

Rosetta Resources Inc.  
Form DEF 14A  
March 30, 2007

---

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**SCHEDULE 14A**

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

Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

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

**Rosetta Resources Inc.**

---

**(Name of Registrant as Specified In Its Charter)**

---

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

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

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

Edgar Filing: Rosetta Resources Inc. - Form DEF 14A

- 2) Aggregate number of securities to which transaction applies:
- 3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
- 4) Proposed maximum aggregate value of transaction:
- 5) Total fee paid:

Fee paid previously with preliminary materials.

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

- 1) Amount Previously Paid:
- 2) Form, Schedule or Registration Statement No.:
- 3) Filing Party:
- 4) Date Filed:

---

---

---

ROSETTA RESOURCES INC.

717 Texas, Suite 2800  
Houston, Texas 77002

March 30, 2007

Dear Rosetta Stockholder:

I am pleased to invite you to Rosetta's Annual Meeting of Stockholders. The Annual Meeting will be held at the Magnolia Hotel (1100 Texas Avenue, Houston, Texas 77002) on Tuesday, May 15, 2007, at 10:00 a.m., local Houston time. If you cannot be present at the Annual Meeting, I ask that you participate by completing the enclosed proxy and returning it at the earliest convenience.

At the Annual Meeting, you and the other stockholders will elect six directors to Rosetta's Board of Directors as described in the accompanying Proxy Statement. You will also have the opportunity to hear what has happened in our Company in the past year and to ask questions. The past year was the first full year as a stand-alone company. Everyone here at Rosetta has worked extremely hard to build a foundation for a great company. We are excited about Rosetta's future and appreciate the support as a stockholder.

I encourage you to read the enclosed Notice of Annual Meeting and Proxy Statement, which contains information about the Board of Directors and its committees and personal information about each of the nominees for the Board.

We hope you can join us on May 15, 2007. Whether or not you can attend personally, it is important that the shares are represented at the Meeting. Please **mark** the votes on the enclosed proxy card, **sign and date** the proxy card, and **return** it to us in the enclosed envelope by May 11, 2007. The vote is important, so please return the proxy promptly.

Sincerely,

B.A. (Bill) Berilgen  
*Chairman of the Board, President and  
Chief Executive Officer*

---

ROSETTA RESOURCES INC.  
717 Texas, Suite 2800  
Houston, TX 77002

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS  
To Be Held on Tuesday, May 15, 2007

To the Stockholders of  
Rosetta Resources Inc.:

The Annual Meeting of Stockholders of Rosetta Resources Inc., a Delaware corporation (the "Company"), will be held on Tuesday, May 15, 2007 at 10:00 a.m., local Houston Time, at the Magnolia Hotel (1100 Texas Avenue, Houston, Texas 77002), for the following purposes:

1. To elect the members of the Board of Directors of the Company to serve until the next Annual Meeting of the Company's stockholders; and
2. To transact such other business as may properly come before the meeting and any adjournment or postponement thereof.

The Board of Directors has fixed the close of business on March 26, 2007 as the record date for the determination of stockholders entitled to notice of, and to vote at, the meeting and any adjournment or postponement thereof. Only stockholders of record at the close of business on the record date are entitled to notice of, and to vote at, the meeting. A complete list of the stockholders will be available for examination at the offices of the Company at 717 Texas Avenue, Suite 2800, Houston, Texas 77002 during ordinary business hours for a period of 10 days prior to the meeting.

A record of the Company's activities during 2006 and its financial statements for the fiscal year ended December 31, 2006 are contained in the Company's 2006 Annual Report on Form 10-K. The Annual Report does not form any part of the material for solicitation of proxies.

All stockholders are cordially invited to attend the meeting. **Stockholders are urged, whether or not they plan to attend the meeting, to complete, date and sign the accompanying proxy card and to return it promptly in the postage-paid return envelope provided.** If a stockholder who has returned a proxy attends the meeting in person, the stockholder may revoke the proxy and vote in person on all matters submitted at the meeting.

By Order of the Board of Directors of  
ROSETTA RESOURCES INC.

Michael J. Rosinski  
*Executive Vice President, Chief Financial Officer,  
Treasurer and Secretary*

Houston, Texas  
March 30, 2007



## TABLE OF CONTENTS

	Page
GENERAL INFORMATION	iv
INTRODUCTION	1
Voting Procedures and Tabulation	1
CORPORATE GOVERNANCE AND COMMITTEES OF THE BOARD	2
Board of Directors	2
Committees of the Board	2
Corporate Governance Guidelines and Code of Ethics	3
Responsibility of the Nominating and Corporate Governance Committee	4
VOTING SECURITIES	5
SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS	6
PROPOSAL I - ELECTION OF DIRECTORS	7
Company Nominees for Director	7
Stockholder Recommended Directors	8
INFORMATION CONCERNING THE BOARD OF DIRECTORS	8
Compensation of Directors	8
Compensation Committee Interlocks and Insider Participation	9
SECURITY OWNERSHIP OF DIRECTORS AND EXECUTIVE OFFICERS	10
Executive Officers Who are Not Directors	11
COMPENSATION DISCUSSION AND ANALYSIS	14
Overview of Compensation Philosophy	14
The Compensation Process	14
Elements of Executive Compensation	15
Tax Considerations	18



Severance Benefits	18
Change-in-Control Benefits	19
Executive and Director Compensation Tables	21
Summary Compensation Table	21
Grants of Plan-Based Awards Table	22
Outstanding Equity Awards as of December 31, 2006 Table	23
Options Exercised and Stock Vested Table	24
Director Compensation Table	24
REPORT OF THE COMPENSATION COMMITTEE	25
AMENDMENT TO THE 2005 LONG-TERM INCENTIVE PLAN	26
SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS	26
SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE	28
CERTAIN TRANSACTIONS	28
REPORT OF THE AUDIT COMMITTEE	29
Review and Discussion	29
Fees Paid to PricewaterhouseCooper LLP	29
Audit Committee Pre-Approval Policies and Procedures	30
Engagement	30
OTHER BUSINESS	31
STOCKHOLDER PROPOSALS AND OTHER MATTERS	31
ADDITIONAL INFORMATION	31



Annual Report	31
Stockholder Communications with the Board of Directors	31
Number of Proxy Statements and Annual Reports	31
APPENDIX	A
Appendix A	A-1
Appendix B	B-1

GENERAL INFORMATION

**Q: Who is soliciting my proxy?**

A: We, the Board of Directors of Rosetta Resources Inc., are sending you this Proxy Statement in connection with the solicitation of proxies for use at Rosetta's 2007 Annual Meeting of Stockholders. Certain directors, officers and employees of Rosetta or American Stock Transfer & Trust Company ("AST") may also solicit proxies on the behalf by mail, phone, fax or in person.

**Q: Who is paying for this solicitation?**

A: Rosetta will pay for the solicitation of proxies, including the cost of preparing and mailing this Proxy Statement. Rosetta will also reimburse banks, brokers, custodians, nominees, and fiduciaries for their reasonable charges and expenses to forward the proxy materials to the beneficial owners of Rosetta stock. No additional fee beyond the \$2,500 monthly fee paid to AST to act as Rosetta's transfer agent, together with AST's out-of-pocket expenses, will be paid to AST.

**Q: What am I voting on?**

A: The election of B.A. Berilgen, Richard W. Beckler, Donald D. Patteson, Jr., D. Henry Houston, G. Louis Graziadio, III and Josiah O. Low III to the Board of Directors.

**Q: Who can vote?**

A: Stockholders as of the close of business on March 26, 2007 are entitled to vote at the Annual Meeting.

**Q: How do I vote?**

A: You may vote the shares either in person or by proxy. To vote by proxy, you should mark, date, sign, and mail the enclosed proxy card in the prepaid envelope. Giving a proxy will not affect the right to vote the shares if you attend the Annual Meeting and want to vote in person - by voting in person you automatically revoke the proxy. You also may revoke the proxy at any time before the meeting by giving the Secretary written notice of the revocation or by submitting a later-dated proxy. If you return the proxy card but do not mark the voting preference, the individuals named as proxies will vote the shares FOR the election of the nominees for director.

**Q: How does the Board recommend I vote on the proposals?**

A: The Board recommends a vote FOR each of the director nominees.

**Q: Is my vote confidential?**

A: Proxy cards, ballots and voting tabulations that identify individual stockholders are mailed or returned directly to Rosetta and handled in a manner intended to protect the voting privacy. The vote will not be disclosed except: (1) as needed to permit Rosetta to tabulate and certify the vote; (2) as required by law; or (3) in limited circumstances, such as a proxy contest in opposition to the Board (which is not currently anticipated). Additionally, all comments written on the proxy card or elsewhere will be forwarded to management, but the identity will be kept confidential unless you ask that the name be disclosed.

**Q: How many shares can vote?**

A: As of the record date, March 26, 2007, Rosetta had outstanding 50,848,523 shares of common stock. Each share of common stock is entitled to one (1) vote. Each Rosetta Employee's share of restricted common stock is entitled to one vote, regardless of any outstanding vesting period.

