

VAALCO ENERGY INC /DE/  
Form DFAN14A  
May 14, 2008

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

SCHEDULE 14A  
(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

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

(Amendment No. )

Filed by the Registrant ..

Filed by a Party other than the Registrant x

Check the appropriate box:

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

VAALCO ENERGY, INC.

(Name of Registrant as Specified in Its Charter)

NANES DELORME PARTNERS I LP  
NANES BALKANY PARTNERS LLC  
NANES BALKANY MANAGEMENT LLC  
JULIEN BALKANY  
DARYL NANES  
LEONARD TOBOROFF

CLARENCE COTTMAN III

(Name of Persons(s) Filing Proxy Statement, if Other Than the Registrant)

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- No fee required.
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(1) Title of each class of securities to which transaction applies:

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

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

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On May 7, 2008, Nanes Delorme Partners I LP (“Nanes Delorme Partners”), together with the other participants named herein, filed with the Securities and Exchange Commission (“SEC”) a definitive proxy statement and an accompanying GOLD proxy card to be used to solicit votes for the election of its nominees at the 2008 annual meeting of stockholders of VAALCO Energy Inc., a Delaware corporation.

Item 1: The following materials were posted at <http://www.ImproveVaalco.com>:

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NANES DELORME PARTNERS I LP  
YOUR VOTE IS CRITICALLY IMPORTANT

May 8, 2008

Dear Fellow Stockholders,

Nanes Delorme Partners I LP, with associated entities, currently beneficially owns 4,700,000 of the outstanding shares of VAALCO Energy, Inc., representing approximately 7.9% of the Company, making us the largest stockholder of VAALCO.

As VAALCO's largest stockholder, we have a substantial interest in seeing that the management and the directors of the Board of the Company are strongly committed to maximizing value for all stockholders. Regrettably, we do not believe that the Board is acting in the best interests of its stockholders, and believe that immediate changes at the Board level are necessary to unlock value. We are therefore seeking your support at the Annual Meeting of Stockholders scheduled to be held in Houston to elect our three highly qualified director nominees, Julien Balkany, Leonard Toboroff and Clarence Cottman III, to the Board to serve as Class I directors in opposition to the Company's three incumbent Class I directors whose terms expire at the Annual Meeting.

Just so you know, we have made every effort to work constructively with VAALCO's management in the hope of maximizing value for all stockholders. We met with senior executives of the Company on April 15, 2008. We approached the meeting with an open mind and the sincere hope that management would consider a possible turnaround of the strategic direction of the Company in a way that would have helped reverse management's prior poor decisions and negative reputation among its peers, analysts and investors. While the meeting reinforced our positive view of the Company's underlying asset value in Gabon and Angola, we were shocked by what we perceived to be the Board's lack of sincere interest in improving the Company's operating performance, corporate governance structure and overall lack of commitment to enhancing stockholder value.

We foresee this contest as a crucial opportunity to send a strong message to the remaining incumbent directors that stockholders are not satisfied with the Company's current performance, management and corporate governance. Specifically, our concerns include the following:

- VAALCO's disappointing stock performance;
- Management's ill-advised oil exploration diversification in the UK North Sea;
- Vaalco's poor operational and technical capabilities;
- Management's failure to retain a first tier investment bank and to consider strategic alternatives; and
- VAALCO's stockholder unfriendly corporate governance.

We are extremely frustrated by the major disconnect that exists between VAALCO's depressed stock price and the underlying value of its assets. We estimate the total Net Asset Value of the Company at approximately \$420 million, which translates into approximately \$7.12 per share (please see the NAV analysis table in our proxy statement for a description of the basis for our estimate of NAV). Without change to the current Board, we fear that the Company's intrinsic value may continue to erode under the continued unchecked stewardship of current senior management.





VAALCO's stock has underperformed by all relevant measures. In 2007, the share price fell approximately 30%, while the Standard & Poor's Midcap Oil and Gas Exploration and Production Index climbed nearly 45%. Unsurprisingly the underperformance has continued in the beginning of 2008 and the share price has traded as low as \$3.99 and has only started to trade higher since we publicized our concern on March 11, 2008. Since this date VAALCO's stock has increased by approximately 33% illustrating what we believe to be the strong expectation by stockholders of immediate and substantial changes in the Company. A management team facing such recent market reactions should be hungry for ideas to boost value. The management's and Board's failure to offer any substantive responses or alternatives to our proposals to unlock stockholder value leave us with no other choice than to encourage stockholders to elect our Nominees to send a loud and clear signal to the remaining members of the Board.

