelines described below in determining that none of the Independent Directors has any material relationship with us or our subsidiaries. In making its determination with respect to Mr. Fabrikant, our Board also considered the commercial relationship between our company and certain subsidiaries of SEACOR, of which Mr. Fabrikant is the Executive Chairman of the Board and CEO, and determined that Mr. Fabrikant meets all of the requirements described above for Independent Directors and does not have a material relationship with us. Please read "*Transactions with Related Persons—Transactions with Other Related Parties*" below for more information concerning Mr. Fabrikant's relationship with us.

The Board has established guidelines to assist it in determining director independence. Under these guidelines, a director would not be considered independent if:

- (1) any of the following relationships existed during the past three years:
  - (i) the director is our employee or the employee of any of our subsidiaries or has received more than \$120,000 per year in direct compensation from us or any of our subsidiaries, other than director and committee fees and pension or certain other forms of deferred compensation for prior service;

- (ii) the director provided significant advisory or consultancy services to us or any of our subsidiaries or is affiliated with a company or a firm that has provided significant advisory or consultancy services to us or any of our subsidiaries (annual revenue of the greater of 2% of the other company’s consolidated gross revenues or \$1 million is considered significant);
  - (iii) the director has been a significant customer or supplier of ours or any of our subsidiaries or has been affiliated with a company or firm that is a significant customer or supplier of ours or any of our subsidiaries (annual revenue of the greater of 2% of the other company’s consolidated gross revenues or \$1 million is considered significant);
  - (iv) the director has been employed by or affiliated with an internal or external auditor that within the past three years provided services to us or any of our subsidiaries; or
  - (v) the director has been employed by another company where any of our current executives serve on that company’s compensation committee;
- (2) the director’s spouse, parent, sibling, child, mother- or father-in-law, son- or daughter-in-law or brother- or sister-in-law, or any other person sharing the director’s home (other than a domestic employee), has a relationship described in (1) above; or
- (3) the director has any other relationships with us or any of our subsidiaries or with any member of our senior management that our Board of Directors determines to be material.

**Board Committees**

Our Board of Directors has three standing committees to facilitate and assist the Board in the execution of its responsibilities: the Executive Committee, Audit Committee and Compensation Committee. Because we are a “controlled company” under the NYSE Listing Standards, our Board is not required to have a nominating committee. Our Board has determined that, because the full Board can perform the same functions that would normally be performed by a nominating committee and because a majority of our Board is comprised of independent directors, there would be no meaningful benefit to having a separate nominating committee. In lieu of a nominating committee, our Board performs the nominating committee functions, including participation in the consideration of director nominees.

Our Bylaws describe the functions and responsibilities of our Executive Committee. Our Audit and Compensation Committees operate under written charters that describe the functions and responsibilities of each committee. Each charter can be viewed in the Corporate Governance section of our website at [www.diamondoffshore.com](http://www.diamondoffshore.com). A copy of each charter can also be obtained by writing to us at Diamond Offshore, Attention: Corporate Secretary, 15415 Katy Freeway, Suite 100, Houston, Texas 77094.

Please note that the preceding Internet address and all other Internet addresses referenced in this proxy statement are for information purposes only and are not intended to be a hyperlink. Accordingly, no information found or provided at such Internet addresses or at our website in general is intended or deemed to be incorporated by reference in this proxy statement.

The current members of the three standing committees of our Board of Directors are identified below.

| <u>Director</u>                | <u>Executive<br/>Committee</u> | <u>Audit<br/>Committee</u> | <u>Compensation<br/>Committee</u> |
|--------------------------------|--------------------------------|----------------------------|-----------------------------------|
| James S. Tisch . . . . .       | *                              |                            |                                   |
| John R. Bolton . . . . .       |                                | *                          |                                   |
| Marc Edwards . . . . .         | *                              |                            |                                   |
| Charles L. Fabrikant . . . . . |                                | *                          |                                   |
| Paul G. Gaffney II . . . . .   |                                |                            | Chair                             |
| Edward Grebow . . . . .        |                                | Chair                      | *                                 |
| Andrew H. Tisch . . . . .      | *                              |                            |                                   |
| Raymond S. Troubh . . . . .    |                                | *                          | *                                 |

### ***Executive Committee***

The Executive Committee of our Board of Directors is authorized to exercise all of the powers of the Board in the management of our business that may lawfully be delegated to it by the Board.

### ***Audit Committee***

The primary function of the Audit Committee is to assist our Board of Directors in fulfilling its responsibility to oversee management's conduct of our financial reporting process, including review of our financial reports and other financial information, our system of internal accounting controls, our compliance with legal and regulatory requirements, the qualifications and independence of our independent auditor and the performance of our internal audit staff and independent auditor. Our internal audit controls function maintains critical oversight over the key areas of our business and financial processes and controls, and provides reports directly to the Audit Committee. The committee has sole authority to appoint, retain, compensate, evaluate and terminate the independent auditor and to approve all engagement fees and terms for the independent auditor. The members of the committee meet regularly with representatives of our independent auditor firm without the presence of management. The members of the committee also meet regularly with our manager of internal audit without the presence of other members of management.

Our Board has determined that each member of the Audit Committee is an Independent Director and satisfies the additional independence and other requirements for Audit Committee members provided for in the NYSE Listing Standards. The Board has also determined that Mr. Grebow, the Chairman of the Audit Committee, qualifies as an "audit committee financial expert" under the rules of the Commission.

### ***Compensation Committee***

The primary function of the Compensation Committee is to assist our Board of Directors in discharging its responsibilities relating to compensation of our executive officers. The Compensation Committee is also responsible for overseeing our Incentive Compensation Plan for Executive Officers (which we refer to as our Incentive Compensation Plan) and our Equity Plan. In accordance with its charter, the committee may form and delegate authority to sub-committees consisting of one or more of its members when appropriate. The committee also has authority to retain or replace outside counsel, compensation and benefits consultants or other experts to provide it with independent advice, including the authority to approve the fees payable and any other terms of retention.

The Compensation Committee completes a comprehensive review of all elements of compensation at least annually. If it is determined that any changes to any executive officer's total compensation are necessary or appropriate, the Compensation Committee obtains such input from management as it determines to be necessary or appropriate. All compensation decisions with respect to executive officers other than our CEO are determined in discussion with, and frequently based in part upon the recommendation of, our CEO. The committee makes all determinations with respect to the compensation of our CEO, including establishing performance objectives and criteria related to the payment of his compensation, and determining the extent to which such objectives have been established. In so doing, the committee obtains input from the committee's independent compensation advisors as it deems necessary or appropriate. During 2016, the committee did not engage a compensation advisor in determining or recommending amounts or forms of executive or director compensation.

During the first calendar quarter of each year, the Compensation Committee establishes the parameters of the annual Incentive Compensation Plan awards for that year, including the performance goals relative to our performance that will be applicable to such awards. Also during the first calendar quarter of each year, the committee reviews our performance against the objectives established for awards payable in respect of the prior year, and confirms the extent, if any, to which such objectives have been obtained, and the amounts payable to each of our executive officers in respect of such achievement.

The Compensation Committee also determines the appropriate level and type of awards, if any, to be granted to each of our executive officers pursuant to our Equity Plan. The committee reviews, and has the authority to recommend to the Board for adoption, any new executive compensation or benefit plans that are determined to be appropriate for adoption by our company, including those that are not otherwise subject to the approval of our stockholders. The committee also reviews any employment or compensation contracts or other transactions proposed to be entered into with executive officers of the company. In connection with the review of any such proposed plan or contract, the committee may seek from its independent advisors any advice, counsel and information as it determines to be appropriate in the conduct of such review. See “*Compensation Discussion and Analysis*” for more information about the responsibilities of the Compensation Committee and the role of management with respect to compensation matters.

*Compensation Committee Interlocks and Insider Participation.* The members of the Compensation Committee are Paul G. Gaffney II, Edward Grebow and Raymond S. Troubh. Our Board of Directors has determined that each member of the Compensation Committee satisfies the definition of “independent” as established under the NYSE Listing Standards and qualifies as an “outside director” as defined for purposes of Section 162(m) of the Internal Revenue Code of 1986, as amended (which, together with the regulations promulgated thereunder, we refer to as the Code). No member of the Compensation Committee is, or was during 2016, an officer or employee of the company. During 2016:

- None of our executive officers served as a member of the compensation committee (or other board committee performing equivalent functions or, in the absence of any such committee, the entire board of directors) of another entity, one of whose executive officers served on our Compensation Committee;
- None of our executive officers served as a director of another entity, one of whose executive officers served on our Compensation Committee; and
- None of our executive officers served as a member of the compensation committee (or other board committee performing equivalent functions or, in the absence of any such committee, the entire board of directors) of another entity, one of whose executive officers served on our Board of Directors.

### **Board Diversity and Director Nominating Process**

Our Board of Directors recognizes the benefits of broad diversity throughout our company and the merits of achieving diversity. In identifying, evaluating and nominating individuals to serve as our directors, including those identified by stockholders, our Board does not have formal diversity requirements or rules. Rather, the Board believes that our company is best served by directors with a wide range of perspectives, professional experience, skills and other individual qualities and attributes. Our Board considers diversity broadly to include diversity of race, ethnicity and gender, as well as diversity of viewpoint, professional experience (including geographic and industry experiences) and individual characteristics, qualities and skills, resulting in the inclusion of naturally varying perspectives among the directors. The Board also considers whether these capabilities and characteristics will enhance and complement the full Board so that, as a unit, the Board possesses the appropriate skills and experience to oversee the company’s business and serve the long-term interests of our stockholders.

Our current Board members vary in age from 56 to 90, and range in tenure from 3 years to 28 years. As described above under our director biographies, we believe the current composition of our Board also reflects a variety of expertise, skills, experience and professional and personal backgrounds, including in the following areas:

*Company history*  
*Strategy, leadership and core business skills*  
*Finance and risk management*  
*Global energy and business*

*Offshore oil and gas*  
*Public company boards*  
*Investment and M&A*  
*Public policy, government and legal*

Our Board of Directors will, subject to the terms of our Certificate of Incorporation and Bylaws, review any candidates recommended by stockholders for positions on the Board. Our Bylaws provide that any stockholder entitled to vote generally in the election of directors at a meeting of stockholders who complies with the procedures specified in the Bylaws may nominate persons for election to the Board, subject to any conditions, restrictions and limitations imposed by our Certificate of Incorporation or Bylaws. These procedures include a requirement that our Corporate Secretary receive timely written notice of the nomination, which, for the 2018 annual meeting of stockholders, means that the nomination must be received no later than February 15, 2018. Any notice of nomination must be addressed to Diamond Offshore, 15415 Katy Freeway, Suite 100, Houston, Texas 77094, Attention: Corporate Secretary, and must include, in addition to any other information or matters required by our Certificate of Incorporation or Bylaws:

- the name and address of the stockholder submitting the nomination and of the person or persons to be nominated;
- a representation that the stockholder is a holder of our capital stock entitled to vote at the meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice;
- a description of all contracts, arrangements or understandings between the stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the stockholder;
- such other information regarding each nominee proposed by the stockholder as would be required to be included in a proxy or information statement filed pursuant to the Exchange Act and the rules and regulations under it; and
- the consent of each nominee to serve as our director if so elected.

Nominations of directors may also be made by the Board of Directors or as otherwise provided in our Certificate of Incorporation or Bylaws. In determining whether it will nominate a candidate for a position on our Board, the Board considers those matters it deems relevant, which may include, among other things, integrity, business specialization, career achievements, breadth of experience, diversity of race, ethnicity and gender, soundness of judgment, ability to make independent analytical inquiries, independence, potential conflicts of interest, the present needs of the Board in light of the current mix of director skills and attributes and ability to represent the total corporate interests of our company and our stockholders. When assessing individual candidates and nominees to fill the next Board vacancy that occurs in the future, the Board will consider diversity among other relevant factors. The Board retains its full discretion in making all such determinations, and also takes into account any restrictions, requirements or limitations contained in our Certificate of Incorporation or Bylaws, or any agreement to which we are a party.

#### **Majority Vote Standard for Election of Directors**

Our Bylaws require a mandatory majority voting, director resignation procedure. A nominee for director in an uncontested election (such as this one) will be elected to the Board if all votes cast for that nominee's election exceed the votes cast against his or her election. In the event that an incumbent director nominee does not receive a majority of the votes cast, the Board will require that director to tender his or her resignation and will establish a committee to consider whether to accept or reject the resignation. The Board will act on the committee's recommendation and publicly disclose its decision.

#### **Executive Sessions of Non-Management Directors**

Our non-management directors, our Independent Directors and each of the Audit Committee and the Compensation Committee meet regularly in executive sessions without the presence of management. Upon the recommendation of the non-management directors and Independent Directors, our Board of Directors has

selected Edward Grebow to act as the Lead Director and to serve as the presiding director at meetings of our non-management directors and our Independent Directors.

### **Board Leadership Structure**

Our Board's leadership structure consists of a Chairman of the Board (who is not our current CEO), a Lead Director and independent Audit Committee and Compensation Committee chairs. James S. Tisch, a non-employee director, serves as our Chairman of the Board. Our Lead Director is Edward Grebow, who is also the Chairman of our Audit Committee. The Board believes this structure provides independent Board leadership and engagement and strong oversight of management while providing the benefit of having our Chairman lead regular Board meetings as we discuss key business and strategic issues. Mr. Edwards has served as our CEO since March 2014. We separate the roles of CEO and Chairman of the Board in recognition of the differences between the two roles. The CEO is responsible for setting the strategic direction for the company and providing the day-to-day leadership of the company, while the Chairman provides guidance to the CEO and sets the agenda for Board meetings and presides over the meetings of the full Board. Separating these positions allows our CEO to focus on our day-to-day business, while allowing our Chairman to lead the Board in its fundamental role of providing advice to, and oversight of, management. The Board recognizes the time, effort and energy that the CEO is required to devote to his position, as well as the commitment required to serve as Chairman. The Board believes that having separate positions is the appropriate leadership structure for our company at this time.

Although the Board currently separates the roles of CEO and Chairman of the Board, the Board has no fixed policy with respect to combining or separating the positions. In our company's history, there have been times that our CEO also served as the Chairman. The Board has exercised discretion in combining or separating the positions as it has deemed appropriate in light of prevailing circumstances, and the Board continues to reserve the right to reevaluate this determination.

### **Board Oversight of Risk Management**

Our Board recognizes the importance of understanding, evaluating and, to the extent practicable, managing risk and its impact on the financial health of our company. Our management periodically has discussions with our Board, Audit Committee and Compensation Committee to, among other things, assist in identifying the principal risks facing our company, identifying and evaluating policies and practices that promote a culture to appropriately balance risk and reward, and evaluating risk management practices. These opportunities to interact enable the non-management directors to conduct meaningful discussions concerning these issues with senior management during Board and Audit Committee meetings.

Our Board oversees an enterprise-wide approach to risk management, designed to support the achievement of organizational objectives, including strategic objectives, improve long-term organizational performance and enhance stockholder value. A fundamental component of risk management is not only understanding the risks and the measures management is taking to manage the risks, but also understanding what level of risk is appropriate for the company. The involvement of the full Board in setting our business strategy is a key part of the Board's assessment of the company's tolerance for risk. The Board also regularly reviews information regarding the company's credit, liquidity and operations, as well as the associated risks. While the Board has the ultimate oversight responsibility for the risk management process, committees of the Board and the company's management also have responsibility for risk management. In particular, the Audit Committee focuses on financial risk, including internal controls, and discusses risk assessment with management and our internal and external auditors. In addition, in setting compensation, the Compensation Committee endeavors to create incentives that encourage a level of risk-taking behavior consistent with the company's business strategies and long-term stockholder value. While each committee is responsible for evaluating certain risks and overseeing the management of such risks, the entire Board is regularly informed through committee and management reports about such risks.



## Director Attendance at Meetings

During 2016, our Board of Directors held six meetings, our Audit Committee held eight meetings and our Compensation Committee held four meetings. Our Executive Committee did not meet during 2016. Overall, during 2016 the rate of attendance by our directors at Board and committee meetings was 97%. In 2016, all but one of our directors attended all of the meetings of the Board and committees on which they served, and no director attended less than 75% of the meetings of the Board and committees on which he served. We do not require our Board members to attend our annual meeting of stockholders; however, all of our directors then in office were present at our annual meeting held in May 2016.

## Director Compensation

Company employees who are also members of our Board of Directors do not receive any cash or equity fee or other remuneration for services as directors. In addition, employees of Loews or its subsidiaries who are also directors do not receive any cash fee for services as members of our Board. We currently have seven non-employee directors who qualify for cash compensation as directors. In addition to reimbursing all reasonable out-of-pocket expenses that each director incurs attending Board meetings, we currently pay each of our eligible non-employee directors a cash retainer of \$50,000 per year, paid in quarterly installments. In addition, the Chairman of the Audit Committee receives an annual cash retainer of \$15,000, the Chairman of the Compensation Committee receives an annual cash retainer of \$10,000 and the Lead Director receives an annual cash retainer of \$10,000. We also pay each of our qualified non-employee directors a cash fee of \$1,500 for each Board meeting attended and \$1,000 for each meeting of the Audit Committee or Compensation Committee attended.

During 2016, with the exception of Mr. J.S. Tisch, each member of our Board of Directors who is not also employed by our company received an award of 1,000 SARs each quarter. In recognition of his additional duties as Chairman of the Board, Mr. J.S. Tisch received an award of 7,500 SARs each quarter during 2016. The SARs awarded to non-employee directors during 2016 vested immediately upon grant and have a term of 10 years from the date of grant.

### Director Compensation for 2016

The following table summarizes the compensation earned by our non-employee directors in 2016:

| <u>Name (1)</u>                | <u>Fees Earned or Paid in Cash (\$)</u> | <u>Option Awards (\$)(2)</u> | <u>All Other Compensation (\$)</u> | <u>Total (\$)</u> |
|--------------------------------|---|------------------------------|------------------------------------|-------------------|
| James S. Tisch . . . . .       | —                                       | 279,531                      | —                                  | 279,531           |
| John R. Bolton . . . . .       | 67,000                                  | 37,271                       | —                                  | 104,271           |
| Charles L. Fabrikant . . . . . | 63,500                                  | 37,271                       | —                                  | 100,771           |
| Paul G. Gaffney II . . . . .   | 74,000                                  | 37,271                       | —                                  | 111,271           |
| Edward Grebow . . . . .        | 96,000                                  | 37,271                       | —                                  | 133,271           |
| Herbert C. Hofmann . . . . .   | 59,000                                  | 37,271                       | —                                  | 96,271            |
| Kenneth I. Siegel . . . . .    | —                                       | 37,271                       | —                                  | 37,271            |
| Clifford M. Sobel . . . . .    | 59,000                                  | 37,271                       | —                                  | 96,271            |
| Andrew H. Tisch . . . . .      | —                                       | 37,271                       | —                                  | 37,271            |
| Raymond S. Troubh . . . . .    | 71,000                                  | 37,271                       | —                                  | 108,271           |

(1) Marc Edwards, our President and CEO, is not included in this table because he was an employee of our company during 2016, and therefore received no compensation for his services as director. The compensation received by Mr. Edwards as an employee of the company during 2016 is shown in the *2016 Summary Compensation Table* below.

(2) These amounts represent the aggregate grant date fair value of awards of SARs granted pursuant to our Equity Plan for the year ended December 31, 2016 computed in accordance with the Financial Accounting Standards Board's Accounting Standards Codification Topic 718 (which we refer to as FASB ASC Topic 718). Assumptions used in the calculation of dollar amounts of these awards are included in Note 4 to our audited consolidated financial statements for the fiscal year ended December 31, 2016 included in our Annual Report on Form 10-K filed with the Commission on February 16, 2017.