**Q: What happens if I withhold my vote for an individual director?**

A: Because the individual directors are elected by a plurality of the votes cast at the meeting, a withheld vote will not have an effect on the outcome of the election of an individual director.

**Q: Can I vote on other matters?**

A: We do not expect any other matter to come before the meeting. We did not receive any stockholder proposals by the date requested. If any other matter is presented at the Annual Meeting, the signed proxy gives the individuals named as proxies authority to vote the shares on such matters at their discretion.

-iv-

---

**ROSETTA RESOURCES INC.**  
**717 Texas, Suite 2800**  
**Houston, TX 77002**

**PROXY STATEMENT**

**For Annual Meeting of Stockholders**  
**To Be Held on May 15, 2007**

**INTRODUCTION**

The accompanying proxy, mailed together with this Proxy Statement, is solicited by and on behalf of the Board of Directors (the "Board of Directors" or the "Board") of Rosetta Resources Inc., a Delaware corporation (the "Company" or "Rosetta"), for use at the Annual Meeting of Stockholders of the Company to be held at 10:00 a.m., local Houston time on Tuesday, May 15, 2007, at the Magnolia Hotel (1100 Texas Avenue, Houston, Texas 77002), and at any adjournment or postponement thereof. The approximate date on which this Proxy Statement and the accompanying proxy will first be mailed to stockholders of the Company is March 30, 2007.

Shares represented by valid proxies will be voted at the meeting in accordance with the directions given. If no directions are given, the shares will be voted in accordance with the recommendations of the Board of Directors unless otherwise indicated. Any stockholder of the Company returning a proxy has the right to revoke the proxy at any time before it is voted by communicating the revocation in writing to Michael J. Rosinski, Secretary, Rosetta Resources Inc., 717 Texas, Suite 2800, Houston, Texas 77002, or by executing and delivering a proxy bearing a later date. No revocation by written notice or by delivery of another proxy shall be effective until the notice of revocation or other proxy, as the case may be, has been received by the Company at or prior to the meeting.

Only stockholders of record of the Company's common stock at the close of business on March 26, 2007, the record date for the meeting, are entitled to notice of and to vote at the meeting. On that date, Rosetta had outstanding 50,848,523 shares of common stock, each of which is entitled to one vote.

**Voting Procedures and Tabulation**

Stockholders of record of common stock of the Company may vote by signing, dating, and returning the proxy card in the accompanying postage-paid envelope. Stockholders whose shares of common stock of the Company are held in the name of a bank, broker or other holder of record (that is, "street name") will receive separate instructions from such holder of record regarding the voting of proxies.

Rosetta will appoint one or more inspectors of election to act at the meeting and to make a written report thereof. Prior to the meeting, the inspectors will sign an oath to perform their duties in an impartial manner and according to the best of their ability. The inspectors will ascertain the number of shares outstanding and the voting power of each, determine the shares represented at the meeting and the validity of proxies and ballots, count all votes and ballots, and perform certain other duties as required by law.

The inspectors will tabulate the number of votes cast for, or withheld from, each matter submitted at

the meeting for a stockholder vote. Votes that are withheld will be excluded entirely from the vote and will have no effect. Under the NASDAQ Marketplace Rules, brokers who hold shares in street name have the discretionary authority to vote on certain “routine” items when they have not received instructions from beneficial owners. For purposes of the 2007 Annual Meeting, routine items include the election of directors. In instances where brokers are prohibited from exercising discretionary authority and no instructions are received from beneficial owners with respect to such item (so-called “broker non-votes”), the shares they hold will not be considered part of the voting power present and, therefore, will have no effect on the vote.

## **CORPORATE GOVERNANCE AND COMMITTEES OF THE BOARD**

### **Board of Directors**

The Board of Directors currently consists of six directors. Four of the six Board members (all members other than Messrs. B.A. Berilgen and G. Louis Graziadio, III) meet the independence criteria under the Securities and Exchange Commission (“SEC”) rules and under the NASDAQ Marketplace Rules. The Board will continue to evaluate possible candidates to increase the size of the Board. Each of the Board members serves a one-year term or until such Board member’s successor is duly elected to serve on the Board.

In addition, the bylaws provide that the authorized number of directors, which shall constitute the whole Board of Directors, may be changed by resolution duly adopted by the Board of Directors. Any vacancies and additional directorships resulting from an increase may be filled by the affirmative vote of a majority of the directors then in office, even though less than a quorum.

G. Louis Graziadio, III was appointed to the Board effective May 15, 2006. Josiah O. Low III was appointed to the Board effective December 14, 2006.

During 2006, the Board met seven times and acted by unanimous written consent six times. Each of the directors attended all of the meetings of the Board, either in person or by telephone. Each director attended at least 75% of the meetings of the Board of Directors and its committees of which such director was a member during the past fiscal year.

### **Committees of the Board**

The Board of Directors has established three committees: the Audit Committee, the Compensation Committee, and the Nominating and Corporate Governance Committee. Although we are not required to have a separate Compensation Committee, we have determined that it is in the best interests of the Company to maintain an independent Compensation Committee.

Messrs. Richard W. Beckler, Donald D. Patteson, Jr., and D. Henry Houston serve on the Audit Committee, all of whom are “independent” under the listing standards of The NASDAQ Stock Market LLC and SEC rules. Mr. Houston, Chairman of the Audit Committee, is an “Audit Committee financial expert,” as defined under the rules of the SEC. The Audit Committee recommends to the Board of Directors the independent registered public accounting firm to audit the financial statements and oversees the annual audit. The Audit Committee also approves any other services provided by public accounting firms. The Audit Committee provides assistance to the Board of Directors in fulfilling its oversight responsibility to the stockholders, the investment community and others relating to the integrity of the financial statements, the compliance with legal and regulatory requirements, the independent registered public accounting firm’s qualifications and independence, and the performance of the internal audit function. The Audit Committee oversees the system of disclosure controls and procedures and system of internal controls regarding financial, accounting, legal compliance and ethics that Management and the Board of Directors have established. In doing so, it will be the

responsibility of the Audit Committee to maintain free and open communication between the Audit Committee and the independent registered public accounting firm, the internal accounting function and Management of the Company. Additionally, the Audit Committee will provide oversight to the process of determining the estimated reserves and will utilize independently engaged experts as necessary.

-2-

---

The Audit Committee met nine times during 2006. Each member of the Audit Committee was present at all meetings, either in person or by telephone. See the report of the Audit Committee in this Proxy Statement. A copy of the Audit Committee's adopted charter is posted on our website at [www.rosettaresources.com](http://www.rosettaresources.com), and may also be obtained by written request to the attention of the Secretary of the Company at 717 Texas Avenue, Suite 2800, Houston, Texas 77002.

Messrs. Beckler, Patteson, and Houston serve on the Compensation Committee of the Board. The Chairman is Mr. Patteson. The Compensation Committee reviews the compensation and benefits of the executive officers, establishes and reviews general policies related to the compensation and benefits and administers the 2005 Long-Term Incentive Plan, as amended. Under the Compensation Committee charter, the Compensation Committee will determine the compensation of the Chief Executive Officer ("CEO"). The Compensation Committee met three times and acted by unanimous written consent two times during 2006. Each member of the Compensation Committee was present, either in person or by telephone, at all meetings. In 2006, the Compensation Committee's charter was amended to clarify its roles with regard to the approval of executive compensation matters, and a copy of the amended charter is attached as Appendix A. Also, a copy of the amended charter is posted on our website at [www.rosettaresources.com](http://www.rosettaresources.com), and may also be obtained by written request to the attention of the Secretary of the Company at 717 Texas, Suite 2800, Houston, Texas 77002.

Messrs. Beckler, Houston and Patteson, all of whom are "independent" under the listing standards of The NASDAQ Stock Market LLC and SEC rules, serve on the Nominating and Corporate Governance Committee of the Board of Directors. The Chairman is Mr. Beckler. The Nominating and Corporate Governance Committee assists the Board of Directors by identifying individuals qualified to become members of the Board of Directors, consistent with its approved criteria, recommending director nominees for election at the Annual Meeting of Stockholders or for appointment to fill vacancies, and advising the Board of Directors about the appropriate composition of the Board of Directors and its committees. The Committee also develops and recommends to the Board of Directors corporate governance principles and practices and assists in its implementing them. The Nominating and Corporate Governance Committee is to conduct a regular review of the corporate governance principles and practices and to recommend to the Board of Directors any additions, amendments or other changes. The Nominating and Corporate Governance Committee is to evaluate and make an annual report concerning the performance of the Board of Directors, the Nominating and Corporate Governance Committee's performance and the Management's performance with respect to corporate governance matters. The Nominating and Corporate Governance Committee was established effective on December 29, 2005. The Nominating and Corporate Governance Committee met three times and acted by unanimous written consent once in 2006. A copy of the Nominating and Corporate Governance Committee's adopted charter is posted on our website at [www.rosettaresources.com](http://www.rosettaresources.com), and may also be obtained by written request to the attention of the Secretary of the Company at 717 Texas Avenue, Suite 2800, Houston, Texas 77002.