VAALCO's stock price has continued to trade at a substantial discount to VAALCO's E&P peers using virtually all relevant comparable valuation metrics. As illustrated below, VAALCO recently has traded at a total enterprise value to 2008 estimated EBITDA of approximately 3.1x, compared to recent multiples of approximately 8.0x for its selected group of E&P peers. Despite this clear underperformance by the Company, we are unaware of any new or promising initiatives commenced by management or the Board to address the depressed stock price. VAALCO needs new directors who understand the importance of maximizing stockholder value.

We believe responsibility clearly lies with existing management and the current Board, who have failed to pursue a cohesive expansion plan. We believe VAALCO should refocus its efforts and resources on the Company's core geographical area in West Africa and significantly reduce spending and management's efforts in the UK North Sea. We are extremely disappointed by the Company's poor operational and financial performance achieved under the current leadership in 2007. In 2007 the Company sold 1,759,000 million barrels of oil equivalent ("boe"), a 13% increase compared to 2006. The high oil price environment has also enabled the Company to sell its oil production at approximately a 13% premium compared to sales in 2006. In the meantime, the operating income for the year 2007 is down 8% from 2006 and the net earnings decrease by more than 50%. We are extremely worried by the 2007 results and the total failure to benefit at all from the continued surge in oil prices.

Given the Company's extremely poor performance viewed in comparison to its oil and gas exploration and production peers and given the industry's strong trend towards consolidation, we have urged the Board, as part of its fiduciary responsibility of delivering value to stockholders, to retain a first tier investment bank to evaluate and explore all strategic alternatives instead of continuing its "business as usual" approach that perpetuates the cycle of value destruction at VAALCO. We further believe that the NYSE is not the appropriate exchange to list a company with core assets in West Africa and that VAALCO should not remain listed on it, but instead should be listed on a more appropriate exchange.

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We also believe, based on conversations with numerous industry experts, that the Board and VAALCO's current management may have rebuffed private inquiries regarding a potential acquisition of the Company at a significant premium to its current share price on several occasions. If true, this deepens our concern that the Board has failed to fully explore all options to maximize value for stockholders. Stockholders should have the right to decide to take advantage of a substantial buyout premium that delivers immediate and compelling value.

In addition, because VAALCO has consistently maintained poor corporate governance practices, we believe there is an urgent need to improve the Board's accountability to stockholders. These sub-standard corporate governance practices of the Company include, but are not limited to, (i) a staggered board, (ii) the consolidated power in the combined role of the Chairman and Chief Executive Officer, (iii) the adoption of a Shareholders Rights Plan or "poison pill" in September 2007, (iv) anti-takeover provisions and (v) supermajority voting rules.

If elected, our Nominees will, subject to their fiduciary duties, lobby the other members of the Board to implement corporate governance reforms and to immediately improve the Company's performance. The Nominees intend to address the following issues:

- Creation of an independent special committee to evaluate and explore all strategic alternatives for maximizing stockholder value, including, but not be limited to, core asset divestments, alternative listings, mergers and/or the sale of the entire Company.
  - Retain a top tier investment bank to assist in the above process;
- Discontinuation of further expansion in the North Sea Region and refocus VAALCO's efforts and resources on the Company's core assets in Gabon and Angola;
- Take all the appropriate measures to reduce the Company's administrative costs and close the Company's office in Aberdeen (UK), relocate the headquarters in London, Paris or Geneva to be on the same time horizon as Gabon and Angola;
  - Redemption of the Shareholders Rights Plan and elimination of VAALCO's anti-takeover provisions;
  - Declassification of the staggered Board and institution of annual elections for all directors;
    - Separation of the role of Chairman and CEO;
    - Termination of the supermajority voting provisions; and
- Commencement of a process to identify and appoint a qualified Chief Operating Officer to strengthen management;

We believe our Nominees have the experience and oil and gas expertise necessary to oversee an effort to maximize stockholder value through a change in strategic direction and corporate governance reforms. VAALCO clearly needs new independent directors who understand the importance of accountability and who will properly and carefully review all strategic options to enhance stockholder value in accordance with their fiduciary duty, instead of the incumbent directors who are content to maintain the status quo that has led to the underperformance of the Company.