As of December 31, 2016, our non-employee directors held the following outstanding company equity awards:

| <u>Name</u>                    | <u>Unexercised<br/>Option Awards (#)</u> |
|--------------------------------|--|
| James S. Tisch . . . . .       | 292,500                                  |
| John R. Bolton . . . . .       | 27,500                                   |
| Charles L. Fabrikant . . . . . | 29,500                                   |
| Paul G. Gaffney II . . . . .   | 29,500                                   |
| Edward Grebow . . . . .        | 26,500                                   |
| Herbert C. Hofmann . . . . .   | 23,000                                   |
| Kenneth I. Siegel . . . . .    | 11,000                                   |
| Clifford M. Sobel . . . . .    | 20,500                                   |
| Andrew H. Tisch . . . . .      | 21,000                                   |
| Raymond S. Troubh . . . . .    | 29,500                                   |

**Code of Ethics and Corporate Governance Guidelines**

We have a Code of Business Conduct and Ethics that applies to all of our directors, officers and employees, including our principal executive officer, principal financial officer and principal accounting officer. This code can be found in the Corporate Governance section of our website at [www.diamondoffshore.com](http://www.diamondoffshore.com) and is available in print to any stockholder who requests a copy by writing to our Corporate Secretary. We intend to post any changes to or waivers of this code for our principal executive officer, principal financial officer and principal accounting officer on our website.

In addition, our Board of Directors has adopted written Corporate Governance Guidelines to assist our directors in fulfilling their responsibilities. The guidelines can be found in the Corporate Governance section of our website at [www.diamondoffshore.com](http://www.diamondoffshore.com) and is available in print to any stockholder who requests a copy by writing to our Corporate Secretary.

*Loans to Directors and Executive Officers.* We comply and operate in a manner consistent with regulations prohibiting loans to our directors and executive officers.

*Reporting of Ethics and Compliance Concerns.* We have a dedicated hotline and website available to all employees to report ethics and compliance concerns, anonymously if preferred, including concerns related to accounting, accounting controls, financial reporting and auditing matters. The hotline and website are administered and monitored by an independent monitoring company. A description of our procedures for confidential anonymous complaints regarding accounting, internal accounting controls and auditing matters can be found in the Corporate Governance section of our website at [www.diamondoffshore.com](http://www.diamondoffshore.com) and is available in print to any stockholder who requests a copy by writing to our Corporate Secretary.

## AUDIT COMMITTEE REPORT

As discussed above under the heading “*Board Committees—Audit Committee,*” the primary role of the Board’s Audit Committee is to oversee the company’s financial reporting process and manage its relationship with the independent auditor. In fulfilling its responsibilities, the Audit Committee has reviewed and discussed the company’s audited financial statements for the year ended December 31, 2016 with the company’s management and independent auditor. The Audit Committee has also discussed with the company’s independent auditor the matters required to be discussed by Auditing Standard No. 1301, *Communications with Audit Committees*, as adopted and amended by the Public Company Accounting Oversight Board. In addition, the Audit Committee has discussed with the independent auditor its independence in relation to the company and its management, including the matters in the written disclosures provided to the Audit Committee as required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent auditor’s communications with the Audit Committee concerning independence, and has determined that the provision of non-audit services provided by the auditor is compatible with maintaining the auditor’s independence.

The members of the Audit Committee rely without independent verification on the information provided to them by management and the independent auditor and on management’s representation that the company’s financial statements have been prepared with integrity and objectivity. The Audit Committee does not provide any expert or special assurance as to the company’s financial statements or any professional certification as to the independent auditor’s work. Accordingly, the Audit Committee’s oversight does not provide an independent basis to determine that management has applied appropriate accounting and financial reporting principles or internal controls and procedures, that the audit of the company’s financial statements has been carried out in accordance with generally accepted auditing standards, that the company’s financial statements are presented in accordance with generally accepted accounting principles, or that the company’s auditor is in fact “independent.”

Based on the review and discussions referred to above, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2016, which has been filed with the Commission.

THE AUDIT COMMITTEE  
Edward Grebow, Chairman  
John R. Bolton  
Charles L. Fabrikant  
Raymond S. Troubh

## COMPENSATION DISCUSSION AND ANALYSIS

*Introductory note: The following discussion of executive compensation contains descriptions of various employee benefit plans and employment-related agreements. These descriptions are qualified in their entirety by reference to the full text or detailed descriptions of the plans and agreements, which are filed or incorporated by reference as exhibits to our Annual Report on Form 10-K for the year ended December 31, 2016.*

This Compensation Discussion and Analysis describes our executive compensation program for 2016. In particular, it explains how our Compensation Committee made its compensation decisions for 2016 for our executive officers identified in the following table, consisting of our CEO, Chief Financial Officer (which we refer to as CFO), former CFO, three other most highly compensated executive officers as of December 31, 2016, and a former executive officer. It also explains how the compensation paid for 2016 fits within our Compensation Committee’s guiding principles with respect to compensation of our executive officers. We refer to the below group of executive officers collectively as our “named executive officers.”

| <u>Name</u>                | <u>Title</u>  |
|----------------------------|---|
| Marc Edwards . . . . .     | President and CEO (our principal executive officer)   |
| David L. Roland . . . . .  | Senior Vice President, General Counsel and Secretary  |
| Ronald Woll . . . . .      | Senior Vice President and Chief Commercial Officer  |
| Kelly Youngblood . . . . . | Senior Vice President and CFO (our principal financial officer)   |
| Beth G. Gordon . . . . .   | Vice President and Controller   |
| Lyndol L. Dew . . . . .    | Senior Vice President—Special Projects and Strategic Initiatives<br>(former Senior Vice President—Worldwide Operations) |
| Gary T. Krenek . . . . .   | Former Senior Vice President and CFO  |

### Executive Summary

*No Principal Changes in Compensation during 2016.* The objectives and major components of our executive compensation program did not materially change from 2015 to 2016. While we regularly review and refine our compensation program, we believe consistency in our compensation program and philosophy is important to effectively motivate and reward top-level management performance and for the creation of stockholder value. We continue to provide our named executive officers with total annual compensation that includes three principal elements: base salary, performance-based annual incentive cash compensation and long-term equity-based incentive awards. Major elements of our compensation program continue to be performance-based, and a significant portion of each executive’s total annual compensation is at risk and dependent upon our company’s achievement of specific, measurable performance goals. Our performance-based pay is designed to align our executive officers’ interests with those of our stockholders and to promote the creation of stockholder value, without encouraging excessive risk-taking.

At our annual meeting of stockholders held on May 17, 2016, our stockholders approved all of our director nominees and proposals, including a non-binding advisory (say-on-pay) vote to approve the compensation of our executive officers. In the say-on-pay vote, over 98% of the votes cast on the proposal voted in favor of our compensation practices and policies. After our 2016 annual meeting, our Compensation Committee considered these results of the say-on-pay vote in its review of our compensation policies. Our general goal since our 2016 annual meeting has been to continue to act consistently with the established practices that were overwhelmingly approved by our stockholders and to take appropriate actions to further link pay and performance when advisable. We believe that we have accomplished those goals during 2016.

In addition, because an annual say-on-pay vote allows our stockholders to provide input on our compensation policies and programs on a regular basis and because our stockholders voted in a non-binding advisory (say-on-frequency) vote held at our 2011 annual meeting in favor of our holding a say-on-pay vote every year, we have

held a say-on-pay vote every year since then. Pursuant to Commission rules, our stockholders will again have an opportunity to vote on the frequency of our say-on-pay vote at the Annual Meeting.

Base salaries for most of our named executive officers did not increase in 2016, and, with one exception, we do not plan to increase base salaries for our named executive officers for 2017. We usually undergo a base salary review process each year and adjust base salaries to reflect market or other merit-based increases. In both 2015 and 2016, however, prevailing negative market conditions caused us to take a different approach. Commencing in the summer of 2014 and continuing into 2017, crude oil prices declined significantly and oil markets were volatile and unpredictable. The depressed fundamentals in the oil and gas industry caused most independent and national oil companies and exploration and production companies to significantly reduce their capital spending plans, which in turn negatively impacted our business. As a result of the depressed market conditions, we undertook numerous cost-cutting measures, including substantial reductions-in-force as well as freezes on general salary increases and new hiring.

Payments under our annual bonus incentive plan for 2016 reflected our company's performance and level of achievement of our 2016 plan performance goals. As discussed further in this proxy statement under the heading "*Cash Bonus Incentive Compensation Awards*," our 2016 Earnings Before Interest, Taxes, Depreciation and Amortization (which we refer to as EBITDA) exceeded the target EBITDA established at the beginning of 2016 for our 2016 bonus incentive plan, despite the negative impact on our business from the steep decline in oil prices and the resulting dramatic reduction in capital spending by our oil and gas customers. As a result, incentive awards paid to our named executive officers for 2016 were generally comparable to 2015 and other recent years where we exceeded the applicable incentive plan target financial performance criteria.

On April 1, 2016, most of our named executive officers received an award of restricted stock units (RSUs). RSUs are contractual rights to receive shares of our common stock in the future if the applicable vesting conditions are met. Each RSU represents a contingent right to receive one share of our common stock. Our CFO, who was hired after April 1, received an award of RSUs upon his hire. The RSUs awarded to our CEO in 2016 vest solely upon the level of attainment against a designated three-year financial performance goal. Most of the RSUs awarded to our other named executive officers in 2016 vest upon the level of attainment of the same three-year financial performance goal, and the remainder of the RSUs awarded to our other named executive officers time-vest over a three-year period (half of the time-vesting RSUs vest on the second anniversary of the grant date and half of the time-vesting RSUs vest on the third anniversary of the grant date). All of the RSUs are subject to forfeiture if the applicable vesting conditions are not met. For all performance-vesting RSUs awarded to our named executive officers, the Compensation Committee has the right to exercise negative discretion to reduce the number of the performance RSUs that would otherwise be eligible to vest. The RSU award agreements for all named executive officers other than our CEO obligate the officer to comply with certain restrictive covenants, including obligations of confidentiality, a prohibition on solicitation of employees of our company and its subsidiaries, and a prohibition on competition with our company for a period of one year after termination of employment. During and after 2016, our CEO has been subject to similar restrictive covenants through his employment agreement.

The employment agreement with our CEO, which was entered into upon his hire in March 2014, expired by its terms on December 31, 2016. Consistent with our general policy of not entering into employment agreements with our executives, our CEO's employment agreement was not extended or replaced and our CEO is now serving without an employment agreement.

### **Objectives and Compensation Philosophy**

Through our executive compensation program, we seek to achieve the following general goals:

- Attract and retain highly qualified and productive executives by providing total compensation competitive with that of other executives employed by comparably-sized companies in the energy industry engaged in businesses similar to ours (although we do not benchmark our compensation to any particular group of companies);

- Motivate our executives to achieve strong financial and operational performance for our stockholders;
- Structure compensation to create meaningful links between corporate and individual performance and financial rewards;
- Align the interests of our executives with those of our stockholders by providing a significant portion of total compensation in the form of stock-based incentives;
- Encourage long-term commitment to our company; and
- Limit corporate perquisites.

We do not rely on formula-driven plans when determining the aggregate amount of compensation for each named executive officer. The primary factor in setting compensation is our evaluation of the individual's performance in the context of our company's performance and our compensation objectives, policies and practices. Our Compensation Committee considers individual performance factors, including the Compensation Committee's view of the individual's performance, the responsibilities of the individual's position and the individual's contribution to our company and to our financial and operational performance for the most recently-completed fiscal year. There is no specific weighting given to each factor, but rather the Compensation Committee considers and balances these factors in its business judgment and discretion.

We also have reviewed and considered compensation levels and practices as shown in the surveys and other materials referred to below. Our Compensation Committee also considers, among other things, (i) the opportunity for compensation for the current year, which includes salary, target cash incentive compensation and the potential value of equity-based grants, (ii) the actual compensation history from previous years, including salary and actual cash incentive compensation earned and (iii) any applicable provisions of the named executive officer's employment agreement, if any.

*Role of Management in Establishing and Awarding Compensation.* On an annual basis, Mr. Edwards, with the assistance of our Human Resources department, recommends to the Compensation Committee any proposed increases in base salary, bonus payments and equity awards for our executive officers other than himself. No executive officer is involved in determining his or her own salary, bonus payment or equity award. Mr. Edwards' recommendations are reviewed with and are acted upon by the Compensation Committee in accordance with its charter. The Compensation Committee does not delegate to management any of its functions in setting executive compensation under its charter, although our management and members of our Board provide recommendations to the committee. The Compensation Committee reviews and approves all grants of RSUs, with the exception that the committee has delegated to Mr. Edwards the authority to approve grants of time-vesting RSUs to non-executive officers under pre-approved terms with a grant-day value of \$25,000 or less. We believe that this delegation is beneficial because it enables smaller awards to be made more efficiently, which is particularly important with respect to attracting, hiring and retaining non-executive employees.

At least once a year, the Compensation Committee reviews the performance and compensation of Mr. Edwards and, following discussions with the Chairman of the Board, considers any necessary adjustments to his compensation level. Where it deems appropriate, the Compensation Committee will also consider market compensation information from independent sources. Mr. Edwards' annual base salary has not increased since his hire in March 2014.

*Internal Pay Equity.* Our core compensation philosophy is to pay our executive officers competitive levels of compensation that best reflect their individual responsibilities and contributions to our company, while providing incentives to achieve our business and financial objectives. While comparisons to compensation levels at other companies can be useful in assessing the overall competitiveness of our compensation program, we believe that our executive compensation program also must be internally consistent and equitable in order for

us to achieve our corporate objectives. Each year, the Compensation Committee reviews the total compensation paid to our CEO and our other executive officers, which allows a comparison for internal pay equity purposes and allows the committee to analyze both the individual elements of compensation (including the compensation mix) as well as the aggregate total amount of compensation.

*Market Considerations.* When making compensation decisions, we have also looked at the compensation of our executive officers relative to the compensation paid to executives employed by comparably-sized companies in the energy industry engaged in businesses similar to ours (although we do not benchmark our compensation to any particular group of companies). In doing so, we have considered executive compensation surveys and other information related to executive compensation levels and compensation practices as shown in the surveys that we review. We believe, however, that any such comparison should be merely a point of reference for measurement and not the determinative factor for our executives' compensation. The purpose of the comparison is to inform, but not supplant, the analyses of internal pay equity and the individual performance of the executive officers that we consider when making compensation decisions. Because the comparative compensation information is just one of several analytic tools that we use in setting executive compensation, the Compensation Committee has discretion in determining the nature and extent of its use. Further, given the limitations associated with comparative pay information for setting individual executive compensation, the committee may elect not to use the comparative compensation information at all in the course of making compensation decisions.

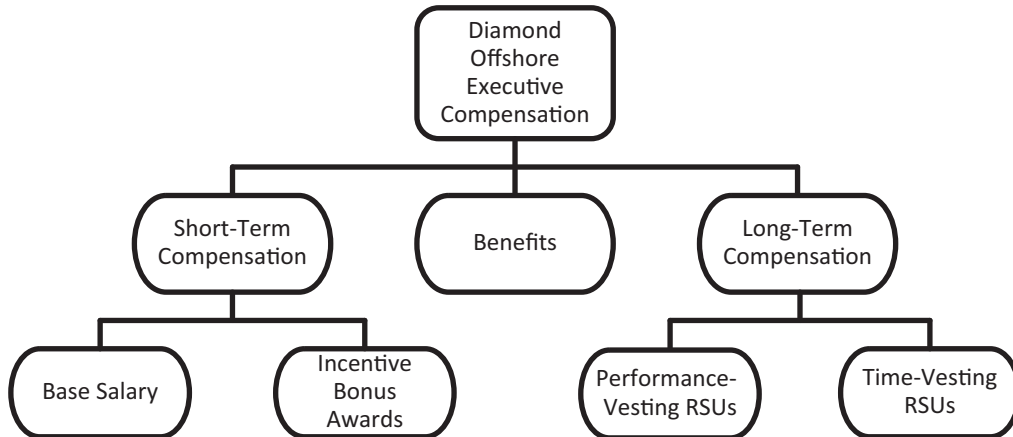
When reviewing the compensation of our executive officers, the Compensation Committee may also consider our company's performance during the person's tenure and the anticipated level of compensation that would be required to replace the person with someone of comparable experience and skill.

In addition to our periodic review of compensation, we also regularly monitor market conditions and may adjust compensation levels from time to time as necessary to remain competitive and retain our most valuable employees. When we experience a significant level of competition for retaining current employees or hiring new employees, we may reevaluate our compensation levels within that employee group in order to ensure our competitiveness.

These principles apply to compensation policies for all of our executive officers. We do not follow the principles in a mechanistic fashion; rather, we apply experience and judgment in determining the appropriate mix of compensation for each individual. This judgment also involves periodic review of discernible measures to determine the progress each individual is making toward agreed-upon goals and objectives.

**Elements of Compensation**

In 2016, the principal components of compensation for our named executive officers were:



### ***Base Salary***

Each of our salaried employees, including our named executive officers, is assigned a salary grade at the commencement of employment. The salary grade, which is subject to periodic review, considers objective criteria relevant to the position, such as the position's level of financial and operational responsibility and supervisory duties, as well as the education and skills required to perform the functions of the position. Each salary grade has a designated salary range. Within each grade, salaries are determined within the applicable salary range based primarily on subjective factors such as the employee's contribution to our company and individual performance. No fixed, relative weights are assigned to these subjective factors. On occasion, an employee's compensation may be fixed at a level above the maximum level for the employee's salary grade in response to a subjective determination that the employee's compensation, if set at the maximum level for his or her grade, would be below the level merited by the employee's contributions to our company.

The Compensation Committee recognizes that Mr. Edwards' compensation as CEO should reflect his greater policy- and decision-making authority and his higher level of responsibility with respect to our strategic direction and our financial and operating results. At December 31, 2016, our CEO's annual base salary was 111% higher than the annual base salary for the next highest-paid named executive officer and 143% higher than the average annual base salary for all of our other named executive officers.

In typical years, base salaries are reviewed at least annually and may also be adjusted from time to time to realign salaries with market levels after taking into account individual responsibilities and changes in responsibilities, performance and contribution to our company, experience, impact on total compensation, relationship of compensation to other company employees and changes in external market levels. Commencing in the summer of 2014 and continuing into 2017, however, crude oil prices declined significantly and oil markets were volatile and unpredictable. The depressed fundamentals in the oil and gas industry caused most independent and national oil companies and exploration and production companies to significantly reduce their capital spending plans, which in turn negatively impacted our business. As a result of the depressed market conditions, we undertook numerous cost-cutting measures, including significant reductions-in-force as well as freezes on broad salary increases and new hiring. Consistent with those measures, base salaries for most of our named executive officers remained the same in 2016 as in 2015, and, with one exception, we do not plan to increase executive base salaries for 2017. Effective on January 1, 2017, the base salary for Mr. Roland was increased from \$390,000 to \$405,600 to reflect prevailing market compensation for his position.