#### **Corporate Governance Guidelines and Code of Ethics.**

We are committed to integrity, reliability and transparency in the disclosures to the public. On August 1, 2005, the Board of Directors adopted Guidelines for Publicity and Public Affairs Activities. On August 1, 2005, the Board of Directors also adopted a Code of Business Conduct and Ethics. Additionally, on September 27, 2005, the Board of Directors adopted the following as a part of the corporate governance: a Mission Statement and Values; a Code of Business Conduct and Ethics; Environmental, Health and Safety Mission Statement, Policy and Process. All of the foregoing are available on our website at [www.rosettaresources.com](http://www.rosettaresources.com) along with the committee charters. These documents will also be available in print to any stockholder requesting a copy in writing from the corporate secretary at the executive offices set forth in this Proxy Statement.

**Director Independence.** The standards applied by the Board of Directors in affirmatively determining whether a director is "independent" in compliance with the listing standards of the NASDAQ generally provide that a director is not independent if: (a) the director is, or in the past three years has been, an employee of Rosetta or any of its

subsidiaries; (b) a member of the director's immediate family is, or in

-3-

---



the past three years has been, an executive officer of Rosetta or any of its subsidiaries; (c) the director or a member of the director's immediate family has received more than \$100,000 per year in direct compensation from Rosetta or any of its subsidiaries other than for service as a director (or for a family member, as a non-executive employee); (d) the director or a member of the director's immediate family is, or in the past three years has been, employed in a professional capacity by PricewaterhouseCoopers LLP, the Company's independent registered public accounting firm, or has worked for such firm in any capacity on Rosetta's audit; (e) the director or a member of the director's immediate family is, or in the past three years has been, employed as an executive officer of a company where a Rosetta executive officer serves on the Compensation Committee; or (f) the director or a member of the director's immediate family is an executive officer of a company that makes payments to, or receives payments from, Rosetta or any of its subsidiaries in an amount which, in any twelve-month period during the past three years, exceeds the greater of \$200,000 or five percent of the consolidated gross revenues of the company receiving the payment.

The Board of Directors, applying the standards referenced above, affirmatively determined that four of its members, Messrs. Beckler, Patteson, Houston, and Low, constituting a majority of the Board, are independent for Board membership purposes. The Board of Directors also determined that all members of the Audit Committee, Compensation Committee, and Corporate Governance and Nominating Committee are independent.

**Independent Directors.** At various times in 2006, the non-management independent directors met outside of the presence of the one non-management director who does not satisfy the NASDAQ and SEC independence criteria, the one management director, and other members of the management team. The Audit Committee meets with the registered public accountant, and then without anyone else present.

**Executive Sessions.** In 2006, the non-management directors met once in executive session, outside of the presence of management directors or other members of management.

**Board Composition.** The Nominating and Corporate Governance Committee is responsible for reviewing the requisite skills and characteristics of new Board members as well as the composition of the Board as a whole. Two nominees for directorship, Messrs. Graziadio and Low, were identified by the Committee in 2006, in accordance with the policies and principles in its charter, and this committee oversaw completion of appropriate due diligence. The Committee believes that the minimum qualifications for serving as a director are that a nominee demonstrate an ability to make a meaningful contribution to the Board's oversight of the business and affairs and have a reputation for ethical conduct. Nominees for director will include individuals who, taking into account their diversity, skills, and experience in the context of the needs of the Board, as well as other relevant factors such as conflicts of interest and other commitments, would enhance the Board's ability to manage and direct the affairs and business. We have not established term limits as we do not wish to risk losing the contribution of directors who will be able to develop, over a period of time, increasing insight into the business and operations.

The Committee identifies candidates by asking the current directors and executive officers to notify the Committee if they become aware of individuals who meet the criteria described above. The Committee has the sole authority to engage firms that specialize in identifying director candidates, although we have not heretofore engaged such a firm. The Committee will also consider candidates recommended by stockholders. After the Committee has identified a potential candidate, it collects and reviews available information regarding the individual, and if the Committee determines that the candidate warrants further consideration, the Committee Chairman or another Committee member will contact the person. Generally, if the individual expresses a willingness to be considered for election to the Board, the Committee will request information from the candidate, review the individual's qualifications, engage a third party to conduct a background investigation, and conduct one or more interviews with the candidate. When the Committee has completed this process, it tenders its recommendation to the full Board for consideration.

**Responsibility of Nominating and Corporate Governance Committee.**

The Nominating and Corporate Governance Committee shall prepare and recommend to the Board

-4-

---

for adoption appropriate corporate governance principles and practices. Each year, this Committee shall:

- § Review the advisability or need for any changes in the number and composition of the Board;
- § Review the advisability or need for any changes in the number, charters, titles of, or composition of the committees of the Board;
- § Recommend to the Board the composition of each committee of the Board and the individual director to serve as chairman of each committee;
- § Require each chairman of each committee to report to the Board about the committee's annual evaluation of its performance and evaluation of its charter;
- § Receive comments from all directors and report to the Board with an assessment of the Board's performance, to be discussed with the full Board following the end of each fiscal year;
- § Develop, review and reassess the adequacy of the Company's corporate governance principles and practices and recommend any proposed changes to the Board for its approval;
- § Make a report to the Board on succession planning and work with the Board to evaluate potential successors to the CEO; and
- § Reevaluate the performance of the Nominating and Corporate Governance Committee and make a report to the full Board.

**Board's Interaction with Stockholders.** The CEO and other corporate officers are responsible for establishing effective communications with the stockholders. It is the policy that management speaks for the Company. This policy does not preclude independent directors from meeting with stockholders, but where appropriate, management should be present at such meetings. Stockholders may submit communications to directors by writing to the corporate secretary at the executive offices set forth in this Proxy Statement under "Stockholder Communications with the Board of Directors".

**Business Conduct and Ethics.** The Code of Business Conduct and Ethics requires all of the directors, officers and employees to adhere to certain basic principles to uphold the mission to maximize value creation through excellence and innovative leadership. The Code requires them to comply with the law, avoid conflicts of interest, compete fairly and honestly, maintain a safe and healthy work environment, and preserve company assets. The guiding values are honesty, integrity and quality in all that we do. We do not presently believe that there would be any occasion requiring any changes in or waivers under the Code, but in the event of exceptional circumstances in which such a change or waiver becomes necessary, it would require Board approval and, where appropriate, prompt public disclosure. This includes specific compliance procedures and a mechanism for reporting violations to a supervisor, the manager of the Internal Audit Department, or to the General Counsel. We have established an "ethics hotline" for employees to use and a procedure for maintaining secrecy of names with respect to an employee reporting a violation of the Code of Business Conduct and Ethics. You can access the Code of Business Conduct and Ethics on our website at [www.rosettaresources.com](http://www.rosettaresources.com).

## VOTING SECURITIES

Edgar Filing: Rosetta Resources Inc. - Form DEF 14A

Only holders of record of common stock of the Company, par value \$0.001 per share, at the close of business on March 26, 2007, the record date for the Annual Meeting, are entitled to notice of, and to vote at, the meeting. A majority of the shares of common stock entitled to vote, present in person or represented by proxy, is necessary to constitute a quorum. Abstentions and broker non-votes on filed proxies and ballots are counted as present for establishing a quorum. On the record date for the Annual Meeting, there were issued and outstanding 50,848,523 shares of common stock. Each share of common stock is entitled to one vote.

-5-

---

**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS**

The following tabulation sets forth as of March 26, 2007 information with respect to the only persons who were known to the Company to be beneficial owners of more than five percent of the outstanding shares of common stock of the Company. The information below is based on the Company's review of Schedules 13D or 13G on file with the SEC, responses to stockholder questionnaires delivered to the Company in connect with the private offering of common stock completed in July 2005 in conjunction with Rosetta's separation from Calpine, and current records maintained by the Company's transfer agent.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
First Pacific Advisors, LLC 11400 West Olympic Blvd., Suite 1200 Los Angeles, California 90064	8,638,900(1)	17.0%
Capital Research and Management Company 5300 Robin Hood Rd. Norfolk, Virginia 23513-2407	4,500,000(2)	8.9%
Caisse De Depot Et Placement Du Quebec 1000 Place Jean-Paul-Riopelle Montreal, Quebec Canada H2Z 2B3	3,125,000	6.2%
U.S. Trust Excelsior Value and Restructuring Fund 499 Washington Blvd., 7 <sup>th</sup> Floor Jersey City, New Jersey 07310-1995	2,750,000	5.4%

(1) First Pacific Advisors, LLC may be deemed to share voting and dispositive control over the shares of common stock owned by AR Inc. Master Retirement Trust (104,500 shares), Detroit Diesel Employee Pension (72,000 shares), Goldman Sachs GMS Funds LLC (559,300 shares), Lannan Foundation (177,500 shares), Masters Select Smaller Companies Fund (179,900 shares), Pennsylvania Public School Employee Retirement Fund (1,222,400 shares), Rensselaer Polytechnic Institute (75,700 shares), Southern Farm Bureau Life Insurance Company (1,016,400 shares), FPA Capital Fund, Inc. (4,455,800 shares) and General Electric Pension Trust (588,900 shares).