We note that five of the Company's seven incumbent directors actually own 1,000 or fewer shares each (and three of them actually own no shares). This includes W. Russell Scheirman, the Company's President and Chief Financial Officer, and a director since 1991, who actually owns only 694 shares. We have a clear financial interest aligned with the interests of all non-insider stockholders. As the Company's largest stockholder, our interests are aligned with yours.



We do not take lightly an election contest for directors of a public company. It is unfortunate that the intransigence of the Board and senior management has forced us to take this action, but we would like to reiterate that as the largest stockholder of VAALCO, it is crucial that stockholders not let the status quo continue. Our Nominees will work to maximize value for all stockholders.

Thank you for your consideration.

Sincerely,

Julien Balkany  
Nanes Delorme Partners I LP

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IF YOU HAVE ANY QUESTIONS, OR NEED ASSISTANCE IN VOTING YOUR GOLD PROXY CARD,  
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105 Madison Avenue  
New York, New York 10016  
(212) 929-5500 (Call Collect)  
proxy@mackenziepartners.com

or

CALL TOLL FREE (800) 322-2885

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NANES DELORME PARTNERS I LP

May 14, 2008

Dear Fellow Stockholders,

As you are aware, we are seeking your support to elect Julien Balkany, Leonard Toboroff and Clarence Cottman III, our three highly qualified, independent director nominees at VAALCO's Annual Meeting on June 4. If elected, our minority slate of directors will represent the interests of all stockholders and intend to take steps to improve corporate governance and retain a top tier investment bank to evaluate and explore all strategic alternatives for maximizing stockholder value, including, but not be limited to, core asset divestments, alternative listings, mergers and/or the sale of the entire Company.

**VAALCO HAS MATERIALLY UNDERPERFORMED UNDER THIS BOARD'S LEADERSHIP –  
STOCKHOLDERS DESERVE BETTER**

We have been forced into this solicitation because our repeated attempts to ensure that stockholder concerns about VAALCO's current strategic direction and recent disastrous performance have been completely ignored. As you have probably also realized by now, rather than provide a clear strategic plan to rebuild shareholder value, management has chosen to evade the critical issues facing VAALCO and to defend its failures by launching a campaign rooted in misleading facts and unnecessary scare tactics designed to distract stockholders from the Company's poor performance.

Nanes Delorme Partners I LP is a limited partnership that was formed in January 2008 for the purpose of investing primarily in publicly traded securities of oil and gas companies. We have no "secret partners" as the Board misleadingly suggests. In addition to VAALCO, Nanes Delorme Partners holds significant positions in several other publicly listed companies. Do not be fooled by the Board's scare tactics – if elected we will be a MINORITY of the Board and our goal is to work with the remaining members of the Board to increase value for all stockholders.

**DO NOT BE MISLED BY THE COMPANY'S DESPERATE EFFORTS TO DISTRACT YOU FROM THE REAL  
ISSUES**

We are also extremely disappointed that the incumbent directors -- most of whom own little to no stock in the Company -- have displayed a clear lack of interest in improving the Company's strategic direction, operating performance and corporate governance and have shown an overall lack of commitment to enhancing stockholder value. As VAALCO's largest stockholder, we have made every effort to work constructively with current management, but we now believe that change at the Board level is necessary.

**NANES DELORME PARTNERS' MINORITY SLATE IS THE  
RIGHT CHOICE FOR CHANGE – LET'S PUT AN END TO THE STATUS QUO**

We believe the current Board will say and do just about anything to entrench its members, protect its own interests and ignore the concerns of stockholders. Consider the following:

- The Board offered Julien Balkany, one of our nominees, a board seat in the hope of convincing us to abandon our solicitation. On April 21, a mere three days before it filed its proxy materials, the Company presented us with an unsolicited settlement agreement offering to appoint Julien Balkany to the Board.

After Nanes DeLorme Partners rejected the settlement offer, the Board immediately filed false and misleading proxy material and has been critical of Mr. Balkany. In fact, on May 8, 2008, the Company sent a letter to stockholders outlining certain concerns with us and with Mr. Balkany in particular. What changed in the two weeks since the Board offered to appoint Mr. Balkany as a director? Why is management disparaging a nominee that, a short while ago, it was all too eager to appoint to the Board if we would abandon our proxy fight in return? We are confident that stockholders who have suffered through VAALCO's consistent poor performance will see through this desperate ploy.