### ***Cash Bonus Incentive Compensation Awards***

Our Incentive Compensation Plan is intended to promote the achievement each year of company performance objectives and to recognize the executive officers who contributed to the company's achievements. The plan provides the opportunity to earn cash compensation that is at-risk on an annual basis and is contingent on achievement of high individual performance and an annual written objective financial performance goal for the company, in addition to applicable award caps and the exercise of negative discretion by the Compensation Committee, as described below. The Compensation Committee reviews and approves the company's performance goal under our Incentive Compensation Plan during the first calendar quarter of each year to ensure that the key elements of the plan continue to meet the objectives described above. The general intent of the plan is to reward executive officers when the company and the executive perform well. As a result, in most years when company financial performance is strong, cash bonus payments on average will tend to be generally higher. Likewise, when our financial performance is low as compared to our internal targets, cash bonus payments will tend to be generally lower.

Performance under our Incentive Compensation Plan is measured with respect to the designated plan fiscal year. The annual performance goal under the plan and the cap on each participant's award are established during the first calendar quarter of the performance year. Payments under the plan are paid in cash in an amount reviewed and approved by the Compensation Committee and are ordinarily made in the first



quarter following the completion of the performance year, after the actual financial results for that year have been determined and the committee has determined whether applicable performance goals have been met.

Our Incentive Compensation Plan specifies an overall general cap that limits the maximum amount payable under the plan to any participant for any performance period to \$7.5 million per year. The Compensation Committee also limits the potential for excessive compensation by setting a separate lower cap on the amount that can be paid to any participant in any given year. In addition, the Compensation Committee retains the authority under our Incentive Compensation Plan to reduce an award, a concept called negative discretion, when the committee deems appropriate. This allows the committee to review and evaluate each participant's performance in light of the year-end results, which we believe serves to discourage excessive risk taking.

Historically, the objective financial performance goal under our Incentive Compensation Plan has required attainment of a pre-determined level of EBITDA during the applicable plan year. Under the plan, the Compensation Committee employs factors that are both quantitative (our attainment of the financial performance goal) and qualitative (the Compensation Committee's assessment of the individual executive's performance and the committee's exercise of negative discretion). For 2016, the Compensation Committee established an annual performance goal for executive officers under our Incentive Compensation Plan expressed as an amount of target EBITDA for 2016. The Compensation Committee selected EBITDA as the appropriate financial performance measure for the plan because EBITDA generally tracks our consolidated financial performance. We believe that utilizing an EBITDA performance measure in the plan establishes a clear and consistent link between our executive officer bonus incentive compensation and our company's financial performance.

For purposes of determining the 2016 EBITDA performance goal under our Incentive Compensation Plan, EBITDA was defined as an amount equal to consolidated net income (excluding extraordinary gains and extraordinary losses), for 2016, plus or minus, as applicable, the following to the extent excluded in calculating such consolidated net income:

- Plus an amount equal to the sum of all interest, premium payments, debt discount, fees, charges and related expenses of the company and its consolidated subsidiaries in connection with borrowed money (including capitalized interest) or in connection with the deferred purchase price of assets, in each case to the extent treated as interest, for 2016;
- Plus or minus the provision for taxes based on income or revenues payable by us and our consolidated subsidiaries for 2016;
- Plus the amount of depreciation and amortization expense for 2016;
- Minus, without duplication, interest income for 2016; and
- Plus or minus, without duplication, the amount of non-operating income or expenses for 2016;

in each case excluding the effects during 2016 of (i) asset impairments, (ii) irrecoverable debts or bad debt expense and (iii) gain or loss on the sale of assets.

During the first calendar quarter of 2016, the Compensation Committee approved for our executive officers (including our CEO) a 2016 target EBITDA goal under our Incentive Compensation Plan of \$526 million. The target EBITDA goal established for 2016 was lower than the target EBITDA goal applicable to 2015, primarily as a result of the continuing negative impact on our business caused by the steep decline in oil prices, which at the beginning of 2016 was expected to negatively impact companies in the oil and gas industry throughout 2016. For all participating executive officers other than Mr. Edwards, the maximum amount of each plan

performance award for 2016 was determined using the following formula approved by the Compensation Committee during the first calendar quarter of 2016:

$$\frac{A \times D}{(B + C)/2}$$

- A = Eligible Annual Base Salary for 2016
- B = \$526,000,000 (target EBITDA for 2016)
- C = \$1,057,240,000 (actual EBITDA for 2015)
- D = Actual EBITDA for 2016

The Compensation Committee also determined that the 2016 Incentive Compensation Plan performance award for Mr. Edwards cannot exceed \$2.5 million, and the performance award for any other executive officer cannot exceed the lesser of \$2.5 million and the officer's eligible annual base salary for 2016.

During the first calendar quarter of 2016, the Compensation Committee approved for Mr. Edwards a 2016 target EBITDA goal under our Incentive Compensation Plan of \$526 million, which is the same EBITDA goal established for our other executive officers. Because Mr. Edwards' employment agreement specified the calculation of his annual bonus award under our Incentive Compensation Plan, and in recognition of his leadership role in setting company policy and strategic planning, however, Mr. Edwards' bonus award for 2016 was calculated differently than other executive officers. In accordance with his employment agreement, Mr. Edwards was eligible to receive an incentive award of up to \$500,000 upon achievement of 50% of targeted EBITDA, up to \$1,500,000 upon achievement of targeted EBITDA, and a maximum of up to \$2,500,000 upon achievement of 150% or more of targeted EBITDA. Mr. Edwards' employment agreement expired by its terms on December 31, 2016, but was in effect during all of 2016.

When determining Incentive Compensation Plan awards for our executive officers (including Mr. Edwards), the Compensation Committee has reserved the right to apply, and historically has applied, its discretion to lower the amount of awards to be paid under the plan. In determining whether or not to exercise negative discretion, the committee has the ability to reassess the individual's performance during the performance year or to consider any other factors the committee deems relevant. Although the amount of a performance award is a function of the actual EBITDA achieved for 2016, failure to achieve the EBITDA target does not necessarily preclude the payment of an award under the plan or otherwise, but rather has the effect generally of reducing the amount that would have been payable if the target had been achieved.

In February 2017, the Compensation Committee determined that, for purposes of consideration of awards under our Incentive Compensation Plan and under our CEO's employment agreement in effect during 2016, we achieved approximately \$707.0 million of EBITDA in 2016. The Committee then evaluated the individual performance during the year of each participating executive and authorized incentive compensation awards under our Incentive Compensation Plan and Mr. Edwards' employment agreement. In the exercise of its business judgment, in each case the Compensation Committee exercised its negative discretion to authorize incentive compensation awards for 2016 in amounts that were less than the maximum amounts available for awards. Awards for 2016 authorized and approved under our Incentive Compensation Plan were paid in February 2017. The *"Non-Equity Incentive Plan Compensation"* column of the *2016 Summary Compensation Table* below reflects the cash incentive awards that our named executive officers received for 2016. None of our named executive officers received discretionary cash bonus payments during 2016.

In addition to overall company performance, when considering the 2016 Incentive Compensation Plan awards paid to our named executive officers, the Compensation Committee also considered the individual performance and accomplishments of each officer. For example, when considering the bonus award paid to Mr. Edwards, among the factors the committee took into consideration was Mr. Edwards' effective leadership in achieving positive financial results in a challenging market and our achievement of several important

strategic objectives during the year, such as material cost reductions and developing strategic plans to correspond to the changing market. When considering the bonus award paid to Mr. Roland, the committee considered his contributions and leadership in achieving strategic objectives and positive litigation results during the year. When considering the bonus award paid to Mr. Woll, among the factors that the committee considered were his leadership in progressing corporate development strategies and his successful efforts in managing important customer relationships. When considering the bonus award paid to Mr. Youngblood, among the factors that the committee considered were his leadership in managing to achieve our strong financial condition and planned improvements in our financial systems. When considering the bonus award paid to Ms. Gordon, the committee considered her leadership and contribution in achieving regulatory compliance. When considering the bonus award paid to Messrs. Dew and Krenek, the committee considered their leadership and contributions during 2016.

If any participant under our Incentive Compensation Plan ceases to be employed by us before the end of a performance period (other than due to retirement or disability, in each case as defined in the plan, or death), the participant will not be eligible to receive a bonus award for that performance period unless payment is required by the terms of an applicable employment agreement or the Compensation Committee otherwise determines that we should pay the award. Unless otherwise required by an agreement, participants who cease to be employed by us before the end of a performance period due to retirement, death or disability are eligible to receive an award prorated to the date of cessation of employment.

*Executive Retention Payments.* The Board recognizes that it is critical to retain key company leaders who are instrumental to achieving our business and strategic plans, particularly in depressed market conditions. As a result, in January 2017, the Board adopted an executive retention plan (which we refer to as the Retention Plan) upon the recommendation of the Compensation Committee and made retention awards under the Retention Plan to three Company executives designated by the committee. Under the Retention Plan, we will pay each participating executive a cash retention payment if the executive remains actively employed through January 1, 2018 and another payment if the executive remains actively employed through January 1, 2019. To qualify for a payment, the executive must also remain actively employed by us through the payment date, not be on a leave (other than a legally protected leave), not be subject to any performance improvement plan and have complied with all company agreements and policies. If earned, the 2018 retention payment will be paid in a lump sum in cash on or before March 1, 2018 and the 2019 retention payment will be paid in a lump sum in cash on or before March 1, 2019. Under the Code, amounts paid under the Retention Plan would not qualify as performance-based compensation and deductibility of such amounts may be limited. The participating executives under the Retention Plan are:

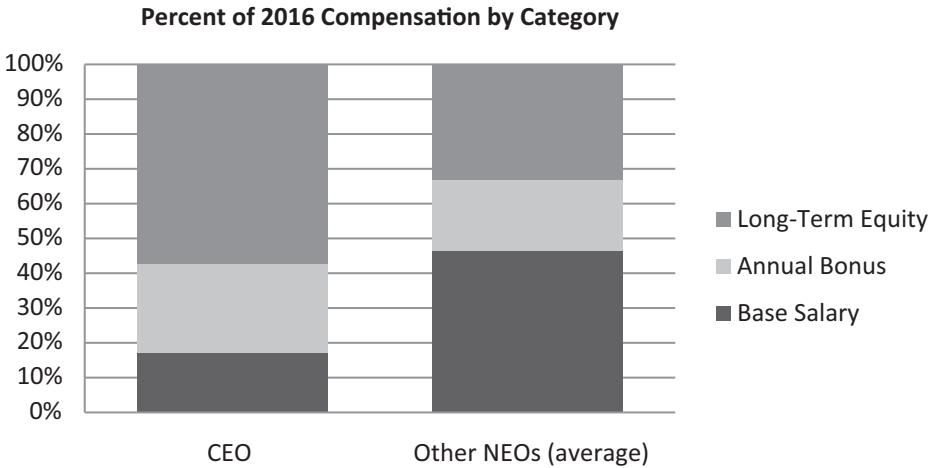
| <u>Executive</u>           | <u>2018 Retention<br/>Payment (\$)</u> | <u>2019 Retention<br/>Payment (\$)</u> |
|----------------------------|--|--|
| Marc Edwards . . . . .     | 1,500,000                              | 1,500,000                              |
| Ronald Woll . . . . .      | 750,000                                | 750,000                                |
| Kelly Youngblood . . . . . | 440,000                                | 440,000                                |

***Long-Term Stock-Based Awards***

We have structured our long-term incentive compensation to provide for an appropriate balance between rewarding performance and encouraging employee retention and stock ownership. Stock-based awards to the named executive officers are designed to reward them for taking actions that benefit the long-term performance of our company and enhance stockholder value. Because the awards will be forfeited in most circumstances if an executive voluntarily leaves our company before the awards vest, these awards are also designed to promote the retention of the services of our executive officers during the vesting period. As a result, these awards recognize performance over a longer term, encourage executive officers to continue their employment with us and directly link the value of the awards to the price of our common stock. All of these elements further serve to align the executive’s interest with those of our stockholders. The Compensation Committee reviews our long-term incentive program each year to ensure that the key elements of this program continue to meet the objectives described above.

There is no pre-established policy or target for the allocation between either cash or non-cash or short-term and long-term incentive compensation; however, at executive management levels, the Compensation Committee intends for compensation to increasingly focus on longer-term incentives. In conjunction with the Board, executive management is responsible for setting and achieving long-term strategic goals. In support of this responsibility, compensation for executive management, and most particularly our CEO, tends to be weighted towards rewarding long-term value creation for stockholders.

The below table illustrates the mix of compensation received by Mr. Edwards and our other named executive officers during 2016 (other than named executive officers who were not employed with us for all of 2016):



As demonstrated by the above table, more than 50% of Mr. Edwards’ above compensation for 2016 was in the form of stock-based awards, and over 80% was performance-based and at risk. Likewise, on average more than 50% of the above compensation received by our other named executive officers for 2016 was comprised of stock-based awards and performance-based incentive awards.

*Approval and Granting Process.* The Compensation Committee is authorized to administer our Equity Plan with respect to our named executive officers and all other eligible employees, including the authority to designate participants and allocate awards under the plan. As a result, the Compensation Committee reviews and approves all RSU or other equity awards made to executive officers, regardless of amount. With the exception of certain types of awards approved by Mr. Edwards as described below, the Compensation Committee also reviews and approves all grants of RSUs awarded to employees other than executive officers, generally accompanied by the recommendation of Mr. Edwards. In accordance with our Equity Plan, the Compensation Committee has granted to Mr. Edwards the authority to approve and grant to any employee, other than an executive officer, time-vesting RSUs with a grant date value of \$25,000 or less, under terms that have been approved by the committee. Mr. Edwards is also required to provide a report to the Compensation Committee of all awards of RSUs made by him under this delegated authority.

We generally intend to grant awards of RSUs to employees on one of four designated quarterly grant dates during the year: January 1, April 1, July 1 or October 1. The Compensation Committee approved these four dates because they are not near any dates on which earnings announcements or other regularly scheduled announcements of material events would normally be made by us. For an award to a current employee, the target grant date for the award would generally be the first designated quarterly grant date that occurs after approval of the award. For an award to a newly-hired employee who is not yet employed by us at the time the award is approved, the target grant date for the award would generally be near the date of hire or the first designated quarterly grant date that occurs after the new employee commences work. We believe that using

targeted quarterly grant dates is beneficial because it serves to remove any perception that the grant date for an award could be capable of manipulation or change for the benefit of the recipient. In addition, having most grants occur on a maximum of four days during the year simplifies both the planning process and certain fair value accounting calculations related to the grants, thereby limiting the administrative burden associated with tracking and calculating the fair values, vesting schedules and tax-related events upon vesting of RSUs.

With the exception of significant promotions, new hires or unusual circumstances, we intend to make most awards of RSUs to employees on April 1 of each year. This date was selected because (i) it enables us to consider individual and company performance from the previous year and (ii) April 1 is not near any dates on which an earnings announcement or other regularly scheduled announcement of a material event would normally be made by us.

*Awards of SARs Prior to 2015.* In recent years prior to 2015, our named executive officers generally received annual awards of time-vesting SARs. SARs represent the right to receive stock or cash, or a combination of stock and cash, equal in value to the difference between the exercise price of the SAR and the market price of the corresponding amount of common stock on the exercise date. In contrast, our CEO was awarded performance-vesting RSUs upon commencement of his employment in March 2014, and did not receive SARs. Commencing in 2015, our Compensation Committee decided to change the form of our annual equity award to named executive officers to RSUs instead of SARs. The principal reason for the change (and for the decision to grant RSUs to our CEO upon his hire rather than SARs) was to more closely align the interests of named executive officers with investors' long-term interests. The SARs vested 25% each year over a four year period, regardless of company performance. In contrast, performance-vesting RSUs vest only to the extent the company achieves certain levels of financial performance. Because the achievement and value of the performance-vesting RSUs are dependent upon the company's performance against specified financial goals, these RSUs more closely align executive officers' interests with achievement of longer-term financial objectives that enhance stockholder value and further strengthen our link between pay and performance. All of the RSUs awarded to Mr. Edwards, and the majority of the RSUs awarded to our other named executive officers, are performance-vesting rather than time-vesting. Also, SARs have no realizable value if our stock price has declined and the SARs are underwater. The value of an RSU, in contrast, is equal to the market value of one share of our common stock; as a result, RSUs can be effective incentives for our superior performers to remain with the company and continue performing during periods of stock market fluctuations. In addition, because of their full-value nature, RSU awards provide the opportunity to deliver the desired grant date fair value using a lesser number of shares than might otherwise be used to achieve the same value in SARs, enabling us to use our equity compensation resources more efficiently and manage the overall number of shares granted and possible resulting dilution. The vesting of RSU awards can be dependent on a number of factors, including continued employment over a specified period and/or the attainment of specified performance targets over a specified period, which we believe will further incentivize our executive officers and align their interests more closely with those of our stockholders.

*Award of RSUs to CEO in 2016.* In April 2016, Mr. Edwards was awarded a target number of 155,857 RSUs, which was determined based on a target grant date value of \$3,500,000 in accordance with his employment agreement then in effect. The RSUs will cliff vest subject to our level of achievement of a specified target of average ratio of Adjusted EBITDA to Adjusted Net PP&E (as such terms are defined below) for each of 2016, 2017 and 2018, as set forth in the table below and subject to the negative discretion of the Compensation Committee to reduce the number of the RSUs that would otherwise be eligible to vest:

| <u>Performance Level</u> | <u>Performance as a Percentage of Target</u> | <u>RSUs Vesting</u>      |
|--------------------------|--|--------------------------|
| Below Threshold          | Less than 50%                                | 0%                       |
| Threshold                | 50%  | 104,424 (67% of target)  |
| Target                   | 100%   | 155,857 (100% of target) |
| Maximum                  | 150% or greater                              | 207,290 (133% of target) |

In the event of performance falling between the levels stated above, linear interpolation will be applied to determine the number of RSUs vesting.

For purposes of the RSUs awarded in 2016, “Adjusted EBITDA” means, for any calendar year, an amount equal to consolidated net income (excluding the cumulative effect of any change in accounting principle) for such year plus or minus, as applicable, the following to the extent excluded in calculating such consolidated net income: (a) plus an amount equal to interest expense for such year, (b) plus or minus the provision for accrued tax expense or benefit for such year, (c) plus the amount of depreciation and amortization expense for such year, (d) minus, without duplication, interest income for such year, (e) plus or minus, without duplication, the amount of non-operating expenses or income for such year, and (f) excluding (i) the effects of any asset impairments recorded during such year, (ii) any gain or loss on the sale of assets during such year and (iii) any rig margin—defined as rig revenue less controllable expenses—associated with an asset acquired during the performance period.

For purposes of the RSUs awarded in 2016, “Adjusted Net PP&E” means, at any date of determination, on a consolidated basis, an amount equal to the net book value of all property, plant, and equipment (including, without limitation, land, mineral rights, buildings, structures, machinery, and equipment), plus an amount equal to the net book value of all property, plant, and equipment (including, without limitation, land, mineral rights, buildings, structures, machinery, and equipment) classified on our balance sheet as held for sale, in each case excluding, over the elapsed portion of the performance period to date of such determination, (i) the effects of any impairment of assets and (ii) the net book value added to or removed from net property, plant and equipment or assets held for sale as a result of any asset acquired or sold during such period.

As an additional condition to the vesting of RSUs awarded to him in 2016, Mr. Edwards is required to remain our employee through the vesting date, except as follows:

- Except as otherwise provided in his employment agreement to the extent then in effect, upon Mr. Edwards’ termination without “Cause” or for “Good Reason” on or after April 1, 2018, he will receive 50% of his RSUs that eventually vest upon attainment of the performance goals after the end of the 3-year performance period; and
- Except as otherwise provided in his employment agreement to the extent then in effect, upon termination of Mr. Edwards’ employment for any other reason (other than for “Cause”), including voluntary resignation, on or after April 1, 2018, he will receive 20% of his RSUs that eventually vest upon attainment of the performance goals after the end of the 3-year performance period.