(2) Capital Research and Management Company may be deemed to share voting and dispositive control over the shares of common stock owned by the American Funds Insurance Series, Asset Allocation Fund (2,520,000 shares) and the American Funds Insurance Series, Growth Fund (1,980,000 shares).

## PROPOSAL I

### ELECTION OF DIRECTORS

As of the date of this Proxy Statement, the Company's Board of Directors consists of six directors, four of whom are independent. Information regarding the business experience of each nominee is provided below. All directors are elected annually to serve until the next Annual Meeting and until successors are elected. You are being asked to elect six members to the Board of Directors.

Directors are elected by plurality vote of the shares present at the Annual Meeting, meaning that the director nominee with the most affirmative votes for a particular slot is elected for that slot. The proxyholders will vote in favor of the six persons listed below unless contrary instructions are given.

If you sign the proxy card but do not give instructions with respect to the voting of directors, the shares will be voted for the six persons recommended by the Board of Directors. If you wish to give specific instructions with respect to the voting of directors, you must do so with respect to the slate of six persons who will be voted upon at the Annual Meeting prior to the Annual Meeting.

The Board of Directors expects that all of the nominees will be available to serve as directors as indicated. In the event that any nominee should become unavailable, however, the proxyholders will vote for a nominee or nominees who would be designated by the Board of Directors unless the Board of Directors chooses to reduce the number of directors serving on the Board of Directors.

### COMPANY NOMINEES FOR DIRECTOR

**B.A. Berilgen**, age 58, has served as Chairman of the Board, President and Chief Executive Officer of Rosetta Resources Inc. since its formation in June 2005. Prior to joining Rosetta, Mr. Berilgen served as Executive Vice President of Calpine Corporation and as President—Calpine Power Fuels Company from January 2003 to June 2005. Previously he served as Senior Vice President—Natural Gas of Calpine Corporation from October 1999 to January 2003. Additionally, since October 1999, Mr. Berilgen served as Executive Vice President of Rosetta Resources Operating LP (formerly known as Calpine Natural Gas L.P.), then a subsidiary of Calpine and the operator of Calpine's domestic oil and natural gas business. Mr. Berilgen was President and Chief Executive Officer of Sheridan Energy, a publicly traded oil and gas company from 1997 to 1999, when Sheridan was acquired by Calpine. Mr. Berilgen previously worked as Vice President of Operations for Forest Oil and has also held positions with Aminoil, ANR Production Company and Mobil during his 35-year career in exploration and production. He holds a Bachelors degree in Petroleum Engineering and a Masters degree in Industrial Engineering, both from the University of Oklahoma.

**Richard W. Beckler**, age 66, has served as Director of Rosetta Resources Inc. since July 2005. Since 2003, Mr. Beckler has served as a partner in the global litigation group of the law firm of Howrey, Simon, Arnold & White. From 1979 to 2003, he served as a partner for the law firm of Fulbright & Jaworski, and at the end of his tenure was a partner heading the litigation group in Washington, D.C. Mr. Beckler also served as a section chief in the Criminal Fraud Section of the U.S. Department of Justice, and as an assistant district attorney in the Manhattan District Attorney's office.

**Donald D. Patteson, Jr.**, age 61, has served as Director of Rosetta Resources Inc. since July 2005. Mr. Patteson is the founder and Chief Executive Officer of Sovereign Business Forms, Inc. a consolidator in the wholesale manufacturing of custom business forms and related products segment of the printing industry. Prior to founding Sovereign in August 1996, he served as Managing Director of Sovereign Capital Partners, an investment firm specializing in leveraged buyouts. Mr. Patteson also previously served as President and Chief Executive Officer of WBC Holdings, Inc., and

President and Chief Executive Officer of Temple Marine Drilling, Inc./R.C. Chapman Drilling Co., Inc., and President, Chief Executive Officer and Director of Temple Drilling. Mr. Patteson also worked with Atwood Oceanics, Houston Offshore

-7-

---

International, Western Oceanic and Arthur Andersen's management consulting practice earlier in his career.

**D. Henry Houston**, age 67, has served as Director of Rosetta Resources Inc. since July 2005. Since 2002, Mr. Houston has been Executive Vice President, Chief Operating Officer, and Chief Financial Officer of Remote Knowledge, Inc., a publicly owned development stage company offering monitoring and communication services to link owners with remote assets (e.g., oil and gas production facilities). From 1995 to 2002, he served as Executive Vice President and Chief Financial Officer of T.D. Rowe Amusements, a private company operating approximately 25,000 vending and amusement devices. Mr. Houston also previously worked as an oil and gas consultant and served as President of KP Explorations, Inc., Chairman of the Board of Magee Poole Drilling, President of Black Hawk Oil Company, Chief Financial Officer of C&K Petroleum, and Vice President, Chief Financial Officer, and Director Southdown Inc. Earlier in his career, he worked with Price Waterhouse and with Detsco, Inc. Mr. Houston serves on the Board of Directors of Remote Knowledge, Inc.

**G. Louis Graziadio, III**, age 57, has served as a Director of Rosetta Resources Inc. since May of 2006 Stockholders' Meeting. Mr. Graziadio is President and Chief Executive Officer of Second Southern Corp., the managing partner of Ginarra Partners, L.L.C., a closely-held California company involved in a wide range of investments and business ventures including, since 1983, investments in oil and gas. He is also Chairman of the Board and Chief Executive Officer of Boss Holdings, Inc., a distributor of work and hunting gloves, rainwear, rain boots, industrial apparel, pet products, and ad specialty merchandise. Mr. Graziadio is also currently a Director of True Religion Apparel, Inc. and of Acacia Research Corporation. From 1984 through 2000, Mr. Graziadio served as a Director of Imperial Bancorp, parent company of Imperial Bank, a Los Angeles-based commercial bank acquired by Comerica Bank in January, 2001. Mr. Graziadio, and companies with which he is affiliated, are significant stockholders in numerous private and public companies. Since 1978, Mr. Graziadio has been active in restructurings of both private and public companies, as well as corporate spin-offs and IPOs.

**Josiah O. Low III**, age 67, is currently a Venture Partner of Catterton Partners (a Greenwich, Connecticut private equity firm). Prior to Catterton Partners, Mr. Low served as Senior Advisor at Credit Suisse First Boston, and was a Managing Director of Donaldson, Lufkin, and Jenrette ("DLJ"). Preceding his position at DLJ, Mr. Low was a founding Managing Director of Merrill Lynch Capital Markets Group. He has investment banking experience in the oil and gas finance sector throughout the United States including involvement with Mesa Petroleum, Houston Oil & Minerals, Big Three Industries, Centex Oil & Gas, and various drilling funds. Mr. Low is a graduate of Williams College. He serves on the Board of Directors of The CoStar Group (NASDAQ), as well as Audubon Connecticut's Board of Directors and Petroleum Place, a privately owned service company to the oil and gas industry.

### **Stockholder Recommended Directors**

Currently, the Company's Nominating and Corporate Governance Committee does not have a policy to consider nominees for Director that are recommended by stockholders. The Committee intends to consider this policy for 2008 and future years.

**The Board of Directors unanimously recommends a vote FOR the election of each of the Board's nominees.**

## **INFORMATION CONCERNING THE BOARD OF DIRECTORS**

### **Compensation of Directors**



Effective after their election at the Annual Meeting of Stockholders, we pay each of the non-employee directors an annual retainer which is currently set at \$35,000. In addition, the Chairman of the Audit Committee is currently paid an annual retainer of \$15,000, the Chairman of the Compensation Committee is currently paid an annual retainer of \$10,000, and the Chairman of the Nominating and

-8-

---

Corporate Governance Committee is currently paid an annual retainer of \$5,000. Non-employee directors are currently paid an attendance fee of \$1,500 for each Board Meeting attended in person, an attendance fee of \$1,000 for each committee meeting attended in person (except for attendance at meetings of the Audit Committee, for which the director is currently paid \$1,250), and an attendance fee of \$1,000 for each Board or committee meeting attended telephonically. We will reimburse all directors for reasonable expenses incurred while attending Board and committee meetings.

Any non-employee director may elect to receive a grant of shares of the Company's common stock in lieu of the annual retainer fees as a Board member and/or Chairman. The number of shares is determined by dividing the fee amount by the fair market value (the average of the high and low trading price) of the common stock on the day of the Annual Meeting of Stockholders.

Upon joining the Board, each of the non-employee directors received (1) fully vested options to purchase 10,000 shares of the common stock for a ten-year term at an exercise price equal to the fair market value (average of high and low trades) on the date of grant, and (2) a grant of 1,800 shares of restricted stock, with vesting to occur in three installments: 25% one year after the date of grant, an additional 25% two years after grant and the remaining 50% three years after the date of grant. For Messrs. Beckler, Houston and Patteson, those grants were made on August 1, 2005; for Mr. Graziadio, May 15, 2006; and for Mr. Low, December 15, 2006.