- The Company claims that no “bona fide” offers to provide stockholders with “full and fair value” have been received. We call on the Company to truthfully disclose whether it has been approached by third parties regarding a corporate transaction or received any proposals within the last 12 months.

Stockholders should determine whether an offer is fair and in their best interests, not a self-serving Board whose members keep their jobs by rejecting all offers.

- The Board claims to act in stockholders best interests, but with a poison pill, a classified Board, supermajority voting provisions and provisions permitting directors to only be removed from office for cause, who are these provisions in place to protect?

We wonder, what purposes do these provisions serve, other to ensure the entrenchment of the Board and block legitimate corporate action?

#### THIS BOARD WANTS IMMUNITY – NOT ACCOUNTABILITY!

This is a Board that will seemingly say and do anything to remain entrenched in office, even if its actions come at the expense of stockholders' best interests. Other than to distract stockholders from its own failures, why else would the Board and management choose to waste its time and effort delivering letters to stockholders describing people and events that have little to nothing to do with us, our Nominees, or more importantly, the Company's poor performance under this Board and management!

#### VAALCO'S DISMAL PERFORMANCE NUMBERS TELL THE TRUE STORY

The Board presents itself over the last six month, one, three and five year periods as a “consistent outperformer” of both its peer group and the S&P 500 Index. We believe this statement to be blatantly misleading. What about oil prices? What about the S&P 500 Oil & Gas E&P Index? The truth is, VAALCO has significantly underperformed all the relevant benchmarks.

Until Nanes Delorme Partners' public involvement in March of this year, VAALCO's stock performance was extremely disappointing. In fact,

- In the one year period ending on March 11, the date we went public with our concerns, VAALCO's stock was down 7% while the S&P 500 Oil and Gas Exploration and Production Index was up 62%.
-

- In the eighteen month period ending on March 11, VAALCO's stock was down 32% while the S&P 500 Oil and Gas Exploration and Production Index was up 70%.
- In the two year period ending on March 11, VAALCO's stock was down 22% while the S&P 500 Oil and Gas Exploration and Production Index was up 74%.

\* All data through market close on March 11, 2008. Source: Capital IQ

Since March 11, the date our investment and interest in VAALCO was first publicly announced, VAALCO's stock is up approximately 44%. Also since March 11, the Company has made three public announcements, (i) on March 13th to release its year end earnings for 2007 which are down more than 50% compared to its net earnings in 2006; (ii) on May 8th to offer stockholders a collection of scattered, unsubstantiated points and unwarranted attacks on us; and (iii) on May 9th to announce that the Company missed 1Q08 earnings by 17 cents, which represent a decrease of approximately 60% compared to its net earnings in 2007. We believe the increase is clearly not based on Company developments, but rather on the strong hope by stockholders that new board members will work to cause immediate and substantial changes in the Company.

VAALCO claims that we have attempted to use "complicated formulas and analyses to imply that the Company's stock price and EBITDA have underperformed;" and instead suggests that the Company is one whose growth should be measured through the drill bit.

In fact, according to management, over the last 18 months, "your Board and management team have laid the foundation necessary for significant increases in reserves and production." However, it seems to us that no complex formulas or analyses are needed to see that during the past 18 months prior to our involvement, despite strong conditions in the oil and gas business, VAALCO's stock was down an astonishing 32%.

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VAALCO'S 1Q 2008 REINFORCES THE FACT THAT CHANGE IS NECESSARY –  
THE COMPANY MISSED ITS NET EARNINGS PER SHARE BY 17 CENTS

VAALCO claims that it is exceptionally well-positioned for continued growth and success, yet first quarter results show that net income decreased from \$4.6 million or 8 cents per share, on revenue of \$29.1 million in first quarter 2007 to \$1.8 million, or 3 cents per share, on revenue of \$42.2 million in first quarter 2008, a decrease of approximately 60%. In an era where the price of oil has reached record levels, and where the Company sold its production for a 65% higher price, we are very frustrated by a nearly 60% decline in net income.

In light of such failure, how can the Board and management claim with a straight face that they have a pattern of delivering consistent growth in revenues, cash flows and earnings? Once again, the Board and management have demonstrated that they are willing to say anything regardless of the underlying facts.