The RSUs do not have voting rights. We reserve the right to settle any vested RSU by cash payment in lieu of stock. In accordance with his employment agreement and his RSU award agreement, upon our payment of any cash or stock dividend in respect of our common stock prior to vesting of an RSU award, Mr. Edwards will be credited with a number of additional RSUs based upon the amount of the dividend that would be payable with respect to shares underlying the RSUs outstanding on the record date for such dividend, subject to the same vesting schedule and conditions as the original RSUs to which they are attributable.

*Award of RSUs to Other Named Executive Officers in 2016.* In April 2016, four of our non-CEO named executive officers were awarded RSUs. In addition, Mr. Youngblood was awarded RSUs in June 2016 in connection with being hired by the company. The majority of the RSUs awarded to those named executive officers (except Ms. Gordon) will cliff vest under the same performance standards and percentage caps applicable to the RSUs awarded to Mr. Edwards in 2016, and a smaller number of RSUs will separately time-vest

after two years and three years. The target number of RSUs awarded to each of the officers was determined based on a designated target grant date value, as set forth below:

| Name             | Target Grant Date Value of<br>Performance-Vesting RSUs (\$) | Target Grant Date Value of<br>Time-Vesting RSUs (\$) |
|------------------|---|--|
| David L. Roland  | 195,000   | 130,000  |
| Ronald Woll      | 360,000   | 240,000  |
| Kelly Youngblood | 420,000   | 280,000  |
| Beth G. Gordon   | 40,000  | 60,000   |
| Lyndol L. Dew    | 84,000  | 56,000   |

In approving the target grant date values for each of the above officers, the Compensation Committee was assisted by recommendations from Mr. Edwards. In considering the relative target grant date values for Mr. Dew, the committee also considered that Mr. Dew is party to a legacy employment agreement with our company that entitles Mr. Dew to certain additional rights and benefits not offered to Ms. Gordon or Messrs. Roland, Woll or Youngblood.

As an additional condition to the vesting of RSUs awarded to the five non-CEO named executive officers in 2016, the officers are required to remain employed by us through the vesting date, except as follows:

- Upon termination without “Cause” on or after April 1, 2018, the officer will receive 50% of his or her RSUs that eventually vest upon attainment of the performance goals after the end of the 3-year performance period; and
- Upon retirement at age 63 or older before the end of the 3-year performance period, the officer will receive a pro rata portion of his or her RSUs that eventually vest upon attainment of the performance goals after the end of the 3-year performance period.

The RSUs do not have voting rights. We reserve the right to settle any vested RSU by cash payment in lieu of stock. If we pay a special cash dividend in respect of our common stock prior to vesting of an RSU award, the officers will be credited with a dollar amount equal to the special cash dividend multiplied by the total number of unvested RSUs that are outstanding on the record date for the dividend. Any dividend equivalent rights credited pursuant to the foregoing sentence are payable in cash and are subject to the same vesting, payment and other terms, conditions and restrictions as the original RSUs to which they relate. No crediting of dividend equivalent rights will be made with respect to any regular or ordinary cash dividends. The company did not declare any special cash dividends during 2016.

The RSU award agreements also obligate the above officers to comply with certain restrictive covenants, including obligations of confidentiality, a prohibition on solicitation of our employees for a period of two years after termination of employment and a prohibition on competition for a period of one year after termination of employment.

**Personal Benefits, Perquisites and Employee Benefits**

Our Board of Directors and executive officers have concluded that we will not offer many perquisites traditionally offered to executives of similarly-sized companies. As a result, perquisites and any other similar personal benefits offered to our executive officers are substantially the same as those generally available on a non-discriminatory basis to all of our full-time salaried employees, such as medical and dental insurance, life insurance, disability insurance, a vision plan, a 401(k) plan with a company match, flexible spending accounts for healthcare and dependent care and other customary employee benefits. Business-related relocation benefits may be reimbursed on a case-by-case basis.

We maintain a defined contribution plan (which we refer to as our Retirement Plan) designed to qualify under Section 401(k) of the Code. Pursuant to our Retirement Plan, in 2016 we matched 100% of the first 6% of

each participant's compensation contributed and, until May 2015, we contributed 4% of the participant's defined compensation. We discontinued the 4% contribution as part of our cost-reduction measures implemented in 2015, and commencing in January 2017, we reduced our match under the Retirement Plan from 6% to 5%. In addition, under our Amended and Restated Supplemental Executive Retirement Plan (which we refer to as our SERP), we contribute to participants any portion of the applicable percentage of the base salary contribution and the matching contribution that cannot be contributed under the Retirement Plan because of the limitations within the Code. Participants in this plan are a select group of our management or highly compensated employees, including the named executive officers, and are fully vested in all amounts paid into the plan. We also make contributions for group term life insurance, spouse/dependent life insurance, and long-term disability insurance for our employees, including our named executive officers, as indicated in the *2016 Summary Compensation Table* below.

### **Indemnification of Directors and Executive Officers**

Our Bylaws provide certain rights of indemnification to our directors and employees (including our executive officers) in connection with legal actions brought against them by reason of the fact that they are or were a director, officer, employee or agent of our company, to the fullest extent permitted by law. As discussed below, during 2016 we were party to an employment agreement with Mr. Edwards that required us to indemnify him to the fullest extent permitted by our Certificate of Incorporation and Bylaws. The agreement also required us to provide Mr. Edwards with coverage under our directors' and officers' liability insurance policies. Mr. Edwards' employment agreement expired by its terms on December 31, 2016. After the expiration of his employment agreement, Mr. Edwards continued to be subject to the rights of indemnification in our Bylaws and coverage under our directors' and officers' liability insurance policies.

### **Risk Management Considerations**

We believe that our bonus and equity programs create incentives for employees to create long-term stockholder value. Our Compensation Committee has considered the concept of risk as it relates to the company's compensation program and has concluded that the company's compensation program does not encourage excessive or inappropriate risk-taking. Several elements of our compensation program are designed to promote the creation of long-term value and thereby discourage behavior that leads to excessive risk:

- Our compensation program consists of both fixed and variable compensation. The fixed (or salary) portion is designed to provide a steady income regardless of our stock price performance, in part so that executives do not focus exclusively on stock price performance to the detriment of other important business metrics. The variable (cash bonus and equity) portions of compensation are designed to reward both short-term and long-term corporate performance. We believe that the variable elements of compensation are a sufficient percentage of overall compensation to motivate executives to produce positive short- and long-term corporate results, while the fixed element is also sufficiently high such that executives are not encouraged to take unnecessary or excessive risks.
- Executives receive a significant portion of their compensation in the form of equity, which discourages them from making short-term decisions that may result in long-term harm to the organization.
- All of the RSUs awarded to Mr. Edwards, and the majority of the RSUs awarded to our other named executive officers, are performance-vesting rather than time-vesting. The performance-based RSUs cliff vest after a three-year performance period from the date of grant, encouraging executives to look to long-term financial results and long-term appreciation in equity values. Time-vesting RSUs promote the same motivation, vesting over 2-year and 3-year periods from the date of grant.
- The Compensation Committee retains the discretion to decrease the value of any equity or cash incentive award received by executive officers, and historically has exercised its negative discretion to reduce awards.



- The financial metrics used to determine the amount of an executive's bonus and equity vesting are measures the Compensation Committee believes contribute to long-term stockholder value and promote the continued viability of the company. Moreover, the committee attempts to set ranges for these measures that encourage success without encouraging excessive risk taking to achieve short-term results. In addition, the overall maximum bonus for each participating named executive officer other than our CEO cannot exceed 100% of the executive's base salary under the Incentive Compensation Plan, and the overall bonus for Mr. Edwards for 2016 under his employment agreement could not exceed \$2,500,000 (250% of his base salary), in each case no matter how much the company's financial performance exceeds the ranges established at the beginning of the year. Likewise, the number of performance-vesting RSUs awarded in 2016 that are eligible for vesting is capped at 133% of the grant date value, regardless of our financial performance.
- We have strict internal controls over the measurement and calculation of the financial metrics used in determining an executive's bonus and the vesting of RSUs, designed to prevent the metrics from being susceptible to manipulation by any employee, including our executives.
- We do not permit our executive officers or directors to enter into short sale or hedging transactions involving our stock, thereby preventing executives from insulating themselves from the effects of poor stock price performance.

### **Employment Agreements**

In recent years, we have not entered into employment agreements with employees other than our CEO. We have generally entered into employment agreements with executives only when the Compensation Committee determines that an employment agreement is in the company's best interest to obtain a measure of assurance as to the executive's continued employment in light of prevailing market competition for the executive's position, or where the committee determines that an employment agreement is necessary and appropriate to attract an executive in light of prevailing market competition for the executive's position, the prior experience of the executive or practices at our company with respect to other similarly situated employees.

The following discussion describes the material terms of our existing executive employment agreements with our current named executive officers:

#### ***Marc Edwards***

In connection with his hire as our CEO, in February 2014 we entered into an employment agreement with Mr. Edwards that commenced on March 3, 2014 and continued until December 31, 2016, when it expired by its terms. Consistent with our general policy of not utilizing employment agreements for executives, Mr. Edwards' agreement was not extended or renewed after it expired, and he is continuing his employment as our CEO without an employment agreement in effect.

When Mr. Edwards' employment agreement was in effect, it specified an annual base salary of \$1 million. Mr. Edwards was also entitled to receive an annual incentive cash award with a target amount of \$1,500,000, subject to the attainment of certain performance goals and subject further to the negative discretion of our Compensation Committee. In addition, the agreement provided that each calendar year Mr. Edwards would be granted RSUs with a target grant date value of not less than \$3,000,000, subject to the achievement of applicable performance goals, periodic vesting requirements, the negative discretion of the Compensation Committee and continued employment (except as noted below).

Under the agreement, Mr. Edwards was entitled to certain severance payments if his employment was terminated under specified circumstances. Specifically, if Mr. Edwards' employment was terminated as a result of his death or disability, in addition to the benefits executive employees receive generally (including unpaid

base salary through the termination date, unpaid annual bonus for a completed performance year and unpaid amounts under applicable plans, policies and programs), Mr. Edwards would have been entitled to:

- Full vesting of any RSUs with respect to which the applicable performance goals had been achieved and which are subject only to the condition of continued employment;
- Pro rata vesting of RSUs outstanding and subject to the achievement of performance goals at the date of termination, subject to and based upon the achievement of the applicable performance goals; and
- Pro rata payment of the annual bonus as if there had been achievement of 100% of the specified performance target.

The employment agreement provided that we could at any time terminate the agreement for "Cause" if Mr. Edwards (i) was convicted of, or pled guilty or nolo contendere to, a felony; or (ii) engaged in conduct constituting either (x) a material and willful breach of the agreement, (y) willful, or reckless, material misconduct in the performance of his duties or (z) willful, habitual neglect of his material duties; provided, however, that for purposes of clauses (ii)(y) and (ii)(z) above, Cause did not include any act or omission believed by Mr. Edwards in good faith to have been in or not opposed to the interest of the company (without any intent by him to gain, directly or indirectly, a profit to which he would not be legally entitled). The agreement also provided that Mr. Edwards could terminate the agreement for "Good Reason" upon the occurrence of any of the following events, without Mr. Edwards' prior written consent and without cure by our company: (i) the assignment to Mr. Edwards of duties that were materially inconsistent with his position (including his status, offices, titles and reporting relationships), authority, duties or responsibilities; (ii) actions by the company that resulted in a substantial diminution in his position, authority, duties or responsibilities; (iii) a substantial breach by the company of any material obligation to Mr. Edwards under the agreement; (iv) any failure to elect or appoint him as President and CEO or to maintain him in such position throughout the term of the agreement; (v) any reduction in base salary or target annual bonus opportunity from the amounts set forth in the agreement; (vi) any failure by the company to nominate him as a director at each election in which his Board seat was up for election or reelection as applicable; or (vii) any failure of the company to obtain the assumption in writing of its obligation to perform the agreement by any successor to all or substantially all of the business or assets of the company after a merger, consolidation, sale or similar transaction.

Under the agreement, if we had terminated Mr. Edwards without Cause, or if he had terminated his employment for Good Reason, in addition to such benefits executive employees receive generally, Mr. Edwards would have been entitled to:

- A pro-rata annual bonus for the year in which the termination occurred, based on actual performance for such year;
- Separation payments of \$208,333 per month through the end of the then-scheduled term of the employment agreement, but in any event not less than 12 and not more than 24 such payments;
- Pro rata vesting of RSUs outstanding and subject to the achievement of performance goals at the date of termination and continued eligibility for vesting of RSUs outstanding on the termination date that were subject to achievement of performance goals, in each case subject to and based upon the achievement of the applicable performance goals;
- Full vesting of any RSUs held by Mr. Edwards upon termination of employment with respect to which the applicable performance goals had been achieved and which were subject only to time-vesting requirements or the condition of continued employment;
- Continued participation for him and his dependents in our group medical plan for 24 months; and
- Customary outplacement services commensurate with his position, not to exceed 12 months or \$25,000.

As a condition to receiving these severance payments and benefits, Mr. Edwards would have been required to enter into a release of claims as provided in his employment agreement. In his agreement, Mr. Edwards agreed not to compete against us for a period of one year after his employment ends and agreed not to solicit for employment any of our employees for a period of two years after his employment ends. The agreement also contained provisions relating to protection of our confidential information and intellectual property. Mr. Edwards' employment agreement contained no provision for an additional payment upon a change in control.

For further discussion of the provisions of Mr. Edwards' employment agreement regarding compensation to him in the event of his termination by us without Cause or by him for Good Reason, see "*Potential Payments Upon Termination or Change in Control*" below.

***Beth G. Gordon, Lyndol L. Dew and Gary T. Krenek***

In 2006 and 2007, we entered into employment agreements with each of Ms. Gordon, Mr. Dew and Mr. Krenek. Each such agreement contained similar terms and was in effect for an initial term of three years, with automatic extensions for successive one-year periods thereafter. Ms. Gordon's employment agreement was amended in 2015 to provide for the agreement to expire on April 1, 2017. Mr. Krenek's employment agreement terminated upon his retirement from our company in May 2016. Mr. Dew's employment agreement remains in effect.

Under each of these employment agreements, the executive is entitled to certain severance payments if his or her employment is terminated under specified circumstances. We may at any time terminate the employment agreement for "Cause" if the executive (i) engages in conduct that constitutes a breach of fiduciary duty to our company or our stockholders; (ii) in carrying out his or her duties engages in conduct that constitutes acts of fraud or gross neglect; (iii) in carrying out his or her duties engages in conduct that constitutes gross misconduct resulting in economic harm to our company; or (iv) is convicted of a felony. The executive may terminate the employment agreement for "Good Reason" upon the occurrence of any of the following events: (a) without his or her consent, a substantial and material diminishment of duties, responsibilities and status with our company; (b) a reduction in base salary or job title; and (c) the executive being required to relocate anywhere other than Houston, Texas, except in the event the office is moved no more than 50 miles from its present location, or, in the event the executive consents to the relocation, or the failure by the company to pay for or reimburse moving expenses incurred by the executive relating to such relocation and to indemnify the executive against any loss realized in the sale of his or her principal residence in connection with the relocation.

If we terminate the executive without Cause, or as a result of death or disability, or if the executive terminates the agreement for Good Reason, in addition to the benefits executive employees receive generally (including all accrued but unpaid base salary, accrued and unpaid expense reimbursements and other cash entitlements and, except as otherwise previously requested by the executive, the amount of any accrued and unpaid compensation, as well as unpaid amounts under applicable plans, policies and programs), the executive would generally be entitled to continuation of base salary for the remaining term of the employment agreement or 24 months, whichever is greater; continuation of insurance benefits (medical, dental, life and disability) for the executive and his or her family for the remaining term of the agreement or two years, whichever is greater, or until the executive becomes eligible for comparable coverage by a subsequent employer; any unexercised and/or unvested stock option grant or equivalent (SARs paid in stock) held by the executive upon termination of employment will be fully vested on the date of termination and be eligible for exercise as provided for in the applicable plan; and customary outplacement services, not to exceed 12 months or \$25,000.

As a condition to receiving severance payments and benefits under the employment agreement, the executive must enter into a release of claims as provided in the agreement. In the agreement, the executive

agrees not to solicit for employment any of our employees for a period of two years after employment ends. The agreement also contains provisions relating to protection of our confidential information and intellectual property. The employment agreement contains no provision for payment upon a change in control or any tax-gross-up benefits.

For further discussion of the provisions of the employment agreement regarding compensation to the executive in the event of termination by us without Cause or by the executive for Good Reason, see “—Potential Payments Upon Termination or Change in Control” below.

#### ***Kelly Youngblood Severance Agreement***

In connection with his hire as our CFO, on May 2, 2016, we entered into a severance agreement with Mr. Youngblood. The agreement has a term of one year and will expire by its terms on May 1, 2017. Pursuant to the agreement, if Mr. Youngblood’s employment is terminated without “cause,” or he resigns for “good reason,” both as defined in the agreement, Mr. Youngblood would be entitled to receive (i) unpaid base salary through his termination date, (ii) as a severance payment, an amount equal to 12 months of his base salary and his target annual bonus and (iii) continued coverage under group health and other plans for one year. The agreement defines “cause” as (i) convicted of, or pleads guilty or nolo contendere to, a felony; or (ii) engages in conduct that constitutes either (x) a material and willful breach of our Code of Business Conduct and Ethics or any other policy applicable to employees, (y) willful, or reckless, material misconduct in the performance of his duties or (z) willful, habitual neglect of his material duties; provided, however, that for purposes of clauses (ii)(y) and (ii)(z) above, cause shall not include any act or omission believed by Mr. Youngblood in good faith to have been in or not opposed to the interest of the company (without any intent by him to gain, directly or indirectly, a profit to which he is not legally entitled). The agreement defines “good reason” as, without Mr. Youngblood’s prior written consent and without cure by our company: (a) the assignment to Mr. Youngblood of duties that are materially inconsistent with his position (including his status, offices, titles and reporting relationships), authority, duties or responsibilities; (b) actions by the company that have resulted in a substantial diminution in his position, authority, duties or responsibilities; (c) any failure to elect or appoint him as Senior Vice President and CFO or to maintain him in such position throughout the term of the agreement; (d) any reduction in base salary or target annual bonus opportunity; or (e) any failure of the company to obtain the assumption in writing of its obligation to perform the agreement by any successor to all or substantially all of the business or assets of the company after a merger, consolidation, sale or similar transaction.

As a condition to Mr. Youngblood receiving a severance payment under the agreement, Mr. Youngblood must first execute a valid release for the benefit of the company. For further discussion of the provisions of the severance agreement regarding compensation to Mr. Youngblood in the event of termination by us without cause or by him for good reason, see “—Potential Payments Upon Termination or Change in Control” below.

#### **Deductibility of Compensation for Tax Purposes**

U.S. tax rules generally limit the deductibility of compensation paid to our named executive officers to \$1 million per person per year unless such compensation is performance-based. We prefer to structure our incentive compensation arrangements in a manner that complies with these tax rules and maximizes the deductibility of the compensation we pay. However, we reserve the discretion to pay compensation that does not qualify as performance-based compensation under the Code. Likewise, the impact of Section 409A of the Code is taken into account, and our executive compensation plans and programs are, in general, designed to comply with the requirements of that section so as to avoid possible adverse tax consequences that may result from non-compliance.