In addition, upon each initial election or reelection to the Board at the Annual Meeting of Stockholders, each director receives (a) a fully vested option to purchase 5,000 shares of the common stock for a ten-year term at a price equal to the fair market value on the date of the Annual Meeting of Stockholders, and (b) a grant of 3,500 shares of restricted stock, with vesting to occur in three installments: 25% one year after the date of grant, an additional 25% two years after grant, and the remaining 50% three years after the date of grant. Messrs. Beckler, Graziadio, Houston, and Patteson each received grants as described in this paragraph upon their elections at the 2006 Stockholders' Meeting. If elected at the 2007 Annual Meeting of Stockholders, each reelected director would receive grants as described in this paragraph.

Mr. Berilgen receives no separate compensation for service on the Board of Directors, nor will any other of the officers, if any, who serve as directors in the future receive separate compensation.

#### **Compensation Committee Interlocks and Insider Participation**

At December 31, 2006, the members of the Compensation Committee were Messrs. Beckler, Patteson, and Houston. No member of the Compensation Committee was an officer or employee of the Company at any time during 2006.

During 2006, no executive officer or employee of the Company served as (i) a member of the Compensation Committee (or other Board Committee performing equivalent functions) of another entity, one of whose executive officers served on the Compensation Committee of the Board of Directors; (ii) a director of another entity, one of whose executive officers served on the Compensation Committee of the Board of Directors; or (iii) a member of the Compensation Committee (or other Board Committee performing equivalent functions) of another entity, one of whose executive officers served as a director of the Company.

**SECURITY OWNERSHIP OF DIRECTORS AND EXECUTIVE OFFICERS**

The following tabulation sets forth, as of March 9, 2007, the shares of common stock beneficially owned by each nominee director, each named executive officer listed in the Summary Compensation Table included elsewhere in this Proxy Statement, and all nominee directors and named executive officers as a group.

Name	Common Stock Beneficially Owned(1)	
	Number of Shares	Percent of Class
<b>Director</b>		
B.A. Berilgen	180,861 (2)	*
Richard W. Beckler	22,500 (3)	*
G. Louis Graziadio, III	21,350 (4)	*
D. Henry Houston	23,050 (5)	*
Josiah O. Low III	12,723 (6)	*
Donald D. Patteson, Jr	22,300 (7)	*
<b>Named Executive Officers (excluding any director named above)</b>		
Michael J. Rosinski	67,700 (8)	*
Charles F. Chambers	63,500 (9)	*
Michael H. Hickey	39,521 (10)	*
Edward E. Seeman	45,830 (11)	*
Jackie C. Driskill	28,766 (12)	*
Denise D. Bednorz	24,759 (13)	*
John M. Thibeaux	10,000 (14)	*
All directors and named executive officers as a group (13 persons)	562,860	*

\* Less than one percent.

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

(2) Represents (i) 63,361 shares of unrestricted common stock, (ii) 60,000 restricted shares of common stock, with restrictions to lift on various dates through January 2010, provided that Mr. Berilgen is continuously employed by

the Company or an affiliate until such dates, and (iii) 57,500 shares of

-10-

---

common stock underlying fully vested options.

- (3) Represents (i) 2,650 shares of unrestricted common stock, (ii) 4,850 restricted shares of common stock, with restrictions to lift on various dates through June 2009, provided (generally) that Mr. Beckler continues board service with the Company until such dates, and (iii) 15,000 shares of common stock underlying fully vested options.
- (4) Represents (i) 1,050 shares of unrestricted common stock, (ii) 5,300 restricted shares of common stock, with restrictions to lift on various dates through June 2009, provided (generally) that Mr. Graziadio continues board service with the Company until such dates, and (iii) 15,000 shares of common stock underlying fully vested options.
- (5) Represents (i) 3,200 shares of unrestricted common stock, (ii) 4,850 restricted shares of common stock, with restrictions to lift on various dates through June 2009, provided (generally) that Mr. Houston continues board service with the Company until such dates, and (iii) 15,000 shares of common stock underlying fully vested options.
- (6) Represents (i) 923 shares of unrestricted common stock, (ii) 1,800 restricted shares of common stock, with restrictions to lift on various dates through December 2009, provided (generally) that Mr. Low continues board service with the Company until such dates, and (iii) 10,000 shares of common stock underlying fully vested options.
- (7) Represents (i) 2,450 shares of unrestricted common stock, (ii) 4,850 restricted shares of common stock, with restrictions to lift on various dates through June 2009, provided (generally) that Mr. Patteson continues board service with the Company until such dates, and (iii) 15,000 shares of common stock underlying fully vested options.
- (8) Represents (i) 31,750 shares of unrestricted common stock, (ii) 18,250 restricted shares of common stock, with restrictions to lift on various dates through January 2010, provided that Mr. Rosinski is continuously employed by the Company or an affiliate until such dates, and (iii) 17,700 shares of common stock underlying fully vested options.
- (9) Represents (i) 27,250 shares of unrestricted common stock, (ii) 18,250 restricted shares of common stock, with restrictions to lift on various dates through January 2010, provided that Mr. Chambers is continuously employed by the Company or an affiliate until such dates, and (iii) 18,000 shares of common stock underlying fully vested options.
- (10) Represents (i) 6,458 shares of unrestricted common stock, (ii) 17,750 restricted shares of common stock, with restrictions to lift on various dates through January 2010, provided that Mr. Hickey is continuously employed by the Company or an affiliate until such dates, and (iii) 15,313 shares of common stock underlying fully vested options.
- (11) Represents (i) 17,330 shares of unrestricted common stock, (ii) 10,500 restricted shares of common stock, with restrictions to lift on various dates through January 2010, provided that Mr. Seeman is continuously employed by the Company or an affiliate until such dates, and (iii) 18,000 shares of common stock underlying fully vested options.
- (12) Represents (i) 6,016 shares of unrestricted common stock, (ii) 11,000 restricted shares of common stock, with restrictions to lift on various dates through January 2010, provided that Mr. Driskill is continuously employed by the Company or an affiliate until such dates, and (iii) 11,750 shares of common stock underlying fully vested options.
- (13) Represents (i) 4,009 shares of unrestricted common stock, (ii) 9,000 restricted shares of common stock, with restrictions to lift on various dates through January 2010, provided that Ms. Bednorz is continuously employed by the Company or an affiliate until such dates, and (iii) 11,750 shares of common stock underlying fully vested options.
- (14) Represents (i) 10,000 restricted shares of common stock, with restrictions to lift on various dates through February 2010, provided that Mr. Thibeaux is continuously employed by the Company or an affiliate until such dates.

#### **Executive Officers Who are Not Directors**

**Michael J. Rosinski**, age 62, has served as Executive Vice President, Chief Financial Officer, Treasurer and Secretary of Rosetta Resources Inc. since July 2005. Prior to joining the Company, Mr. Rosinski served as Executive Vice President and Chief Financial Officer of Rosetta Resources Operating LP (formerly known as Calpine Natural Gas L.P.). Prior to that Mr. Rosinski served as Chief

-11-

---

Financial Officer of Power Medical Products from July 2004 through May 2005, and was Senior Vice President and Chief Operating Officer of Municipal Energy Resources Corporation from 1997 to 2004. Previously, he held positions as Senior Vice President and Chief Financial Officer of Santa Fe Energy and held a number of positions at Tenneco. Mr. Rosinski holds a Masters degree in Business Administration from Tulane University and a Bachelors degree in Mechanical Engineering from Georgia Tech. He has over 35 years of experience in energy financing, financial management and controls, planning and investor relations in energy and related industries.

**Charles F. Chambers**, age 56, has served as Executive Vice President, Corporate Development of Rosetta Resources Inc. since June 2005. Prior to joining the Company and since February 2005, Mr. Chambers served as Vice President of Business Development and Land for Rosetta Resources Operating LP (formerly known as Calpine Natural Gas L.P.). Prior to that in March 2002, he founded Buena Vista Oil & Gas for the purpose of acquiring domestic oil and gas assets, and he served as its Managing Director. Mr. Chambers served as Vice President, Business Development for Rosetta Resources Operating LP from October 1999 until March 2002. Mr. Chambers served as Vice President, Corporate Development of Sheridan Energy from 1997 until 1999 when Sheridan was acquired by Calpine. Prior to these assignments, Mr. Chambers was Land Manager at C&K Petroleum Inc. and later founded Chambers Oil & Gas, Inc., an independent operator active in the Texas-Louisiana Gulf Coast. Mr. Chambers has 32 years of experience in the oil and gas industry.

**Michael H. Hickey**, age 52, has served as Vice President and General Counsel of Rosetta Resources Inc. since August 2005. Mr. Hickey has previous experience in the role as general counsel having served as Vice President Law and Secretary of Technip Offshore Inc., from April 2004 through July 2005. He served as Vice President and Managing Counsel for Calpine's North American E&P and midstream group. He served as Vice President, General Counsel and Secretary of Kosa B.V. from December 1998 until August 2000. He holds a Bachelors of Arts degree and J.D. both from the University of Tennessee and has been a practicing lawyer for 27 years.

**Edward E. Seeman**, age 59, has served as Vice President, Northern Division, of Rosetta Resources Inc. since July 2005. Prior to joining the Company, Mr. Seeman served as Director, Reservoir Engineering since April 2001 for Rosetta Resources Operating LP (formerly known as Calpine Natural Gas L.P.). Previously, he held a number of positions with Forest Oil Corporation beginning in 1974. He holds a Bachelors degree in Petroleum Engineering from the University of Oklahoma and has over 31 years of reservoir engineering experience in the oil and gas industry.