In the 1Q08 earnings call, the Chairman and CEO of Vaalco noted: “our earnings per share fell a little short of what we had hoped for” and blamed the results on “high tax.” The excuses offered by management are never ending. What counts is performance.

MAYBE THIS EXPLAINS WHY SO MANY OF THE INCUMBENT BOARD MEMBERS CHOOSE NOT TO  
INVEST IN VAALCO SHARES

Why should stockholders believe management's pronouncements that the Company is in good hands when W. Russell Scheirman, the President and CFO since 1992, owns only 694 shares, and in the past two years has exercised options to acquire a total of approximately 530,000 shares over 18 separate occasions, and has sold each share purchased, keeping not one share?

How can stockholders trust that the Board's and management's interests are aligned with stockholders when five of the seven incumbent directors actually own 1,000 or fewer shares each? Where is the Board's faith in the Company if three incumbent directors actually own no shares?

AS THE COMPANY'S LARGEST STOCKHOLDER, OUR GOALS ARE COMPLETELY ALIGNED WITH  
YOURS – TO CREATE VALUE FOR ALL STOCKHOLDERS

As the Company's largest stockholder, our interests are clearly aligned with yours in our efforts to elect a minority slate to the VAALCO Board. Our three nominees are all highly successful business people with deep expertise and knowledge of the oil and gas industry who are committed to oversee an effort to maximize stockholder value. We do not intend to acquire the Company. If elected, our nominees will work diligently with management and the remaining members of the Board to:

- Create an independent special committee, assisted by a top tier investment bank, to evaluate and explore all strategic alternatives for maximizing stockholder value, including, but not be limited to, core asset divestments, alternative listings, mergers and/or the sale of the entire Company.
- Discontinue further expansion in the North Sea Region and refocus VAALCO's efforts and resources on the Company's core assets in Gabon and Angola;
- Take all the appropriate measures to reduce the Company's administrative costs and close the Company's office in Aberdeen (UK);

- Improve the Company's corporate governance by redeeming the Shareholders Rights Plan, eliminating VAALCO's anti-takeover provisions, declassifying the staggered board and separating the role of Chairman and CEO;
- Commence a process to identify and appoint a qualified Chief Operating Officer to strengthen management; and
- Tie management compensation more directly to the creation of stockholder value and hold management and the Board more accountable for the Company's performance.

If elected, our nominees will represent a minority of the VAALCO Board and cannot, by themselves, force the implementation of any one strategic alternative.

**WE BELIEVE THE STATUS QUO IS ERODING STOCKHOLDER VALUE**

**SEND THE MESSAGE THAT YOU ARE UNWILLING TO LET YOUR INVESTMENT SUFFERS FROM  
IRRESPONSIBLE OVERSIGHT**

We urge to you sign, date and return the enclosed GOLD proxy card today. Even if you have already voted for the Company's slate, you have every right to change your mind. Simply sign and date the GOLD proxy card, - only the latest dated proxy card you return will be counted.

Your vote is very important, regardless of how many shares you own. If you have any questions or need assistance in filling out your GOLD proxy card, please call our proxy solicitors, Mackenzie Partners, Inc., toll free at (800) 322-2885.

We thank you for your consideration and look forward to the responsibility of maximizing value for all VAALCO stockholders.

Sincerely,

/s/ Julien Balkany

Julien Balkany  
Nanes Delorme Partners I LP

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New York, New York 10016  
(212) 929-5500 (Call Collect)  
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NANES DELORME PARTNERS I LP ADVISES ALL STOCKHOLDERS OF VAALCO TO READ ITS PROXY STATEMENT, PROXY CARD AND OTHER PROXY MATERIALS AVAILABLE AT NO CHARGE ON THE SEC'S WEB SITE AT [HTTP://WWW.SEC.GOV](http://WWW.SEC.GOV), BECAUSE THEY CONTAIN IMPORTANT INFORMATION. IN ADDITION, NANES DELORME PARTNERS I LP AND THE PARTICIPANTS IN THE PROXY SOLICITATION WILL PROVIDE COPIES OF THE PROXY STATEMENT WITHOUT CHARGE UPON REQUEST. REQUESTS FOR COPIES SHOULD BE DIRECTED TO THE PARTICIPANTS' PROXY SOLICITOR, MACKENZIE PARTNERS, INC., AT ITS TOLL-FREE NUMBER: (800) 322-2885.

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