#### **Separation Arrangement with Mr. Krenek**

On May 3, 2016, Mr. Krenek retired from our company. We entered into a separation agreement with Mr. Krenek regarding his retirement, providing for, among other things, continuation of his current base salary

for 12 months after retirement, acceleration of unvested SARs (which would then remain exercisable until the earlier of 90 days following Mr. Krenek's resignation and the 10-year anniversary of the date of grant), payment of premiums for group medical, dental and vision insurance for two years, payment of a total of \$480,000 to Mr. Krenek upon the accomplishment of certain designated actions and achievements prior to his retirement and payment of a prorated bonus for 2016. In the agreement, Mr. Krenek agreed to provide a full release for the benefit of our company, and to abide by covenants of confidentiality, noncompetition and nonsolicitation of our employees. We also entered into a one-year consulting agreement with Mr. Krenek, providing for him to provide consulting services to us, if and when requested by us, for a daily fee.

For further discussion of the amounts received by Mr. Krenek under his separation agreement, see "*Potential Payments Upon Termination or Change in Control*" below.

#### **COMPENSATION COMMITTEE REPORT**

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis included in this proxy statement with management of the company. Based on such review and discussions, the Compensation Committee has recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement.

THE COMPENSATION COMMITTEE

Paul G. Gaffney II, Chairman

Edward Grebow

Raymond S. Troubh

**EXECUTIVE COMPENSATION**  
**2016 Summary Compensation Table**

The following table summarizes the compensation of our named executive officers for 2016, using the disclosure rules required by the Commission. Mr. Edwards commenced employment as our President and CEO on March 3, 2014. Mr. Roland was hired as our Senior Vice President, General Counsel and Secretary on September 5, 2014. Mr. Woll was hired as our Senior Vice President and Chief Commercial Officer on June 30, 2014. Mr. Youngblood was hired as our Senior Vice President and Chief Financial Officer on May 4, 2016. Mr. Krenek retired as an officer of the company on May 3, 2016.

| <u>Name and Principal Position</u>   | <u>Year</u> | <u>Salary (\$)</u> | <u>Stock Awards (\$)</u> | <u>Option Awards (\$)</u> | <u>Non-Equity Incentive Plan Compensation (\$)</u> | <u>All Other Compensation (\$)</u> | <u>Total (\$)</u> |
|--|-------------|--------------------|--------------------------|---------------------------|--|------------------------------------|-------------------|
| Marc Edwards . . . . .<br>President and CEO  | 2016        | 1,000,000          | 3,357,160                | —                         | 1,500,000  | 67,043                             | 5,924,203         |
|  | 2015        | 1,000,000          | 2,957,012                | —                         | 1,500,000  | 140,887                            | 5,597,899         |
|  | 2014        | 833,333            | 2,498,630                | —                         | 1,249,315  | 224,873                            | 4,806,151         |
| David L. Roland . . . . .<br>Senior Vice President,<br>General Counsel and<br>Secretary  | 2016        | 390,000            | 311,727                  | —                         | 156,000  | 28,191                             | 885,918           |
|  | 2015        | 390,000            | 302,570                  | 34,458                    | 156,000  | 34,494                             | 917,522           |
| Ronald Woll . . . . .<br>Senior Vice President and<br>Chief Commercial Officer   | 2016        | 435,435            | 575,506                  | —                         | 237,500  | 26,657                             | 1,275,098         |
|  | 2015        | 395,850            | 418,940                  | 34,458                    | 197,925  | 31,275                             | 1,078,448         |
| Kelly Youngblood . . . . .<br>Senior Vice President<br>and CFO   | 2016        | 293,333            | 733,778                  | —                         | 146,700  | 20,468                             | 1,194,279         |
| Beth G. Gordon . . . . .<br>Vice President and<br>Controller   | 2016        | 267,149            | 95,918                   | —                         | 106,900  | 31,563                             | 501,530           |
|  | 2015        | 267,149            | 93,102                   | 17,229                    | 106,900  | 45,422                             | 529,802           |
|  | 2014        | 257,562            | —                        | 41,675                    | 106,900  | 117,882                            | 524,019           |
| Lyndol L. Dew . . . . .<br>Senior Vice President—<br>Special Projects and Strategic<br>Initiatives (former SVP—<br>Worldwide Operations) | 2016        | 473,349            | 134,302                  | —                         | 189,340  | 61,088                             | 858,079           |
|  | 2015        | 473,349            | 128,319                  | 34,458                    | 236,675  | 87,567                             | 960,368           |
|  | 2014        | 452,786            | —                        | 83,350                    | 142,005  | 227,291                            | 905,432           |
| Gary T. Krenek . . . . .<br>Former Senior<br>Vice President and CFO  | 2016        | 255,212            | —                        | —                         | 95,500   | 839,400                            | 1,190,112         |
|  | 2015        | 458,609            | —                        | 34,458                    | 229,305  | 86,483                             | 808,855           |
|  | 2014        | 440,410            | —                        | 83,350                    | 183,400  | 228,615                            | 935,775           |

**Notes to 2016 Summary Compensation Table**

Stock Awards Column. All of the amounts in the “Stock Awards” column reflect the grant-date fair value of RSUs (excluding any impact of assumed forfeiture rates) awarded under our Equity Plan, computed in accordance with FASB ASC Topic 718. For a description of the rights and terms of the RSUs, see “*Compensation Discussion and Analysis—Long-Term Stock-Based Awards*” above. In addition to the grants and awards in 2016 described in the *2016 Grants of Plan-Based Awards* table below, the amounts shown for Mr. Edwards under “Stock Awards” for 2015 and 2014 represent the grant date fair value of RSUs granted to him pursuant to his employment agreement and our Equity Plan on April 1, 2015 and March 3, 2014, respectively, based on the volume-weighted average price per share of our common stock on the NYSE for the 10 consecutive trading days immediately preceding the date of grant. The target number of RSUs granted in 2015 was 110,791, which was

determined based on a target grant date value of \$3,000,000 in accordance with his employment agreement then in effect, divided by \$27.08 per share, which was the volume-weighted average price per share of our common stock on the NYSE for the 10 consecutive trading days immediately preceding the date of grant. The target number of RSUs granted in 2014 was 52,581, which was determined based on a target grant date value of \$3,000,000 in accordance with his employment agreement, prorated for the portion of 2014 during which Mr. Edwards was employed by us, divided by \$47.52 per share, which was the volume-weighted average price per share of our common stock on the NYSE for the 10 consecutive trading days immediately preceding the date of grant.

The RSUs awarded to Mr. Edwards during 2015 will cliff vest upon the attainment of the three-year financial performance goal specified in his award agreement and are subject to forfeiture if the applicable vesting conditions are not met. The RSUs awarded in 2014 were subject to a one-year EBITDA-based performance requirement and time-vesting requirements over a period of three years. The 2014 RSU grant terms provided that, to the extent earned based on achievement of the applicable performance goal, the RSUs would vest over three years in equal annual installments beginning March 3, 2015 (assuming continued employment), subject to the terms and conditions of the award certificate. If the highest level of performance conditions had been ultimately achieved, the aggregate grant date fair value of the RSUs granted to Mr. Edwards in 2014 would have been \$3,331,532. In January 2015, the Compensation Committee determined that the objective performance goal for Mr. Edwards' 52,581 RSUs awarded in 2014 had been satisfied. As a result, Mr. Edwards' 52,581 RSUs were deemed to have been earned by him and then became subject to the three-year time-vesting schedule. All three installments of the earned RSUs (each consisting of 17,527 RSUs) have vested.

For a discussion of the valuation assumptions for the RSU awards, see Note 4, *Stock-Based Compensation*, in our Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2016.

Option Awards Column. In recent years prior to 2015, we awarded SARs to our named executive officers other than our CEO. The past awards of SARs generally vested over a period of four years and had a term of 10 years. Our Equity Plan requires an anti-dilution adjustment upon the occurrence of certain corporate transactions including, among others, a special cash dividend. As a result, following our declaration of each special cash dividend, our Compensation Committee approved a payment of cash in the amount of the special cash dividend for each outstanding and unexercised SAR as an anti-dilution adjustment to all executive officers who held SARs that were outstanding as of the record date for such dividend. On the payment date for such special cash dividend, we would pay the executive officer the anti-dilution adjustment payment with respect to SARs that were held and vested on the record date for the dividend. With respect to SARs that were outstanding but not yet vested as of the record date for such special cash dividend, we accrued the anti-dilution adjustment payment amount with respect to such SARs and then pay the executive officer the amount after the applicable SARs vest.

All of the amounts in the "*Option Awards*" column reflect the aggregate grant-date fair value of SARs (excluding any impact of assumed forfeiture rates) awarded under our Equity Plan, computed in accordance with FASB ASC Topic 718. In each case, the SARs vest over a period of four years and have a term of 10 years. For a discussion of the valuation assumptions for the awards, see Note 4, *Stock-Based Compensation*, in our Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2016. Each grant of SARs was made at an exercise price equal to fair market value on the date of grant, which is defined in our Equity Plan as the mean between the highest and lowest reported sales price per share of our common stock on the NYSE on the trading day immediately preceding the date of grant. As a result, the exercise prices for the SARs equal or exceed the fair market value per share of our common stock on the date of grant as so defined. The SARs we awarded in 2013 were granted in four quarterly increments over the course of the year, the last grant being in January 2014. Likewise, the SARs we awarded in 2014 were approved in the first quarter of 2014 but granted in four quarterly increments over the course of the year, the first grant

being in April 2014 and the last grant being in January 2015. No additional SARS were granted to our named executive officers in 2015, and no SARS were granted to our named executive officers in 2016. The SARS included in the “Option Awards” column for 2015 consist of the quarterly increment approved in the first quarter of 2014 but granted in January 2015. As of December 31, 2016, all of the SARS granted to the named executive officers in 2014 and 2015 were in fact underwater and therefore had no realizable value.

Other Columns. All payments of non-equity incentive plan compensation reported for 2016 were made in February 2017 with regard to the 2016 fiscal year and were earned and paid pursuant to our Incentive Compensation Plan.

The amounts shown in the “All Other Compensation” column consist of the following:

#### 2016 All Other Compensation Table

| <u>Name</u>            | <u>Retirement Plan Matching (\$)</u> | <u>Insurance (\$)</u> | <u>SERP (\$)</u> | <u>Anti-Dilution Adjustment for Special Dividends (\$)</u> | <u>Severance Payments (\$)</u> | <u>Total (\$)</u> |
|------------------------|--------------------------------------|-----------------------|------------------|--|--------------------------------|-------------------|
| Marc Edwards .....     | 15,900                               | 4,301                 | 46,842           | —  | —                              | 67,043            |
| David L. Roland .....  | 15,900                               | 4,225                 | 7,691            | 375  | —                              | 28,191            |
| Ronald Woll .....      | 13,250                               | 4,301                 | 8,731            | 375  | —                              | 26,657            |
| Kelly Youngblood ..... | 15,900                               | 2,868                 | 1,700            | —  | —                              | 20,468            |
| Beth G. Gordon .....   | 15,900                               | 3,156                 | 132              | 12,375   | —                              | 31,563            |
| Lyndol L. Dew .....    | 15,900                               | 4,301                 | 16,137           | 24,750   | —                              | 61,088            |
| Gary T. Krenek .....   | 15,313                               | 1,434                 | 3,272            | 37,500   | 781,881                        | 839,400           |

#### 2016 Nonqualified Deferred Compensation

| <u>Name</u>            | <u>Registrant Contributions in 2016 \$(1)</u> | <u>Aggregate Earnings in 2016 \$(2)</u> | <u>Aggregate Withdrawals/Distributions in 2016 \$(3)</u> | <u>Aggregate Balance at December 31, 2016 \$(4)</u> |
|------------------------|---|---|--|---|
| Marc Edwards .....     | 44,100  | 2,742                                   | 52,944   | 247,000   |
| David L. Roland .....  | 7,500   | 191                                     | 375  | 15,963  |
| Ronald Woll .....      | 8,522   | 209                                     | 375  | 17,355  |
| Kelly Youngblood ..... | 1,700   | —                                       | —  | 1,700   |
| Beth G. Gordon .....   | 129   | 3                                       | 12,375   | 6,636   |
| Lyndol L. Dew .....    | 12,501  | 3,636                                   | 24,750   | 185,314   |
| Gary T. Krenek .....   | —   | 3,272                                   | 196,436  | —   |

- (1) These amounts include contributions under our SERP. Our contributions under this plan are further described in our “Compensation Discussion and Analysis” above under the heading “Personal Benefits, Perquisites and Employee Benefits.” These contributions are also reported in the “All Other Compensation” column of the 2016 Summary Compensation Table and in the “SERP” column of the 2016 All Other Compensation Table.
- (2) These amounts represent interest earned on contributions under our SERP. These amounts are also reported in the “All Other Compensation” column of the 2016 Summary Compensation Table and in the “SERP” column of the 2016 All Other Compensation Table. These earnings were calculated by applying a fixed interest rate based on the annual yield on 10-year U.S. Treasury Securities to current year and deferred contributions.
- (3) These amounts represent payments made in 2016 for accrued anti-dilution adjustments after awards vested in 2016. The amount shown for Mr. Edwards represents a dividend equivalent in the form of additional RSUs that vested during 2016.
- (4) These amounts represent the aggregate balances as of December 31, 2016 for each of the named executive officers pursuant to our SERP and either a dividends equivalent or the amount payable pursuant to anti-dilution adjustments under the terms of our Equity Plan. The deferred balances related to our SERP were reported in the Summary Compensation Table in each contribution year. The deferred balances related to the amounts payable pursuant to the



anti-dilution adjustments under the terms of our Equity Plan were reported in the “*All Other Compensation*” column of the Summary Compensation Table and in the “*Dividend Equivalents; Anti-dilution Adjustment for Special Dividends*” column of the All Other Compensation Table in the year in which such anti-dilution adjustments were made, irrespective of when they are paid.

### **Potential Payments Upon Termination or Change in Control**

Under the terms of our equity-based compensation plans and our employment agreements, our CEO and certain of our other named executive officers are or would have been entitled to payments and benefits upon the occurrence of specified events, including termination of employment. The following summaries and tables describe the specific terms of these arrangements and the estimated potential payments payable to each of our named executive officers upon termination of employment or a change in control of our company under their current employment agreements and our stock plans and other compensation programs as if his or her employment had terminated for these reasons, or the change in control had occurred, on December 31, 2016. Mr. Edwards’ employment agreement expired by its terms on December 31, 2016, so this summary is prepared as if his employment agreement was still in effect at the time of his termination. As indicated in the below summaries, we do not currently have any plans, programs or agreements under which payments to any of the named executive officers are triggered by a change in control of our company. The Compensation Committee may, in its discretion, agree to revise, amend or add to the benefits if it deems advisable. For purposes of the following summaries, dollar amounts are estimates based on annual base salary as of December 31, 2016, benefits paid to the named executive officer in fiscal 2016 and SARs and RSU holdings of the named executive officer as of December 31, 2016. The summaries assume a price per share of our common stock of \$17.70, which was the closing price per share on December 30, 2016, the last trading day of 2016, as reported on the NYSE. The actual amounts to be paid to the named executive officers can only be determined at the time of each executive’s separation from the company.

For Mr. Krenek, who retired from our company on May 3, 2016, the below summary and table describe compensation paid or payable to Mr. Krenek pursuant to his separation agreement.

The amounts of potential future payments and benefits as set forth in the tables below, and the descriptions of the assumptions upon which such future payments and benefits are based and derived, may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are estimates of payments and benefits to certain of our executives upon their termination of employment or a change in control, and actual payments and benefits may vary materially from these estimates. Actual amounts can only be determined at the time of such executive’s actual separation from our company or the time of such change in control event. Factors that could affect these amounts and assumptions include, among others, the timing during the year of any such event, our company’s stock price, unforeseen future changes in our company’s benefits and compensation methodology, the age of the executive and the circumstances of the executive’s termination of employment.

#### *Marc Edwards*

As discussed in detail under “*Employment Agreements*” above, before his employment agreement expired in accordance with its terms on December 31, 2016, Mr. Edwards would have been entitled to certain benefits under his agreement upon the occurrence of any of the following events:

- If his employment had been terminated as the result of his death or disability;
- If we had terminated his employment for “Cause” or without “Cause;” or
- If Mr. Edwards had resigned for “Good Reason.”

In addition, in connection with his hire as our President and CEO in March 2014, Mr. Edwards was awarded a target number of 52,581 RSUs that were subject to a one-year EBITDA-based performance requirement and

time-vesting requirements over a period of three years. In accordance with the RSU award certificate, his unvested RSUs would have terminated early if his employment had been terminated for "Cause" (as defined in his employment agreement) or if he had voluntarily terminated his employment for any reason other than "Good Reason" (as defined in his employment agreement). Upon any of the following events, Mr. Edwards' unvested earned RSUs would have immediately vested:

- Termination of employment on account of his death or disability after December 31, 2014; or
- Termination of employment by the company without "Cause" (as defined in his employment agreement) or by Mr. Edwards for "Good Reason," in either case after December 31, 2014.

In January 2015, the Compensation Committee determined that the objective performance goals for Mr. Edwards' 52,581 RSUs had been satisfied. As a result, Mr. Edwards' 52,581 RSUs were deemed to have been earned by him and then began to vest over three years in equal annual installments beginning March 3, 2015. The first and second installments of the earned RSUs (each consisting of 17,527 RSUs) vested on March 3, 2015 and March 3, 2016, respectively, and the remaining 17,527 earned RSUs vested on March 3, 2017.

In accordance with his employment agreement and his RSU award agreement, upon our payment of any cash or stock dividend in respect of our common stock prior to vesting of an RSU award, Mr. Edwards is credited with a number of additional RSUs based upon the amount of the dividend that would be payable with respect to shares underlying the RSUs outstanding on the record date for such dividend, subject to the same vesting schedule and conditions as the original RSUs to which they are attributable.

In April 2015, Mr. Edwards was awarded a target number of 110,791 RSUs that will cliff vest subject to our level of achievement towards a specified performance target for each of 2015, 2016 and 2017. As an additional condition to the vesting of the RSUs awarded to him in 2015, Mr. Edwards is required to remain our employee through the 2017 vesting date, except as follows:

- Upon Mr. Edwards' termination without "Cause" or for "Good Reason" on or after April 1, 2017, he will receive 50% of his RSUs that eventually vest upon attainment of the performance goals after the end of the 3-year performance period; and
- Upon termination of Mr. Edwards' employment for any other reason (other than for "Cause"), including voluntary resignation, on or after April 1, 2017, he will receive 20% of his RSUs that eventually vest upon attainment of the performance goals after the end of the 3-year performance period.

In April 2016, Mr. Edwards was awarded a target number of 155,857 RSUs that will cliff vest subject to our level of achievement towards a specified performance target for each of 2016, 2017 and 2018. As an additional condition to the vesting of the RSUs awarded to him in 2016, Mr. Edwards is required to remain our employee through the 2018 vesting date, except as follows:

- Upon Mr. Edwards' termination without "Cause" or for "Good Reason" on or after April 1, 2018, he will receive 50% of his RSUs that eventually vest upon attainment of the performance goals after the end of the 3-year performance period; and
- Upon termination of Mr. Edwards' employment for any other reason (other than for "Cause"), including voluntary resignation, on or after April 1, 2018, he will receive 20% of his RSUs that eventually vest upon attainment of the performance goals after the end of the 3-year performance period.