**Denise D. Bednorz**, age 49, has served as Vice President and Controller of Rosetta Resources Inc. since July 2005. Prior to joining the Company, Ms. Bednorz served as an independent accounting consultant since January 2002, with audit responsibilities in various public and private industries including oil and gas, retail and manufacturing, working on special projects with companies such as Western Atlas International, Deloitte & Touche and El Paso Energy Corporation. Moving into industry, she joined Team, Inc. as Assistant Controller, and has held financial accounting and management positions at Sonat Offshore Drilling, Inc. and Enterprise Capital Corporation. Ms. Bednorz is a native Houstonian and a cum laude graduate of Texas A&M University.

**J. Chad Driskill**, age 42, has served as Vice President of Marketing and Business Development of Rosetta Resources Inc. since July 2005. At Rosetta, Mr. Driskill is responsible for both physical and financial commodity marketing and trading, as well as supporting M&A activity for the company. Prior to joining Rosetta, Mr. Driskill spent ten years at Calpine Corporation holding a number of positions in energy trading, business development, and risk management at both Calpine Corporation and Calpine Energy Services. Prior to joining Calpine, Mr. Driskill spent five years at LFC Financial Corp as Director Gas Trading. Mr. Driskill has 20 years experience in the energy trading, oil and gas, and power generation industries.

**John M. Thibeaux**, age 57, has served as Vice President, Southern Division of Rosetta Resources Inc. since January 2007. Prior to joining Rosetta, Mr. Thibeaux served as the Senior Vice President of Corporate Development of CDX GAS in Dallas, Texas, from 2004 to 2006, where he was responsible for





Acquisitions and Dispositions. Prior to CDX GAS, Mr. Thibeaux served as the Vice President of Acquisitions for Yuma Exploration in Houston from 2003 to 2004. Mr. Thibeaux also served as the Chief Operating Officer of Texas Independent Exploration in Houston, Texas, where he was responsible for all phases of production, exploration, land, accounting and personnel, from 2001 to 2002. Mr. Thibeaux also worked for Snyder Oil Company as their Vice President of Corporate Development. Prior to this time, his employment included a Vice President position at J.P. Morgan in their Energy Investment group and various management and engineering positions at Tenneco Oil Company. Mr. Thibeaux is a registered professional engineer and has 31 years of experience in acquisitions, exploration and production and personnel management in the oil and gas industry. He was in the United States Navy, where he served as a Lieutenant J.G. in the Naval Petroleum Reserves. Mr. Thibeaux earned a Bachelors degree in Petroleum Engineering from the University of Louisiana at Lafayette and a Masters of Business Administration degree from the University of Houston.

-13-

---

## COMPENSATION DISCUSSION AND ANALYSIS

### Overview of Compensation Philosophy

Rosetta compensates management through a mix of base salary, bonus and equity grants with the objectives of attracting and retaining key executive officers critical to the long-term success, compensating those executive officers fairly and competitively for responsibility and accomplishment, and aligning management's incentives with the long-term interests of its stockholders. The Company's management and directors believe that its base salary levels should generally be set at the middle of the marketplace for comparable positions, and that above-market total compensation should be achieved in the aggregate through the annual performance bonus program and through stock price appreciation.

Rosetta has designed its compensation to reward (1) corporate performance in several key metrics, and (2) stock price appreciation. The annual performance bonus program is designed to pay out only if the Company achieves certain levels of Company-wide performance in four areas: production volumes, reserves added, finding costs and EBITDA. At the executive level, the bonus paid to the President and CEO is completely dependent on corporate performance in these four areas, while payment to the other officers is currently tied 80% to the corporate performance goals and 20% to achievement of individual goals in their areas of responsibility. As we move through the non-executive levels from management to individual contributors, the allocation of performance bonus shifts so that a larger portion of any bonus paid is based on individual performance.

To ensure that employees are focused on stock price appreciation, the Company has made all of its employees stockholders through grants of equity in the form of restricted stock. At all management levels, a mix of restricted stock and non-qualified stock options has been used to ensure additional emphasis on stock price appreciation.

### The Compensation Process

**The Role of the Compensation Committee of the Board of Directors.** The Compensation Committee of the Company's Board of Directors is required to be composed of at least three independent directors, and that has been its composition throughout 2006. As part of its stated purpose in its charter (which can be found in full on our website at [www.rosettaresources.com](http://www.rosettaresources.com)), the Compensation Committee "will assist the Board of Directors of Rosetta Resources Inc. (the "Company") in discharging its responsibilities relating to compensation of the Company's executive officers and the members of the Board. The Compensation Committee has overall responsibility for approval, evaluation and oversight of all compensation plans, policies and programs of the Company." Several of its stated responsibilities in support of this purpose are annually to:

- Review and make recommendations to the Board with respect to general compensation policies of the Company with respect to all officers and directors;
- Review and approve, for the executive officers of the Company, (a) the annual base salary level, (b) the award of stock options, (c) awards under other incentive compensation plans and equity-based plans, (d) employment agreements, severance arrangements, and change-in-control agreements/provisions, in each case as, when and if appropriate, and (e) any special or supplemental benefits; and
- Review and approve the corporate goals and objectives relevant to the compensation of the executive officers and evaluate the executive officers' performance in light of these goals and objectives, and recommend to the Board the compensation levels based on this evaluation.

The President and CEO may advise the Committee in the discharge of these responsibilities by suggesting programs, practices, and specific actions affecting executive officers other than himself. However, other executive officers do not play a part in the process of setting executive compensation.



Because the Company became an independent corporate entity in July 2005, management and the Compensation Committee were still establishing policies and processes in 2006. In 2006, the Compensation Committee met three times and acted by unanimous written consent two times. The Committee engaged the independent executive compensation consultant, developed a solid understanding of executive compensation within the peer group, and finalized the development of the performance bonus plan.

**Review of Compensation Philosophy and Determination of Targeted Overall Compensation.** To assist the Company in developing its compensation philosophy and in establishing "targeted overall compensation" - i.e., the aggregate level of compensation that we will pay if performance goals are fully met - the Compensation Committee in May 2006 engaged Longnecker & Associates ("Longnecker"), a nationally recognized compensation consulting firm with experience in the exploration and production business. The Compensation Committee asked Longnecker to perform a study of the compensation of executive management at the Company and at 15 comparable companies based on factors that included market capitalization, geographic focus and skill requirements for executive positions. The selected comparable companies for 2006 were:

Atlas America, Inc.  
ATP Oil & Gas Corp.  
Berry Petroleum Co.  
Bill Barrett Corp.  
Bois d'Arc Energy, Inc.  
Cabot Oil & Gas Corp.  
Comstock Resources, Inc.  
Energy Partners, Ltd.  
KCS Energy, Inc.  
Mariner Energy, Inc.  
Pacific Energy Partners, LP  
Petrohawk Energy Corp.  
Swift Energy Company  
The Houston Exploration Company  
Whiting Petroleum Corporation

The Compensation Committee will regularly review the list of comparable companies and refine it as appropriate.

Compensation studies like the 2006 Longnecker study will cover in detail only those individuals for whom compensation information is disclosed publicly, which generally include only the five most highly compensated officers at each Company. As a result, Longnecker used additional data from other executive compensation surveys to more fully develop targeted overall compensation levels for all of the executive officers.

Longnecker was engaged independently by the Compensation Committee. Whether Longnecker continues to provide consulting services in the area of executive compensation will be a decision reached independently by the Compensation Committee. Longnecker performs no other consulting services for the Company, with the exception of advising in the preparation of this Compensation Discussion and Analysis.

The Compensation Committee can be expected to review annually the levels of each element of executive compensation and to recommend to the Board that changes be implemented as necessary in line with the compensation philosophy.

### **Elements of Executive Compensation**

After receiving the results of the Longnecker study and reviewing the Company's compensation philosophy against the actual practices of the selected comparable companies, the Compensation Committee determined that the elements of targeted overall compensation for management (and, in fact, the

-15-

---

Company's entire workforce) should include (1) base salary, (2) a bonus plan with payouts (if any) to be based on performance, and (3) equity.

**Base Salaries.** Rosetta provides its executive officers with assured cash compensation in the form of base salary that is generally near the average of its marketplace. The base salaries paid to top executive officers at year-end 2006 are shown in the Summary Compensation Table. After reviewing the results of the Longnecker study in mid-2006, the Compensation Committee chose to immediately increase the base salaries of two executive officers, insofar as a gap existed between their then-current base salaries and the market averages for their respective positions. The Compensation Committee elected to postpone until early 2007 adjusting the base salaries of the remaining executive officers, who were then near market average. The Compensation Committee expects to review executive base salaries annually and to recommend changes as appropriate.