Assuming Mr. Edwards' employment was terminated under each of these circumstances or a change of control occurred on December 31, 2016, prior to the expiration of his employment agreement, his payments and benefits would have had an estimated value as follows (less applicable withholding taxes):

| <u>Marc Edwards<br/>Executive Benefits &amp; Payments</u> | <u>Termination<br/>For Good<br/>Reason or<br/>Without<br/>Cause (\$)</u> | <u>Termination<br/>for Death or<br/>Disability (\$)</u> | <u>Termination<br/>for Cause (\$)</u> | <u>Other<br/>Voluntary<br/>Termination<br/>(\$)(1)</u> | <u>Change<br/>of<br/>Control<br/>(\$)</u> |
|---|--|---|---------------------------------------|--|---|
| Cash Severance (2) . . . . .                              | 2,499,996  | —   | —                                     | —  | —   |
| Bonus (3) . . . . .                                       | 1,500,000  | 1,500,000   | —                                     | —  | —   |
| Accelerated RSUs (4) . . . . .                            | 5,029,898  | 5,029,898   | —                                     | —  | —   |
| Insurance Continuation (5) . . . . .                      | 40,810   | —   | —                                     | —  | —   |
| SERP . . . . .  | 152,465  | 152,465   | 152,465                               | 152,465  | —   |
| Dividend Equivalents (6) . . . . .                        | 53,023   | 53,023  | —                                     | —  | —   |
| Outplacement Services (7) . . . . .                       | 25,000   | —   | —                                     | —  | —   |
| <b>Total . . . . .</b>                                    | <b>9,301,192</b>   | <b>6,735,386</b>  | <b>152,465</b>                        | <b>152,465</b>   | <b>—</b>                                  |

- (1) The above table does not include a scenario for termination due to retirement because, as of December 31, 2016, Mr. Edwards was not yet retirement-eligible under our policies and plans.
- (2) Severance of \$208,333 per month for 12 months. In addition, if Mr. Edwards resigns or his employment is terminated for any reason, he may be paid for his unused vacation days. Mr. Edwards is currently entitled to 25 vacation days per year. The above table assumes that there is no earned but unpaid base salary or unpaid business expense reimbursements as of the time of termination.
- (3) Under his employment agreement, (i) if Mr. Edwards' employment had been terminated by him for Good Reason or by us without Cause, he would have been entitled to a prorated annual bonus for the year in which the termination occurred, based on actual performance for the year, and (ii) if his employment had terminated as a result of his death or disability, he would have been entitled to a prorated annual bonus based on full achievement of the specified performance target. Under his employment agreement, Mr. Edwards would have been eligible to receive a target bonus of up to \$1,500,000 upon full achievement of the specified performance target or a maximum bonus of up to \$2,500,000 upon achievement of 150% or more of the specified performance target. The actual bonus payment that Mr. Edwards would be entitled to receive upon his termination may be different from the estimated amount included in the above table, depending on the achievement of payment criteria under the Incentive Compensation Plan.
- (4) As of December 31, 2016, Mr. Edwards held (i) 17,527 earned but unvested performance RSUs granted in connection with his hire in 2014, (ii) a target number of 110,791 unvested performance RSUs granted in April 2015 and (iii) a target number of 155,857 unvested performance RSUs granted in April 2016. The value of the RSUs that would accelerate and fully vest in the event of the termination of employment for death, disability or termination without Cause or for Good Reason was calculated by multiplying 17,527 earned and unvested RSUs and 266,648 unvested RSUs by \$17.70 (the closing price per share on December 30, 2016, the last trading day of 2016, as reported on the NYSE). The amounts shown are based on the estimated number of RSUs that would have vested assuming achievement of the target level of performance. All of the 17,527 unvested RSUs described above vested on March 3, 2017.
- (5) The value of insurance continuation in the above table is the total cost of continuation coverage for Mr. Edwards under the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA) for 24 months, maintaining his same levels of medical, dental and other insurance as in effect on December 31, 2016, less the amount of premiums to be paid by Mr. Edwards for such coverage.
- (6) This is the value of additional RSUs credited to Mr. Edwards in accordance with his employment agreement then in effect, which correspond to payments of regular cash dividends paid during 2014 and 2015. The additional RSUs vest on the same schedule as the original RSUs to which the additional RSUs are attributable. These RSUs would vest on his date of termination of employment, subject to and based upon the achievement of the performance goals applicable to the original RSUs to which the additional RSUs are attributable.
- (7) Represents the maximum potential payment under this obligation.

### *Other Named Executive Officers*

As discussed in detail under “*Employment Agreements*” above, Ms. Gordon and Mr. Dew are each entitled to certain benefits under their respective employment agreements upon the occurrence of any of the following events:

- Employment is terminated as the result of death or disability;
- We terminate employment without “Cause”; or
- The executive resigns for “Good Reason.”

With the exception of Mr. Youngblood, who entered into a one-year severance agreement with the company upon his hire as CFO in May 2016, none of the other executive officers are party to an employment agreement with our company.

In addition, each of Ms. Gordon and Messrs. Roland, Woll, Dew and Krenek has received awards of SARs in the past. The SARs vested or will vest in 25% increments over a period of four years and have a maximum term of 10 years. The currently-held vested SARs will remain exercisable after the holder’s termination of employment, death, disability or retirement for periods of between 90 days and three years following such event, depending on the event. If the holder is terminated for cause or voluntarily terminates employment (in the case of Ms. Gordon and Messrs. Dew and Krenek, without “Good Reason”), all of the holder’s vested and unvested SARs will immediately terminate.

Our Equity Plan requires an anti-dilution adjustment upon the occurrence of certain corporate transactions including, among others, a special cash dividend. As a result, following our declaration of each special cash dividend, our Compensation Committee approved a payment of cash in the amount of the special cash dividend for each outstanding and unexercised SAR as an anti-dilution adjustment to all executive officers who held SARs that were outstanding as of the record date for such dividend. On the payment date for such special cash dividend, we would pay the executive officer the anti-dilution adjustment payment with respect to SARs that were held and vested on the record date for the dividend. With respect to SARs that were outstanding but not yet vested as of the record date for such special cash dividend, we accrued the anti-dilution adjustment payment amount with respect to such SARs and then pay the executive officer the amount after the applicable SARs vest.

In April 2015, each of Ms. Gordon and Messrs. Roland, Woll and Dew were awarded a target number of RSUs that will cliff vest subject to our level of achievement towards a specified performance target for each of 2015, 2016 and 2017. In April 2016, those executives were again awarded a target number of RSUs that will cliff vest subject to our level of achievement towards a specified performance target for each of 2016, 2017 and 2018. As an additional condition to the vesting of the RSUs awarded in 2015, the respective recipient is required to remain our employee through the 2017 vesting date, except as follows:

- Upon termination without “Cause” on or after April 1, 2017, the officer will receive 50% of his or her RSUs that eventually vest upon attainment of the performance goals after the end of the 3-year performance period; and
- Upon retirement at age 63 or older before the end of the 3-year performance period, the officer will receive a pro rata portion of his or her RSUs that eventually vest upon attainment of the performance goals after the end of the 3-year performance period.

As an additional condition to the vesting of the RSUs awarded in 2016, the respective recipient is required to remain our employee through the 2018 vesting date, except as follows:

- Upon termination without “Cause” on or after April 1, 2018, the officer will receive 50% of his or her RSUs that eventually vest upon attainment of the performance goals after the end of the 3-year performance period; and

- Upon retirement at age 63 or older before the end of the 3-year performance period, the officer will receive a pro rata portion of his or her RSUs that eventually vest upon attainment of the performance goals after the end of the 3-year performance period.

Assuming the listed executive was terminated under each of these circumstances or a change of control occurred on December 31, 2016, the executive's payments and benefits would have an estimated value as follows (less applicable withholding taxes):

| <u>David L. Roland</u><br><u>Executive Benefits &amp; Payments</u> | <u>Termination<br/>For Good<br/>Reason or<br/>Without<br/>Cause (\$)</u> | <u>Termination<br/>for Death or<br/>Disability (\$)</u> | <u>Termination<br/>for Cause (\$)</u> | <u>Other<br/>Voluntary<br/>Termination<br/>(\$)(1)</u> | <u>Change<br/>of<br/>Control<br/>(\$)</u> |
|--|--|---|---------------------------------------|--|---|
| Cash Severance (2) . . . . .                                       | —  | —   | —                                     | —  | —   |
| Bonus (3) . . . . .  | —  | 156,000   | —                                     | —  | —   |
| SERP . . . . .   | 15,213   | 15,213  | 15,213                                | 15,213   | —   |
| Total . . . . .  | 15,213   | 171,213   | 15,213                                | 15,213   | —   |

- (1) The above table does not include a scenario for termination due to retirement because, as of December 31, 2016, Mr. Roland was not yet retirement-eligible under our policies and plans.
- (2) If Mr. Roland resigns or his employment is terminated for any reason, he may be paid for his unused vacation days. Mr. Roland is currently entitled to 25 vacation days per year. The above table assumes that there is no earned but unpaid base salary or unpaid business expense reimbursements as of the time of termination.
- (3) Under our Incentive Compensation Plan, participants who cease to be employed by us before the end of a performance period due to death or disability are eligible to receive a bonus award that is prorated to the employment termination date but based upon the actual performance for the entire performance period. The actual bonus payment that Mr. Roland would be entitled to receive upon his termination may be different from the estimated amount included in the above table, depending on the achievement of payment criteria under the Incentive Compensation Plan.

| <u>Ronald Woll</u><br><u>Executive Benefits &amp; Payments</u> | <u>Termination<br/>For Good<br/>Reason or<br/>Without<br/>Cause (\$)</u> | <u>Termination<br/>for Death or<br/>Disability (\$)</u> | <u>Termination<br/>for Cause (\$)</u> | <u>Other<br/>Voluntary<br/>Termination<br/>(\$)(1)</u> | <u>Change<br/>of<br/>Control<br/>(\$)</u> |
|--|--|---|---------------------------------------|--|---|
| Cash Severance (2) . . . . .                                   | —  | —   | —                                     | —  | —   |
| Bonus (3) . . . . .  | —  | 237,500   | —                                     | —  | —   |
| SERP . . . . .   | 16,605   | 16,605  | 16,605                                | 16,605   | —   |
| Total . . . . .  | 16,605   | 254,105   | 16,605                                | 16,605   | —   |

- (1) The above table does not include a scenario for termination due to retirement because, as of December 31, 2016, Mr. Woll was not yet retirement-eligible under our policies and plans.
- (2) If Mr. Woll resigns or his employment is terminated for any reason, he may be paid for his unused vacation days. Mr. Woll is currently entitled to 25 vacation days per year. The above table assumes that there is no earned but unpaid base salary or unpaid business expense reimbursements as of the time of termination.
- (3) Under our Incentive Compensation Plan, participants who cease to be employed by us before the end of a performance period due to death or disability are eligible to receive a bonus award that is prorated to the employment termination date but based upon the actual performance for the entire performance period. The actual bonus payment that Mr. Woll would be entitled to receive upon his termination may be different from the estimated amount included in the above table, depending on the achievement of payment criteria under the Incentive Compensation Plan.

| <u>Kelly Youngblood</u><br><u>Executive Benefits &amp; Payments</u> | <u>Termination<br/>For Good<br/>Reason or<br/>Without<br/>Cause (\$)</u> | <u>Termination<br/>for Death or<br/>Disability (\$)</u> | <u>Termination<br/>for Cause (\$)</u> | <u>Other<br/>Voluntary<br/>Termination<br/>(\$)(1)</u> | <u>Change<br/>of<br/>Control<br/>(\$)</u> |
|---|--|---|---------------------------------------|--|---|
| Cash Severance (2) . . . . .  | 660,000  | —   | —                                     | —  | —   |
| Bonus (3) . . . . .   | —  | 146,700   | —                                     | —  | —   |
| SERP . . . . .  | 1,700  | 1,700   | 1,700                                 | 1,700  | —   |
| Total . . . . .   | 661,700  | 148,400   | 1,700                                 | 1,700  | —   |

- (1) The above table does not include a scenario for termination due to retirement because, as of December 31, 2016, Mr. Youngblood was not yet retirement-eligible under our policies and plans.
- (2) If Mr. Youngblood resigns or his employment is terminated for any reason, he may be paid for his unused vacation days. Mr. Youngblood is currently entitled to 25 vacation days per year. The above table assumes that there is no earned but unpaid base salary or unpaid business expense reimbursements as of the time of termination.
- (3) Under our Incentive Compensation Plan, participants who cease to be employed by us before the end of a performance period due to death or disability are eligible to receive a bonus award that is prorated to the employment termination date but based upon the actual performance for the entire performance period. The actual bonus payment that Mr. Youngblood would be entitled to receive upon his termination may be different from the estimated amount included in the above table, depending on the achievement of payment criteria under the Incentive Compensation Plan.

| <u>Beth G. Gordon</u><br><u>Executive Benefits &amp; Payments</u> | <u>Termination</u><br><u>For Good</u><br><u>Reason or</u><br><u>Without</u><br><u>Cause (\$)</u> | <u>Termination</u><br><u>for Death or</u><br><u>Disability (\$)</u> | <u>Termination</u><br><u>for Cause (\$)</u> | <u>Other</u><br><u>Voluntary</u><br><u>Termination</u><br><u>(\$)</u> | <u>Retirement</u><br><u>\$(1)</u> | <u>Change</u><br><u>of</u><br><u>Control</u><br><u>(\$)</u> |
|---|--|---|---|---|-----------------------------------|---|
| Cash Severance (2) . . . . .                                      | 534,298  | 534,298   | —   | —   | —                                 | —   |
| Bonus (3) . . . . .   | —  | 106,900   | —   | —   | 106,900                           | —   |
| Accelerated Equity Awards (4) . . . . .                           | —  | —   | —   | —   | —                                 | —   |
| Insurance Continuation (5) . . . . .                              | 40,246   | 40,246  | —   | —   | —                                 | —   |
| SERP . . . . .  | 261  | 261   | 261   | 261   | 261                               | —   |
| Anti-Dilution Adjustments (6) . . . . .                           | 6,375  | 6,375   | —   | —   | —                                 | —   |
| Outplacement Services (7) . . . . .                               | 25,000   | 25,000  | —   | —   | —                                 | —   |
| <b>Total . . . . .</b>  | <b>606,180</b>   | <b>713,080</b>  | <b>261</b>                                  | <b>261</b>  | <b>107,161</b>                    | <b>—</b>  |

- (1) As of December 31, 2016, Ms. Gordon was 61 years old, which qualifies her to receive certain retirement benefits under certain of our plans and programs but not under certain other plans and programs.
- (2) Represents severance of annual base salary (\$267,149) for two years, payable not less frequently than in equal monthly installments following termination or, in the case of death, in a lump sum. In addition, if Ms. Gordon resigns or her employment is terminated for any reason, she may be paid for her unused vacation days. Ms. Gordon is currently entitled to 25 vacation days per year. The above table assumes that there is no earned but unpaid base salary or unpaid business expense reimbursements as of the time of termination.
- (3) Under our Incentive Compensation Plan, participants who cease to be employed by us before the end of a performance period due to retirement at or after age 60, death or disability are eligible to receive a bonus award that is prorated to the employment termination date but based upon the actual performance for the entire performance period. The actual bonus payment that Ms. Gordon would be entitled to receive upon her termination may be different from the estimated amount included in the above table, depending on the achievement of payment criteria under the Incentive Compensation Plan.
- (4) As of December 31, 2016, Ms. Gordon held (i) 3,000 unvested SARs awarded prior to April 2015, (ii) 3,693 unvested RSUs granted in April 2015 and (iii) 4,453 unvested RSUs granted in April 2016. Under her employment agreement, if her employment is terminated due to death, disability or termination without Cause or for Good Reason, her unvested SARs would accelerate and fully vest. Her RSUs would not be subject to accelerated vesting upon any termination of employment for Cause or upon any retirement before age 63. All SARs held by Ms. Gordon have an exercise price greater than \$17.70 (the closing price per share on December 30, 2016, the last trading day of 2016, as reported on the NYSE); as a result, the accelerated SARs were calculated as having a zero value.
- (5) The value of insurance continuation in the above table is the total cost of COBRA continuation coverage for Ms. Gordon for 24 months (which is the maximum period available under her employment agreement), maintaining her same levels of medical, dental and other insurance as in effect on December 31, 2016, less the amount of premiums to be paid by Ms. Gordon for such coverage.
- (6) Represents the amount payable pursuant to cash anti-dilution adjustments accrued under the terms of our Equity Plan based on unvested SAR awards outstanding, assuming all such awards become fully vested as of termination of employment.
- (7) Represents the maximum potential payment under this obligation.

| <u>Lyndol L. Dew</u><br><u>Executive Benefits &amp; Payments</u> | <u>Termination</u><br><u>For Good</u><br><u>Reason or</u><br><u>Without</u><br><u>Cause (\$)</u> | <u>Termination</u><br><u>for Death or</u><br><u>Disability (\$)</u> | <u>Termination</u><br><u>for Cause (\$)</u> | <u>Other</u><br><u>Voluntary</u><br><u>Termination</u><br><u>(\$)</u> | <u>Retirement</u><br><u>\$(1)</u> | <u>Change</u><br><u>of</u><br><u>Control</u><br><u>(\$)</u> |
|--|--|---|---|---|-----------------------------------|---|
| Cash Severance (2) . . . . .                                     | 946,698  | 946,698   | —   | —   | —                                 | —   |
| Bonus (3) . . . . .  | —  | 189,340   | —   | —   | 189,340                           | —   |
| Accelerated Equity Awards (4) . . . . .                          | —  | —   | —   | —   | —                                 | —   |
| Insurance Continuation (5) . . . . .                             | 30,062   | 30,062  | —   | —   | —                                 | —   |
| SERP . . . . .   | 172,564  | 172,564   | 172,564                                     | 172,564   | 172,564                           | —   |
| Anti-Dilution Adjustments (6) . . . . .                          | 12,750   | 12,750  | —   | —   | —                                 | —   |
| Outplacement Services (7) . . . . .                              | 25,000   | 25,000  | —   | —   | —                                 | —   |
| Total . . . . .  | 1,187,074  | 1,376,414   | 172,564                                     | 172,564   | 361,904                           | —   |

- (1) As of December 31, 2016, Mr. Dew was 62 years old, which qualifies him to receive certain retirement benefits under certain of our plans and programs but not under certain other plans and programs.
- (2) Represents severance of annual base salary (\$473,349) for two years, payable not less frequently than in equal monthly installments following termination or, in the case of death, in a lump sum. In addition, if Mr. Dew resigns or his employment is terminated for any reason, he may be paid for his unused vacation days. Mr. Dew is currently entitled to 25 vacation days per year. The above table assumes that there is no earned but unpaid base salary or unpaid business expense reimbursements as of the time of termination.
- (3) Under our Incentive Compensation Plan, participants who cease to be employed by us before the end of a performance period due to retirement at or after age 60, death or disability are eligible to receive a bonus award that is prorated to the employment termination date but based upon the actual performance for the entire performance period. The actual bonus payment that Mr. Dew would be entitled to receive upon his termination may be different from the estimated amount included in the above table, depending on the achievement of payment criteria under the Incentive Compensation Plan.
- (4) As of December 31, 2016, Mr. Dew held (i) 6,000 unvested SARs awarded prior to April 2015, (ii) 5,090 unvested RSUs granted in April 2015 and (iii) 6,235 unvested RSUs granted in April 2016. Under his employment agreement, if his employment is terminated due to death, disability or termination without Cause or for Good Reason, his unvested SARs would accelerate and fully vest. His RSUs would not be subject to accelerated vesting upon any termination of employment for Cause or upon any retirement before age 63. All SARs held by Mr. Dew have an exercise price greater than \$17.70 (the closing price per share on December 30, 2016, the last trading day of 2016, as reported on the NYSE); as a result, the accelerated SARs were calculated as having a zero value.
- (5) The value of insurance continuation in the above table is the total cost of COBRA continuation coverage for Mr. Dew for 24 months (which is the maximum period available under his employment agreement), maintaining his same levels of medical, dental and other insurance as in effect on December 31, 2016, less the amount of premiums to be paid by Mr. Dew for such coverage.
- (6) Represents the amount payable pursuant to cash anti-dilution adjustments accrued under the terms of our Equity Plan based on unvested SAR awards outstanding, assuming all such awards become fully vested as of termination of employment.
- (7) Represents the maximum potential payment under this obligation.

*Gary T. Krenek Separation Compensation*

On May 3, 2016, Mr. Krenek retired from our company. We entered into a separation agreement with Mr. Krenek regarding his retirement, providing for, among other things, continuation of his current base salary for 12 months after retirement, acceleration of unvested SARs (which would then remain exercisable until the earlier of 90 days following Mr. Krenek's resignation and the 10-year anniversary of the date of grant), payment of premiums for group medical, dental and vision insurance for two years, payment of a prorated bonus for 2016 and payment of a total of \$480,000 to Mr. Krenek upon the accomplishment of certain designated actions

and achievements prior to his retirement. The following table describes the payments upon termination for Mr. Krenek, giving effect to the applicable provisions of the separation agreement:

| <u>Gary T. Krenek</u><br><u>Executive Benefits &amp; Payments</u> | <u>Payment</u><br><u>(\$)</u> |
|---|-------------------------------|
| Cash Severance (1) . . . . .                                      | 938,609                       |
| Bonus . . . . .   | 95,500                        |
| Accelerated Equity Awards (2) . . . . .                           | —                             |
| Insurance Continuation (3) . . . . .                              | 30,062                        |
| SERP . . . . .  | 158,936                       |
| Anti-Dilution Adjustments (4) . . . . .                           | 37,500                        |
| Total . . . . .   | 1,260,607                     |

- 
- (1) Payable not less frequently than in equal monthly installments following termination or, in the case of death, in a lump sum. In addition, Mr. Krenek received a payment of \$98,484 for his accrued unused vacation days. The above table assumes that there was no earned but unpaid base salary or unpaid business expense reimbursements as of the time of termination.
  - (2) As of his separation date, Mr. Krenek held 11,312 unvested SARs, all of which accelerated and became fully vested and expired 90 days later. As a result, as of December 31, 2016, Mr. Krenek no longer held any vested SARs. All SARs held by Mr. Krenek had an exercise price greater than \$17.70 (the closing price per share on December 30, 2016, the last trading day of 2016, as reported on the NYSE).
  - (3) The value of insurance continuation in the above table is the total cost of COBRA continuation coverage for Mr. Krenek for 24 months (which is the maximum period available under his severance agreement), maintaining his same levels of medical, dental and other insurance as in effect on his separation date.
  - (4) Represents the lump-sum payment pursuant to the separation agreement for accrued special cash dividends applicable to unvested SARs that vested pursuant to the separation agreement.



## EQUITY PLAN

Our Equity Plan authorizes the issuance of awards including stock options, SARs, RSUs and other stock-based awards (including dividend equivalents) to acquire up to 7,500,000 shares of our common stock, of which 945,039 shares had been issued as of December 31, 2016. Stock options have a maximum term of 10 years, subject to earlier termination under certain conditions, and, unless otherwise specified at the time of the grant, vest in four equal, annual installments over four years. SARs have a maximum term of 10 years, subject to earlier termination under certain conditions, and vest as specified at the time of the grant. RSUs are contractual rights to receive shares of our common stock in the future if the applicable vesting conditions are met, which may include the passage of time, continued employment over a specified period and/or the attainment of specified performance targets over such period. During 2016, a total of 66,000 SARs and 431,264 RSUs were granted under our Equity Plan.

### Equity Compensation Plan Information

The following table provides information regarding securities authorized for issuance under our equity compensation plans as of December 31, 2016, categorized by (i) equity compensation plans previously approved by our stockholders and (ii) equity compensation plans not previously approved by our stockholders. As indicated in the table, all of our equity compensation plans have been approved by our stockholders.

| <u>Plan Category</u>   | <u>Number of securities<br/>to be Issued upon<br/>Exercise of Outstanding Options,<br/>Warrants and Rights (1)<br/>(a)</u> | <u>Weighted-Average<br/>Exercise Price of<br/>Outstanding Options,<br/>Warrants and Rights \$(2)<br/>(b)</u> | <u>Number of Securities<br/>Remaining Available for Future<br/>Issuance under Equity Compensation<br/>Plans (Excluding Securities Reflected<br/>in Column (a))<br/>(c)</u> |
|--|--|--|--|
| Equity compensation<br>plans approved by<br>stockholders . . . . .     | 751,424  | 67.43  | 5,803,537  |
| Equity compensation<br>plans not approved by<br>stockholders . . . . . | —  | —  | —  |
| Total . . . . .  | 751,424  | 67.43  | 5,803,537  |

- (1) The number of shares included with respect to SARs granted under our Equity Plan is the number of shares of our common stock that would have been issued had the SARs been exercised, based on a price per share of our common stock of \$17.70, which was the closing price per share on December 30, 2016, the last trading day of 2016, as reported on the NYSE. The number of shares included with respect to RSUs includes 751,266 shares of our common stock that would be issued under these awards outstanding at December 31, 2016 if the maximum level of performance is achieved under the awards. If actual performance falls below the maximum level of performance for these awards, fewer shares would be issued.
- (2) The weighted-average exercise price does not take into account RSUs because RSUs do not have an exercise price.

### 2016 Grants of Plan-Based Awards

| Name and Type of Equity Award                | Grant Date | Action Date | Estimated Future Payouts Under Non-Equity Incentive Plan Awards<br>Maximum \$(1) | Estimated Future Payouts Under Equity Incentive Plan Awards (2) |            |             | Grant Date Fair Value of Stock Awards \$(3) |
|--|------------|-------------|--|---|------------|-------------|---|
|  |            |             |  | Threshold (#)   | Target (#) | Maximum (#) |   |
| Marc Edwards . . . . .<br>RSUs . . . . .     | 04/01/16   | 03/29/16    | 2,500,000  | 104,424   | 155,857    | 207,290     | 3,357,160                                   |
| David L. Roland . . . . .<br>RSUs . . . . .  | 04/01/16   | 03/29/16    | 390,000  | 5,818   | 8,683      | 11,548      | 311,727                                     |
| Ronald Woll . . . . .<br>RSUs . . . . .      | 04/01/16   | 03/29/16    | 435,435  | 10,741  | 16,031     | 21,321      | 575,506                                     |
| Kelly Youngblood . . . . .<br>RSUs . . . . . | 06/01/16   | 04/11/16    | 440,000  | 11,411  | 17,032     | 22,653      | 733,778                                     |
| Beth G. Gordon . . . . .<br>RSUs . . . . .   | 04/01/16   | 03/29/16    | 267,149  | 1,193   | 1,781      | 2,369       | 95,918                                      |
| Lyndol L. Dew . . . . .<br>RSUs . . . . .    | 04/01/16   | 03/29/16    | 473,349  | 2,506   | 3,741      | 4,976       | 134,302                                     |
| Gary T. Krenek . . . . .                     | —          | —           | 458,609  | —   | —          | —           | —   |

(1) These amounts represent the maximum awards allowable under our Incentive Compensation Plan for 2016, regardless of level of company performance. For our named executive officers other than Mr. Edwards, awards under our Incentive Compensation Plan are not subject to threshold or target amounts. Under separate terms approved by the Compensation Committee and contained in his employment agreement then in effect, Mr. Edwards participated in our Incentive Compensation Plan for 2016 with the potential to earn an incentive payment of \$500,000 upon achievement of 50% of the company's target performance goal, \$1,500,000 upon achievement of 100% of the company's target performance goal and a maximum of \$2,500,000 upon achievement of 150% or more of the company's target performance goal. Because award determinations under our Incentive Compensation Plan are based in part on outcomes of personal evaluations of employee performance and because the Compensation Committee retains the right to exercise negative discretion to reduce the amount of each incentive payment at its discretion, the computation of actual awards generated under the plan upon achievement of certain levels of company performance criteria may differ from the above amounts. For actual incentive amounts paid for 2016, see the "Non-Equity Incentive Plan Compensation" column in the 2016 Summary Compensation Table above. Please read "Compensation Discussion and Analysis—Cash Bonus Incentive Compensation Awards" for more information concerning awards under our Incentive Compensation Plan.

(2) The amounts shown represent threshold, target and maximum awards of RSUs that could vest as determined pursuant to our Equity Plan and the applicable award agreement. RSUs awarded to Mr. Edwards during 2016 will cliff vest upon the attainment of the three-year financial performance goal specified in his award agreement, and RSUs awarded to the other named executive officers will either cliff vest upon the attainment of the same three-year financial performance goals or will vest upon the passage of time over a three-year period. In all cases, the RSUs are subject to forfeiture if the applicable vesting conditions are not met. The threshold value represents the lowest amount of performance RSUs that could vest based on partial achievement of the performance goal, although the minimum payout is zero and the Compensation Committee retains the right to exercise negative discretion to reduce the amount of the performance RSUs that would otherwise be eligible to vest. In addition, upon our payment of any cash dividend on our common stock prior to vesting, Mr. Edwards will be credited with a number of additional RSUs in respect of the award outstanding on the record date for such dividend in an amount equal to the aggregate dividend payable with respect to the shares subject to such award divided by the volume-weighted average price per share of our common stock on the NYSE for the 10 consecutive trading days immediately preceding such record date. Upon our payment of a special cash dividend on our common stock prior to vesting, the other named executive officers will be credited with a dollar amount equal to the special cash dividend multiplied by the total number of unvested RSUs that are outstanding

on the record date for the dividend. Any dividend equivalent rights credited to the other named executive officers pursuant to the foregoing sentence are subject to the same vesting, payment and other terms, conditions and restrictions as the original RSUs to which they relate. All RSUs may be settled in cash or our common stock. See “*Compensation Discussion and Analysis—Stock Based Awards.*”

- (3) Represents the maximum fair value of each equity award recognizable in accordance with FASB ASC Topic 718 (based, with respect to RSUs, upon the probable outcome of performance conditions) and does not include any estimates of forfeitures for service-based vesting. See Note 4 to our audited consolidated financial statements for the fiscal year ended December 31, 2016 included in our Annual Report on Form 10-K filed with the Commission on February 16, 2017.

### Outstanding Equity Awards at Fiscal Year-End 2016

| Name             | SAR Awards (1)   |  |                         |                     | Stock Awards (2)  |  |
|------------------|--|--|-------------------------|---------------------|---|--|
|                  | Number of Securities Underlying Unexercised SARs (#) Exercisable | Number of Securities Underlying Unexercised SARs (#) Unexercisable | SAR Exercise Price (\$) | SAR Expiration Date | Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#) | Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$) |
| Marc Edwards     | —  | —  | —                       | —                   | 287,171   | 5,082,927  |
| David L. Roland  | 1,000  | 1,000  | 34.54                   | 10/01/2024          | 26,474  | 468,590  |
|                  | 1,000  | 1,000  | 37.16                   | 01/02/2025          |   |  |
| Ronald Woll      | 1,000  | 1,000  | 34.54                   | 10/01/2024          | 43,336  | 767,047  |
|                  | 1,000  | 1,000  | 37.16                   | 01/02/2025          |   |  |
| Kelly Youngblood | —  | —  | —                       | —                   | 28,386  | 502,432  |
| Beth G. Gordon   | 500  | —  | 81.42                   | 04/02/2017          | 8,146   | 144,184  |
|                  | 750  | —  | 101.97                  | 07/02/2017          |   |  |
|                  | 750  | —  | 114.21                  | 10/01/2017          |   |  |
|                  | 1,000  | —  | 144.44                  | 12/31/2017          |   |  |
|                  | 1,000  | —  | 117.36                  | 04/01/2018          |   |  |
|                  | 1,000  | —  | 140.54                  | 07/01/2018          |   |  |
|                  | 1,000  | —  | 103.02                  | 10/01/2018          |   |  |
|                  | 750  | —  | 59.19                   | 12/31/2018          |   |  |
|                  | 1,000  | —  | 64.51                   | 04/01/2019          |   |  |
|                  | 1,000  | —  | 83.57                   | 07/01/2019          |   |  |
|                  | 1,000  | —  | 95.61                   | 10/01/2019          |   |  |
|                  | 1,000  | —  | 99.55                   | 12/31/2019          |   |  |
|                  | 1,000  | —  | 87.65                   | 04/01/2020          |   |  |
|                  | 1,000  | —  | 61.79                   | 07/01/2020          |   |  |
|                  | 1,000  | —  | 68.52                   | 10/01/2020          |   |  |
|                  | 1,000  | —  | 64.94                   | 12/01/2020          |   |  |
|                  | 1,000  | —  | 78.90                   | 04/01/2021          |   |  |
|                  | 1,000  | —  | 70.38                   | 07/01/2021          |   |  |
|                  | 1,000  | —  | 55.64                   | 10/01/2021          |   |  |
|                  | 1,000  | —  | 60.13                   | 12/01/2021          |   |  |
|                  | 1,000  | —  | 66.68                   | 04/02/2022          |   |  |
|                  | 1,000  | —  | 59.19                   | 07/02/2022          |   |  |
|                  | 1,000  | —  | 66.04                   | 10/01/2022          |   |  |
|                  | 1,000  | —  | 68.17                   | 12/03/2022          |   |  |

| Name           | SAR Awards (1)   |  |                         |                     | Stock Awards (2)  |  |
|----------------|--|--|-------------------------|---------------------|---|--|
|                | Number of Securities Underlying Unexercised SARs (#) Exercisable | Number of Securities Underlying Unexercised SARs (#) Unexercisable | SAR Exercise Price (\$) | SAR Expiration Date | Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#) | Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$) |
|                | 750  | 250  | 69.71                   | 04/01/2023          |   |  |
|                | 750  | 250  | 68.62                   | 07/01/2023          |   |  |
|                | 750  | 250  | 62.31                   | 10/01/2023          |   |  |
|                | 750  | 250  | 56.55                   | 01/02/2024          |   |  |
|                | 500  | 500  | 48.36                   | 04/01/2024          |   |  |
|                | 500  | 500  | 49.57                   | 07/01/2024          |   |  |
|                | 500  | 500  | 34.54                   | 10/01/2024          |   |  |
|                | 500  | 500  | 37.16                   | 01/02/2025          |   |  |
| Lyndol L. Dew  | 1,000  | —  | 81.42                   | 04/02/2017          | 11,325  | 200,453  |
|                | 1,500  | —  | 101.97                  | 07/02/2017          |   |  |
|                | 1,500  | —  | 114.21                  | 10/01/2017          |   |  |
|                | 2,000  | —  | 144.44                  | 12/31/2017          |   |  |
|                | 2,000  | —  | 117.36                  | 04/01/2018          |   |  |
|                | 2,000  | —  | 140.54                  | 07/01/2018          |   |  |
|                | 2,000  | —  | 103.02                  | 10/01/2018          |   |  |
|                | 1,500  | —  | 59.19                   | 12/31/2018          |   |  |
|                | 2,000  | —  | 64.51                   | 04/01/2019          |   |  |
|                | 2,000  | —  | 83.57                   | 07/01/2019          |   |  |
|                | 2,000  | —  | 95.61                   | 10/01/2019          |   |  |
|                | 2,000  | —  | 99.55                   | 12/31/2019          |   |  |
|                | 2,000  | —  | 87.65                   | 04/01/2020          |   |  |
|                | 2,000  | —  | 61.79                   | 07/01/2020          |   |  |
|                | 2,000  | —  | 68.52                   | 10/01/2020          |   |  |
|                | 2,000  | —  | 64.94                   | 12/01/2020          |   |  |
|                | 2,000  | —  | 78.90                   | 04/01/2021          |   |  |
|                | 2,000  | —  | 70.38                   | 07/01/2021          |   |  |
|                | 2,000  | —  | 55.64                   | 10/01/2021          |   |  |
|                | 2,000  | —  | 60.13                   | 12/01/2021          |   |  |
|                | 2,000  | —  | 66.68                   | 04/02/2022          |   |  |
|                | 2,000  | —  | 59.19                   | 07/02/2022          |   |  |
|                | 2,000  | —  | 66.04                   | 10/01/2022          |   |  |
|                | 2,000  | —  | 68.17                   | 12/03/2022          |   |  |
|                | 1,500  | 500  | 69.71                   | 04/01/2023          |   |  |
|                | 1,500  | 500  | 68.62                   | 07/01/2023          |   |  |
|                | 1,500  | 500  | 62.31                   | 10/01/2023          |   |  |
|                | 1,500  | 500  | 56.55                   | 01/02/2024          |   |  |
|                | 1,000  | 1,000  | 48.36                   | 04/01/2024          |   |  |
|                | 1,000  | 1,000  | 49.57                   | 07/01/2024          |   |  |
|                | 1,000  | 1,000  | 34.54                   | 10/01/2024          |   |  |
|                | 1,000  | 1,000  | 37.16                   | 01/02/2025          |   |  |
| Gary T. Krenek | —  | —  | —                       | —                   | —   | —  |

(1) Each SAR granted to the named executive officers and reported above vests and becomes exercisable with respect to 25% of its underlying securities per year over the first four years of its term, and has or will commence vesting nine

years prior to the first expiration date reported for SARs in the calendar year indicated above. Pursuant to his separation agreement signed in February 2016 in connection with his retirement from our company, all of Mr. Krenek's unvested SARs vested upon his resignation on May 3, 2016 and remained exercisable for 90 days following his resignation.

- (2) The number of RSUs was based on the target amount of the award and also includes RSUs credited to Mr. Edwards as a result of payment of cash dividends in respect of our common stock prior to vesting that were outstanding as of December 31, 2016. Pursuant to Commission rules, the market value of each executive's unvested RSUs was calculated by multiplying the number of unvested RSUs by \$17.70 (the closing price per share of our common stock on December 30, 2016, the last trading day of 2016, as reported on the NYSE). The 17,527 remaining earned RSUs awarded to Mr. Edwards on March 3, 2014 vested on March 3, 2017. In April 2015, Mr. Edwards was awarded a target number of 110,791 RSUs, which will cliff vest subject to our level of achievement towards a specified target of average ratio of Adjusted EBITDA to Adjusted Net PP&E (as such terms are defined above) for each of 2015, 2016 and 2017. In April 2016, Mr. Edwards was awarded a target number of 155,857 RSUs, which will cliff vest subject to our level of achievement towards a specified target of average ratio of Adjusted EBITDA to Adjusted Net PP&E for each of 2016, 2017 and 2018. The performance-vesting RSUs awarded to our other named executive officers in April 2015 and April 2016 are subject to cliff-vesting depending on the level of achievement against the financial performance goals during a three-year performance period, and the time-vesting RSUs awarded to our other named executive officers in April 2015 and April 2016 vest over a three-year period (half of the time-vesting RSUs awarded in 2015 vest on April 1, 2017 and the other half vest on April 1, 2018; half of the time-vesting RSUs awarded in 2016 vest on April 1, 2018 and the other half vest on April 1, 2019). All of the RSUs are subject to forfeiture if the applicable vesting conditions are not met. See "Compensation Discussion and Analysis—Long-Term Stock-Based Awards" above.