**Incentive Bonus.** Incentive bonuses are a critical part of the Company's compensation philosophy. Bonuses may be earned if the Company achieves its objectives in key performance metrics. Bonus targets were initially set as a percentage of base salary when the compensation packages were established for the Company's current executive team in preparation for the Company's initial private placement in July 2005. The bonus targets that were set then were the result of a study undertaken with the consulting firm of Towers-Perrin prior to the initial private placement. The results of the 2006 Longnecker study suggested that these targets remain appropriate, and as such they have not been changed. The targets are 100% for the President and CEO, 60% for the executive vice presidents, and 40% for the vice presidents.

Although the Company reserves the right to add or delete corporate performance metrics for the bonus plan in the future, the metrics for 2006 were production volumes, reserves added, finding cost and EBITDA. Production volumes and reserves added were weighted to constitute 30% each of the available bonus, while finding cost and EBITDA were weighted 20% each. Performance in a particular objective affects payout in a non-linear fashion - falling below 70% of target results in a zero payout for that metric, achieving 100% of target achieves target payout, and exceeding the target results in a payout that is greater than a 1:1 ratio. The bonus payout for the President and CEO is fully dependent on achievement of corporate objectives, while payout for the other named executive officers is based 80% on corporate objectives, and 20% on achievement of objectives for that executive's area of responsibility that directly affect corporate performance. At the recommendation of the Compensation Committee, the Board may exercise an element of positive or negative discretion beyond the stated objectives when it considers that discretion warranted.

These above mentioned specific corporate objectives were first approved by the Compensation Committee in 2006, and were first applied when the 2006 bonus pool was calculated for payout in early 2007. Bonuses for 2005, which were approved by the Compensation Committee and paid out in early 2006, were largely based on the Company's successes in its initial private placement, and on the work that had been done on all fronts to manage the independent business successfully while working to receive SEC approval to be a publicly traded company with common stock listed on a nationally recognized exchange.

**Equity Grants.** Another critical component of the compensation philosophy is that the executive officers' personal financial success should be tied to the stock performance. The Company's executive officers each received a grant of restricted stock and non-qualified stock options at or near the time of the initial private placement, and several received additional grants in February 2006. As a result of the 2006 Longnecker study, the Compensation Committee and the Board determined that additional grants would be appropriate and made those grants in January 2007.

These January 2007 grants were based on information from the Longnecker study reflecting the value of equity grants as a percentage of base salary for similar positions at the Company's competitors, and the Compensation Committee determined that this equity value would be granted in an approximate 50/50 mix of restricted stock and non-qualified stock options. The Compensation Committee feels that utilization of restricted stock encourages the executive officer to adopt a view towards long-term value while providing a retention incentive even in the event of a decline in the

stock price, and that stock options

-16-

---

will encourage the executive officer to take necessary and appropriate steps to increase the stock price. All unvested grants of restricted stock and stock options are time-vested, generally with 25% vesting one year from the date of grant, an additional 25% after two years, and the remaining 50% after three years.

None of these equity grants has been timed to coincide with or to precede the release of material information, and the Compensation Committee believes that we have established strong controls to prevent such timed grants. Specifically, (1) all grants for executive officers must be approved by the Board at the recommendation of the Compensation Committee, (2) grant prices for non-qualified stock options have all been set at the fair market value (average of the high and low trades) on the date of grant, (3) all options granted before October 1, 2006 were granted on the date of approval by the Board, and all options granted on or after October 1, 2006 were granted on the first trading day of the month following approval by the Board, and (4) no options have been repriced. The Company has set no requirement that any executive officer hold a specific minimum level of stock. In establishing award levels, the Compensation Committee and the Board generally do not consider the equity ownership levels of the recipients or prior awards that are fully vested.

**Actions Taken Affecting Each Element.** The decisions implemented by early 2007 resulted in a general percentage allocation among components (assuming a full payout of the performance bonus) as follows:

Position	Base Salary	Bonus	Restricted Stock	Stock Options
President & CEO	19%	19%	31%	31%
Executive VP's	27%	16%	26%	31%
Vice Presidents	35%	14%	23%	28%

**Employee Benefits.** In addition to the main elements of compensation previously discussed in this section, the executive officers are eligible for the same welfare and defined benefits as are available to all employees, which include medical and dental insurance, short- and long-term disability insurance, life and accidental death insurance each with a face value of \$50,000, and a 401(k) plan with a dollar-for-dollar match on the first 4% of eligible employee contributions. Like other employees, each executive may park in Rosetta's building at no cost, although the executive officers have reserved spaces. The Company has no pension plan or deferred compensation arrangement for the executive officers at this time.

In addition to these all-employee benefits, executive officers are provided with two other benefits. First, the Company pays monthly club membership dues (but not personal usage expenses) for the President and CEO and for the executive vice presidents. This allows the executive to make business contacts outside the reach of the Company, and to have a place to entertain corporate clients. Second, to ensure that the leadership is given every opportunity to identify and correct medical issues that may affect their work, the Company provides for an annual physical examination at Company expense.

The general benefits offered to all employees (and thus to the executive officers) are reviewed each year. The benefits offered only to executive officers will be reviewed by the Compensation Committee in conjunction with an annual study of executive officer compensation.

**Employment Agreements.** The Company has entered into a written Employment Agreement with each of its officers. The Board has determined that it is appropriate to reduce the understanding to writing for the benefit of both the Company and the executive, particularly to ensure an understanding of how the Employment Agreement may be extended or terminated, what benefits are to be paid in the event of termination, and to outline the executive's post-employment obligations. These obligations restrict the use of confidential and/or proprietary information both during and after employment, and for two years after termination prohibit (1) disparagement of the Company and (2)



solicitation of employees, vendors, customers to end their relationships with the Company. Originals of these Employment Agreements are retained by the Company's Human Resources Department.

-17-

---

## Tax Considerations

**Deductibility Cap on Executive Compensation.** Under U.S. federal income tax law, we cannot take a tax deduction for certain compensation paid in excess of \$1 million to the executive officers. However, performance-based compensation, as defined in the tax law, is fully deductible if the programs are approved by stockholders and meet other requirements. To maintain flexibility in compensating the executive officers in a manner designed to promote varying corporate goals, the Compensation Committee has not adopted a policy that all compensation must be deductible. We may make payments that are not fully deductible because we believe that such payments are necessary to achieve the compensation objectives and to protect stockholder interests. In 2006, the total compensation for deductibility purposes did not exceed \$1 million for any executive officer and were not subject to IRC Section 162 (m) limitations.

**Gross-Ups.** Under their respective Employment Agreements, if benefits to which the executive officers become entitled are considered "excess parachute payments" under IRC Section 280(G), then the executive officers would be entitled to an additional gross-up payment from the Company. This payment would be in an amount such that, after payment by the executive officer of all taxes, including any excise tax imposed upon the gross-up payment, the executive officer would retain an amount equal to the excise tax imposed upon the payment.

## Severance Benefits

Rosetta has determined that it should provide reasonable severance benefits to employees, but has not yet defined the all-employee severance pay plan. However, the Compensation Committee has agreed that it is important to state the termination benefits for executive officers to ensure that they understand that there is an economic "safety net" that protects them as they consider decisions for the Company that may have adverse consequences to their own employment situations. These termination benefits are stated in each executive officer's Employment Agreement and reflect the fact that it may be difficult for executive officers to find comparable employment within a short period of time.

If the Company should choose not to renew an Employment Agreement at its expiration, if the Company terminates the employment of the executive officer without cause, or if the executive officer terminates employment for "good reason" (as defined in the Employment Agreement), then the executive officer would be paid a multiple of base salary and target bonus and would become immediately vested in any unvested equity grants. In these circumstances, the President and CEO would be paid three times his then-current base salary and target bonus, and each of the other executive officers would each be paid his then-current base salary and target bonus. Separation payments for the President and CEO would almost certainly exceed IRC Section 162(m) deductibility limits, but we believe that such payments for the other executive officers would be unlikely to exceed the deductibility limits.

Based upon a hypothetical termination date of December 31, 2006, the severance benefits for the named executive officers would have been as follows:

Name <sup>(1)</sup>	Separation Payment to Executive on 12/31/06 <sup>(2)</sup>	Cost of Accelerated Vesting of Stock Grants as of 12/31/06 <sup>(3)</sup>	Total Cost of Hypothetical Separation Event as of 12/31/06
B. A. Berilgen, President & Chief Executive Officer (PEO)	\$2,400,000	\$1,137,937	\$3,537,937
Michael J. Rosinski, Executive Vice President & Chief Financial Officer (PFO)	\$368,000	\$333,713	\$701,713
Charles F. Chambers, Executive Vice President, Corporate Development (NEO)	\$320,000	\$330,106	\$650,106
Michael H. Hickey, Vice President & General Counsel (NEO)	\$319,200	\$342,367	\$661,567
Edward E. Seeman, Vice President, Northern Region (NEO)	\$280,000	\$264,736	\$544,736

(1) For this and subsequent tables, “PEO” is an acronym for Principal Executive Officer, “PFO” for Principal Financial Officer and “NEO” for Named Executive Officer.

(2) This column includes multiple of base salary and bonus as described in the individual employment agreement.