#### 2016 Option Exercises and Stock Vested

| Name             | SARs Awards                               |                                 | RSU Awards                               |                                   |
|------------------|---|---------------------------------|--|-----------------------------------|
|                  | Number of Shares Acquired on Exercise (#) | Value Realized on Exercise (\$) | Number of Shares Acquired on Vesting (#) | Value Realized on Vesting (\$)(1) |
| Marc Edwards (2) | —   | —                               | 18,880                                   | 429,331                           |
| David L. Roland  | —   | —                               | —  | —                                 |
| Ronald Woll      | —   | —                               | —  | —                                 |
| Kelly Youngblood | —   | —                               | —  | —                                 |
| Beth G. Gordon   | —   | —                               | —  | —                                 |
| Lyndol L. Dew    | —   | —                               | —  | —                                 |
| Gary T. Krenek   | —   | —                               | —  | —                                 |

- (1) The values realized upon vesting of RSU awards contained in the table are based on the market value of our common stock on the date of vesting.
- (2) The value realized by Mr. Edwards on the vesting of his RSU award was calculated by multiplying 18,880 shares by \$22.74 (the closing price per share of our common stock on the NYSE on his March 3, 2016 vesting date).

## TRANSACTIONS WITH RELATED PERSONS

We have a written policy requiring that any transaction, regardless of the size or amount, involving us or any of our subsidiaries in which any of our directors, director nominees, executive officers, principal stockholders or any of their immediate family members has had or will have a direct or indirect material interest, be reviewed and approved or ratified by our Audit Committee. All such transactions are to be submitted to our General Counsel for review and reported to our Audit Committee for its consideration. In each case, the Audit Committee will consider, in light of all of the facts and circumstances known to it that it deems relevant, whether the transaction is fair and reasonable to our company.

*Transactions with Loews.* Prior to the initial public offering of our common stock in October 1995, we were a wholly-owned subsidiary of Loews. In connection with the initial public offering, we entered into agreements with Loews pursuant to which Loews agreed to provide certain management, administrative and other services to us and certain other obligations were assumed by the parties. These agreements, which are described below, were not the result of arm's length negotiations between the parties.

*Services Agreement.* We are party to a services agreement with Loews pursuant to which Loews performs certain administrative and technical services on our behalf. Such services include personnel, internal auditing, accounting and cash management services, in addition to advice and assistance with respect to preparation of tax returns and obtaining insurance. Under the services agreement, we are required to reimburse Loews for (i) allocated personnel costs (such as salaries, employee benefits and payroll taxes) of the Loews personnel actually providing such services and (ii) all out-of-pocket expenses related to the provision of such services on our behalf. The services agreement may be terminated by us with 30 days' notice to Loews and may be terminated by Loews with six months' notice to us. In addition, we have agreed to indemnify Loews for all claims and damages arising from the provision of services by Loews under the services agreement unless due to the gross negligence or willful misconduct of Loews. During 2016, we were charged \$1.0 million by Loews for these support functions.

*Registration Rights Agreement.* Under a Registration Rights Agreement dated October 16, 1995, between us and Loews, we agreed to file, upon the request of Loews and subject to certain limitations, one or more registration statements under the Securities Act of 1933, as amended, subject to a maximum of two remaining requests, in order to permit Loews to offer and sell any of our common stock that Loews may hold. Under the agreement, Loews will bear the costs of any such registered offering, including any underwriting commissions relating to shares it sells in any such offering, any related transfer taxes and the costs of complying with non-U.S. securities laws, and any fees and expenses of separate counsel and accountants retained by Loews. Subject to certain conditions, we have also granted Loews the right to include its shares of our common stock in any registration statements covering offerings of our common stock by us, and we will pay all costs of such offerings other than underwriting commissions and transfer taxes attributable to the shares sold on behalf of Loews.

*Transactions with Other Related Parties.* From time to time, we hire marine vessels and helicopter transportation services at prevailing market rates from subsidiaries of SEACOR and, following its spinoff from SEACOR in January 2013, Era Group Inc. Mr. Fabrikant, who is a member of our Board of Directors, is the Executive Chairman of the Board and CEO of SEACOR and the Non-Executive Chairman of the Board of Era Group Inc. and is the beneficial owner of more than 5% of a class of outstanding voting securities of each company. During 2016, we paid \$0.7 million for the hire of such vessels and such services.

## RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITOR

### (Proposal No. 2)

The Audit Committee of our Board of Directors has selected Deloitte & Touche LLP (D&T) to serve as our independent registered public accounting firm (independent auditor) for fiscal year 2017. Although it is not required to do so, our Board is submitting the selection of D&T for ratification by our stockholders at the Annual Meeting. If our stockholders do not ratify the selection of D&T, the Audit Committee will reconsider its selection. Regardless of the outcome of the vote, however, the Audit Committee at all times has the authority within its discretion to recommend and approve any appointment, retention or dismissal of our independent auditor.

We expect that representatives of D&T will be present at the Annual Meeting and will be afforded an opportunity to make a statement if they so desire and to respond to appropriate questions from stockholders.

#### Audit Fees

D&T and its affiliates billed the following fees for the years ended December 31, 2016 and 2015:

|                                  | <u>2016</u> | <u>2015</u> |
|----------------------------------|-------------|-------------|
| Audit Fees (1) . . . . .         | \$2,038,000 | \$2,053,400 |
| Audit-Related Fees (2) . . . . . | 21,500      | 50,000      |
| Tax Fees (3) . . . . .           | 119,100     | 92,500      |
| All Other Fees (4) . . . . .     | 5,300       | 40,000      |
| Total . . . . .                  | \$2,183,900 | \$2,235,900 |

- (1) Audit Fees include the aggregate fees and expenses for the audit of our annual financial statements and internal control over financial reporting, reviews of our quarterly financial statements and various statutory audits of our foreign subsidiaries.
- (2) Audit-Related Fees include the aggregate fees and expenses associated with the consent for our Registration Statement on Form S-3 filed with the Commission in March 2015 and review of a 2015 Commission comment letter and subsequent responses thereto.
- (3) Tax Fees include the aggregate fees and expenses for tax compliance and tax planning and consulting services.
- (4) All Other Fees include fees and expenses for a 2016 subscription to an accounting research tool and a vulnerability assessment of our information technology systems during 2015.

#### Auditor Engagement and Pre-Approval Policy

In order to assure the continued independence of our independent auditor, currently D&T, the Audit Committee has a policy requiring pre-approval of all audit and non-audit services performed by the independent auditor. Under this policy, the Audit Committee annually pre-approves certain limited, specified recurring services which may be provided by D&T, subject to maximum dollar limitations. All other engagements for services which may be provided by D&T must be specifically pre-approved by the Audit Committee, or a designated committee member to whom this authority has been delegated. Since its adoption of this policy, the Audit Committee or its designee has pre-approved all engagements by us and our subsidiaries for services of D&T, including the terms and fees thereof, and concluded that such engagements were compatible with the continued independence of D&T in serving as our independent auditor.

**Our Board of Directors recommends a vote FOR Proposal No. 2.**

## ADVISORY VOTE ON EXECUTIVE COMPENSATION

### (Proposal No. 3)

As required by Section 14A of the Exchange Act, we are asking our stockholders to approve, on an advisory basis, the compensation of our named executive officers as we have described it in the “*Compensation Discussion and Analysis*” and “*Executive Compensation*” sections of this proxy statement. This advisory vote is sometimes referred to as “say-on-pay.”

Because an annual say-on-pay vote allows our stockholders to provide input on our compensation policies and programs on a regular basis and because our stockholders voted in a non-binding advisory (say-on-frequency) vote held at our 2011 annual meeting in favor of our holding a say-on-pay vote every year, we have held a say-on-pay vote every year since then. Pursuant to Commission rules, our stockholders will again have an opportunity to vote on the frequency of our say-on-pay vote at the Annual Meeting.

While this say-on-pay advisory vote is not binding on our company, management and the Compensation Committee will review the voting results for purposes of obtaining information regarding investor sentiment about our executive compensation philosophy, policies and practices. If there is a significant number of negative votes, we will seek to understand the concerns that influenced the negative votes, and consider them in making decisions about our executive compensation program in the future. At our 2016 Annual Meeting, our stockholders approved our non-binding advisory vote on the compensation of our named executive officers, with more than 98% of the votes cast on the proposal voting in favor of its approval.

We believe that the information we have provided within this proxy statement demonstrates that our executive compensation program is designed appropriately and is working to ensure management’s interests are aligned with our stockholders’ interests to support long-term value creation. As described above in detail under the “*Compensation Discussion and Analysis*” and “*Executive Compensation*” sections of this proxy statement, our compensation program reflects a balance of short-term incentives (including performance-based cash bonus awards) and long-term incentives (including performance equity awards that are subject to vesting after a 3-year period) that are designed to support our long-term business strategies and drive creation of stockholder value. We believe that our program is (i) aligned with the competitive market for talent, (ii) sensitive to our financial performance and (iii) oriented to long-term incentives, in order to seek to promote our long-term profitability. We believe our program delivers reasonable pay that is strongly linked to our performance over time and rewards sustained performance that is aligned with long-term stockholder interests. Our executive compensation program is also designed to attract and to retain highly-talented executive officers who are critical to the successful implementation of our company’s strategic business plan.

We routinely evaluate the individual elements of our compensation program in light of market conditions and governance considerations and make changes as appropriate for our business. For example, for 2015 and 2016 we froze base salaries for most company employees, including our named executive officers, and in 2015 we implemented a performance-based RSU program for senior-level employees in lieu of the company’s historical time-vesting SARs program. We are continuously seeking to improve our executive compensation program and align our program with stockholder interests. We believe that our executive compensation program continues to drive and promote superior financial performance for our company and our stockholders over the long term through a variety of business conditions.

**Accordingly, our Board of Directors strongly endorses the company’s executive compensation program and recommends a vote FOR the following resolution:**

RESOLVED, that the compensation paid to our company’s named executive officers, as disclosed pursuant to the compensation disclosure rules of the Commission, including the Compensation Discussion and Analysis, the compensation tables and any related material disclosed in this proxy statement, is hereby approved on an advisory basis.



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

**(Proposal No. 4)**

As required by Section 14A of the Exchange Act, we are providing our stockholders the opportunity to indicate how frequently we should seek future advisory say-on-pay votes on the compensation of our named executive officers. Under this proposal, stockholders may indicate whether they would prefer that the advisory say-on-pay vote on the compensation of our named executive officers occur every one, two or three years. Stockholders may also abstain from voting on this proposal.

Pursuant to Section 14A of the Exchange Act, we are required to hold at least once every six years an advisory stockholder vote to determine the frequency of the advisory stockholder vote on executive compensation. At our 2011 annual meeting of stockholders, our stockholders approved holding an advisory vote on the compensation of our named executive officers each year. The Board believes that an annual advisory vote on executive compensation continues to be the best approach because it allows our stockholders to provide input on our compensation policies and programs on a regular basis. This advisory vote, although not binding on the Board, will be taken into account by the Board and our Compensation Committee when determining the frequency of holding future advisory say-on-pay votes.

**Accordingly, the Board of Directors recommends a vote to conduct an advisory say-on-pay stockholder vote EVERY YEAR.**

## STOCKHOLDER PROPOSAL

### (Proposal No. 5)

The New York State Common Retirement Fund, 59 Maiden Lane—30<sup>th</sup> Floor, New York, New York 10038, owner of 142,538 shares of our common stock, has notified us that it intends to present the resolution set forth below at the Annual Meeting for action by our stockholders. The below proposal and supporting statement are presented as received by the stockholder proponent, and we disclaim any responsibility for its content.

### 2017 Sustainability Reporting

**Whereas:** Managing and reporting environmental, social and governance (ESG) business practices helps companies compete in a global business environment characterized by finite natural resources, changing legislation, and heightened public expectations. Reporting allows companies to publicize and gain strategic value from existing sustainability efforts and identify emerging risks and opportunities.

ESG issues can pose significant risks to business, and without proper disclosure, stakeholders and analysts cannot ascertain whether the company is properly managing its ESG exposure.

More than 1,500 institutional investors managing over \$60 trillion have joined The Principles for Responsible Investment and publicly commit to seek comprehensive corporate ESG disclosure and incorporate it into investment decisions.

The link between strong sustainability management and value creation is well established. A 2012 Deutsche Bank review of 100 academic studies, 56 research papers, two literature reviews, and four meta-studies on sustainable investing found 89% of studies demonstrated that companies with high ESG ratings show market-based outperformance, and 85% of studies indicated that these companies produce accounting-based outperformance.

Diamond Offshore Drilling has minimal disclosure of goals and performance metrics on how it manages ESG issues. By contrast, some of our company's competitors demonstrate leadership and a strong commitment to ESG, publishing sustainability information including strong goals and performance on environmental and social metrics. Public disclosure of this information allows investors to learn more about how management is addressing near and long-term risks (e.g. operational, reputational, and regulatory) and opportunities.

**Resolved:** Shareholders request that Diamond Offshore Drilling issue an annual sustainability report describing the company's short and long-term responses to ESG-related issues. The report should be prepared at a reasonable cost, omit proprietary information, and be made available to shareholders and the public before the company's 2018 annual meeting.

**Supporting Statement:** We recommend Diamond Offshore Drilling management consider including in the reporting process a review of policies and performance metrics related to: occupational safety and health, vendor and labor standards, workforce and management diversity, water and material usage, energy efficiency and use of renewable energy, greenhouse gas emissions, product-related environmental impacts, and goals by which to judge the company's performance and management of these issues.

For guidance on the process of sustainability reporting, we recommend review of the GRI Guidelines, a globally accepted reporting framework viewed as the gold standard for sustainability reporting, with more than 9,000 corporate users. The Guidelines are flexible and allow companies to exclude metrics that are not material.

The G&A Institute found that companies who use the GRI framework experience higher Bloomberg ESG Disclosure scores, as well as higher rates of inclusion in sustainability-focused stock indices.

## **Board of Directors' Statement in Opposition**

Our Board of Directors recommends a vote AGAINST this proposal. For reasons described below, the Board believes that this proposal is unnecessary and therefore would not result in a productive use of company funds and resources and is not in the best interest of the company and our stockholders.

As a company in the offshore drilling business, we consistently demonstrate an overriding culture of safety throughout our business. For example, in 2015 we introduced a new **HONOR SAFETY. PROTECT ALL®** safety pledge. In 2016, we announced a new company purpose (**To Responsibly Unlock Energy**), a new company mission (**With respect for the lives we touch and the impact we make, we deliver fresh perspectives to anticipating and solving complex deepwater challenges**) and a new Health, Safety and Environmental Policy Statement (**Caring for the lives of others and protecting the environment are responsibilities Diamond Offshore keeps at the forefront of everything we do**). Safety and responsibility are primary themes underlying these pledges and statements and underscore all of our operations, training, innovations, processes and interactions.

Safety is the primary metric by which we measure our operational success. In recent years, our total recordable incident rates have declined, which means that our personnel are among the safest professionals in the industry and our continuous efforts in health, safety and environmental excellence have been successful. Numerous safety initiatives have contributed to these accomplishments, including our company-wide commitment to achieving Zero Incident Operations (ZIO), which would mean that no person gets hurt, the environment remains pristine and all equipment operates safely.

In addition, we are fully committed to preserving the environment through, among other things, training, system policies, routine drills, environmental and safety meetings, daily inspections and corporate environmental and safety audits. We follow a rigorous maintenance program with a goal of operating our machinery at peak efficiency, which in return helps reduce our carbon footprint. We demonstrate environmental stewardship on a corporate level by participating in several industry and regulatory affairs groups, which allows us to proactively contribute to industry governance efforts. Our corporate office is also committed to preservation of the environment by participating in recycling and promoting energy conservation.

The manner in which we conduct our operations demonstrates our commitment to protecting the health and safety of the communities in which we operate and of our employees, partners and vendors. We have established policies and business practices to, among other things, advance occupational safety and health, assist in efforts to control waste management, maintain compliance with laws established to protect the environment and foster environmental awareness and responsibility. We have devoted substantial resources to sustainability and environmental responsibility, including in our onshore facilities, drilling rigs and business practices. As our current governance policies and practices reflect, we are already committed to maintaining high standards of ethical conduct and to pursuing our business with integrity.

Given our ongoing environmental, governance and sustainability practices, our Board of Directors believes that preparation of the report contemplated by this proposal is unnecessary and not beneficial to our stockholders. A sustainability report will not increase our commitment to environmental, social or governance issues. We believe the corporate practices to which we are already committed, including the items discussed above, more than adequately address the environmental, social and governance considerations raised by the proposal. We also believe that, based on our existing practices, neither we nor our stockholders would receive incremental benefit from the preparation of a sustainability report.

Therefore, our Board of Directors unanimously believes that this proposal is not in the best interests of the company or our stockholders, and recommends that stockholders vote AGAINST the proposal. Proxies solicited by the Board will be voted AGAINST this proposal unless a stockholder has otherwise indicated in voting the proxy.

**Our Board of Directors recommends a vote AGAINST Proposal No. 5.**

## **SOLICITATION EXPENSES**

We will bear the cost of preparing, printing and mailing Notices, this proxy statement and the accompanying proxy card and of this solicitation of proxies on behalf of our Board of Directors. In addition to solicitation by mail, we may solicit proxies personally, by telephone or other means. We intend to request brokerage houses, custodians, nominees and others who hold our common stock in their names to solicit proxies from the persons who beneficially own such stock and we will reimburse these brokerage houses, custodians, nominees and others for the reasonable costs of sending the proxy materials to the beneficial owners of our common stock.

## **COMMUNICATIONS WITH DIAMOND OFFSHORE AND OTHERS**

Stockholders and other interested parties may communicate directly with our Lead Director, other non-management directors or our Board as a whole by writing to Diamond Offshore, 15415 Katy Freeway, Suite 100, Houston, Texas 77094, Attention: Corporate Secretary. Stockholders should clearly specify in each communication the name of the individual director or group of directors to whom the communication is addressed. Inquiries sent by mail will be reviewed by our Corporate Secretary and, if they pertain to the functions of the Board or Board committees or if the Corporate Secretary otherwise determines that they should be brought to the intended recipient's attention, they will be forwarded to the intended recipient. Concerns relating to accounting, internal controls, auditing or compliance matters will be brought to the attention of our Audit Committee and handled in accordance with procedures established by the Audit Committee. Items that are unrelated to the duties and responsibilities of the Board, such as personal employee complaints, resumes and other forms of job inquiries, surveys, service complaints, requests for donations, business solicitations or advertisements, will not be forwarded to the directors. In addition, material that is considered to be hostile, threatening, illegal or similarly unsuitable will not be forwarded.

Stockholder proposals intended for inclusion in the proxy statement to be issued in connection with our 2018 annual meeting of stockholders must be addressed to: Diamond Offshore, 15415 Katy Freeway, Suite 100, Houston, Texas 77094, Attention: Corporate Secretary, and must be received no later than November 28, 2017.

Stockholder proposals submitted outside of the Commission's procedures for including such proposals in our proxy statement must be mailed or delivered to the attention of the Corporate Secretary at the address above and must be received by our Corporate Secretary no later than February 15, 2018. If a proposal is received after that date, our proxy for the 2018 annual meeting of stockholders may confer discretionary authority to vote on such matter without any discussion of such matter in the proxy statement for the 2018 annual meeting of stockholders.

**OTHER MATTERS**

While management has no reason to believe that any other business will be presented, if any other matters should properly come before the Annual Meeting, the proxies will be voted as to such matters in accordance with the best judgment of the proxy holders.

By Order of the Board of Directors

A handwritten signature in black ink, appearing to read "David L. Roland". The signature is written in a cursive, somewhat stylized font.

DAVID L. ROLAND  
*Senior Vice President, General Counsel and Secretary*