(3) The costs of accelerating the vesting of stock grants are represented in this column using the Company’s unamortized costs of the grants

### Change-in-Control Benefits

The Compensation Committee has determined that the interests of stockholders are best served if we provide separation benefits to eliminate, or at least reduce, the reluctance of executive officers to pursue potential corporate transactions that may be in the best interests of stockholders but that may have resulting adverse consequences to the executive officers’ employment situations. These “change-in-control” benefits apply when (i) the affected executive officer’s employment is terminated, or the executive officer resigns for good cause; or (ii) with either of the preceding actions occurring within the two-year period following a “corporate change”. This so-called “double-trigger” provision ensures that these benefits would be payable only in the dual events of a corporate change and an adverse effect on the executive officer’s employment situation. Also, these benefits are not in addition to the severance pay described above - the executive cannot simultaneously be eligible for both.

For purposes of this section, a corporate change is defined as (i) the dissolution or liquidation of the Company; (ii) a reorganization, merger or consolidation of the Company with one or more corporations (other than a merger or consolidation effecting a reincorporation of the Company in another state or any other merger or consolidation in which the stockholders of the surviving corporation and their proportionate interests therein immediately after the merger or consolidation are substantially identical to the stockholders of the Company and their proportionate interests therein immediately prior to the merger or consolidation) (collectively, a “corporate change merger”); (iii) the sale of all or substantially all of the assets of the Company or an affiliate as defined in the Company’s long-term incentive plan; or (iv) the occurrence of a change in control. A “change-in-control” shall be deemed to have occurred if (a) individuals who were directors of the Company immediately prior to a control transaction shall cease within two years of such control transaction to constitute a majority of the Board of Directors of the Company (or of the Board of Directors of any successor to the Company or to a Company which has acquired all or substantially all its assets) other than by reason of an increase in the size of the membership of the applicable Board that is approved by at least a majority of the individuals who were directors of the



Company immediately prior to such control transaction or (b) any entity, person or Group acquires shares of the Company in a transaction or series of transactions that result in such entity, person or group directly or indirectly owning beneficially 50% or more of the outstanding shares of the Company's common stock. As used above, a "control transaction" means (A) any tender offer for or acquisition of capital stock of the Company pursuant to which any person, entity, or group directly or indirectly acquires beneficial ownership of 20% or more of the outstanding shares of Common Stock; (B) any corporate change merger of the Company; (C) any contested election of directors of the Company; or (D) any combination of the foregoing, any one of which results in a change in voting power sufficient to elect a majority of the Board of Directors of the Company.

If both events warranting the change-in-control payment occur, the affected executive will be paid a multiple of base salary and target bonus and will become immediately vested in any unvested equity grants. In these circumstances, the President and CEO will be paid three times his then-current base salary and target bonus, and each of the other named executive officers will be paid two times his then-current base salary and target bonus. The cash components of any change-in-control benefits will be paid in a lump sum and the Company will also reimburse the executive's cost of continuing health insurance for up to 36 months for the President and CEO, and for up to 12 months for the other executive officers. Because of the tax on so-called "parachute payments" imposed by Internal Revenue Code Section 280G, the Company has agreed to reimburse the officers for any excise taxes imposed as a result of a payment of change-in-control benefits and to gross up those tax payments to keep them whole. Change-in-control payments for the President and CEO would exceed IRC Section 162(m) deductibility limits, and it is probable that such payments for certain of the other executive officers would also exceed the deductibility limits.

Based upon a hypothetical termination from a change-in-control event as of December 31, 2006, the change-in-control termination benefits for the executive officers would have been as follows:

Name	Hypothetical Change-in-Control Separation Payment to Executive on 12/31/06	Cost of Accelerated Vesting of Stock Grants as of 12/31/06 (1)	Hypothetical Cost of Medical Insurance Reimbursement	Total Cost of Hypothetical Separation Event as of 12/31/06 (2)
B. A. Berilgen, President & Chief Executive Officer (PEO)	\$2,400,000	\$1,137,937	\$42,120	\$3,580,057
Michael J. Rosinski, Executive Vice President & Chief Financial Officer (PFO)	\$736,000	\$333,713	\$14,040	\$1,083,753
Charles F. Chambers, Executive Vice President, Corporate Development (NEO)	\$640,000	\$330,106	\$14,040	\$984,146
Michael H. Hickey, Vice President & General Counsel (NEO)	\$638,400	\$342,367	\$14,040	\$994,807
Edward E. Seeman, Vice President, Northern Region (NEO)	\$560,000	\$264,736	\$14,040	\$838,776

(1)

The costs of accelerating the vesting of stock grants are represented in this column using the Company's unamortized costs of the grants. A different calculation would be used to arrive at excise tax under IRC 280(G).  
(2) Hypothetical payments to all of the Company's named executive officers as of 12/32/06 would fall within the "safe harbor" provisions of IRC 280(G), and as such, no excise taxes on "parachute payments" or tax gross-up are shown. Depending on circumstances, we may be liable for these excise taxes or gross-ups in future years.

-20-

---

## Executive Officer and Director Compensation Tables

SUMMARY COMPENSATION TABLE <sup>(1)</sup>

Name and Principal Position	Year	Salary (2)	Bonus (3)	Stock Awards (4)	Option Awards (5)	Non-Equity Incentive Plan Compensation	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compensation (6)	Total
		(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
B. A. Berilgen, President & Chief Executive Officer (PEO)	2006	400,000	348,000	364,500	326,706	0	0	30,323	1,469,529
Michael J. Rosinski, Executive Vice President & Chief Financial Officer (PFO)	2006	230,000	70,000	91,125	100,190	0	0	25,198	516,513
Charles F. Chambers, Executive Vice President, Corp. Development (NEO)	2006	200,000	96,000	91,125	87,121	0	0	29,565	503,811
Michael H. Hickey, Vice President & General Counsel (NEO)	2006	228,000	35,000	127,575	95,289	0	0	22,430	508,294
Edward E. Seeman, Vice President, Northern Region (NEO)	2006	200,000	63,000	0	87,121	0	0	19,586	369,707

## FOOTNOTES TO SUMMARY COMPENSATION TABLE

(1)

Rosetta began business as an independent entity in 2005. We have not included 2005 compensation information because it would have represented only a portion of the year.

- (2) Salaries are reflected as of 12/31/06.
- (3) Bonuses paid in 2006 were based on partial-year service in 2005 for Messrs. Rosinski, Chambers, and Hickey. Bonuses paid in 2006 were not based on specific targets communicated to the participants at the beginning of the performance period, and so are shown in the "bonus" column rather than in the "non-equity incentive plan" column.
- (4) Restricted Stock awards were granted on 2/24/06, and the value reflects a fair market value (average of high and low trades) of \$18.23 on that date.
- (5) All listed options were granted on 2/24/06, and the FAS 123R fair market value was \$10.89.
- (6) With the exception of the expenses for welfare benefits for Messrs. Berilgen (\$16,070), Rosinski (\$14,032), Chambers (\$10,296), Hickey (\$11,080), and Seeman (\$10,437), no single category of "all other compensation" exceeds \$10,000 for any individual. Other compensation in this category includes, as appropriate, 401(k) match, employee parking, club dues and executive physicals.



**GRANTS OF PLAN-BASED AWARDS**

Name	Grant Date	Estimated Future payouts under non-equity incentive plan awards			Estimated future payouts under equity incentive plan awards			All other stock awards; Number of shares of stock or units (2)	All other option awards; Number of securities underlying options (3)	Exercise or base price of option awards (4)
		Threshold (1)	Target	Maximum(1)	Threshold	Target	Maximum			
		(\$)	(\$)	(\$)	(#)	(#)	(#)	(#)	(#)	(\$/Sh)
B. A. Berilgen, President & Chief Executive Officer (PEO)	2007		435,000			0		20,000	30,000	18.23
Michael J. Rosinski, Executive Vice President & Chief Financial Officer (PFO)	2007		144,000			0		5,000	9,200	18.23
Charles F. Chambers, Executive Vice President, Corporate Development (NEO)	2007		126,000			0		5,000	8,000	18.23
Michael H. Hickey, Vice President & General Counsel (NEO)	2007		91,200			0		7,000	8,750	18.23
Edward E. Seeman, Vice President, Northern Region (NEO)	2007		80,000			0		0	8,000	18.23

- (1) The Non-Equity Incentive Plan has neither a threshold nor a maximum.
- (2) The shares in this table reflect grants of restricted stock made effective 2/24/06, and the dollar value of these grants are also shown in the Summary Compensation Table. The restrictions will be lifted as to 25% of these shares on 2/24/07, 25% on 2/24/08, and the remaining 50% on 2/24/09.
- (3) The options in this table were granted on 2/24/06, and the dollar value of these grants are also shown in the Summary Compensation Table. The options vest as follows: 25% on 2/24/07, 25% on 2/24/08, and the remaining 50% on 2/24/09.
- (4) Options were granted at an exercise price of \$18.23 on 2/24/06, which was the fair market value of the stock (average of high and low trades) on that date.

-22-

---

OUTSTANDING EQUITY AWARDS AS OF DECEMBER 31, 2006 <sup>(1)</sup>

Name	Option Awards					Stock Awards			
	Number of Securities Underlying Unexercised Options-Exercisable	Number of Securities Underlying Unexercised Options-Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options	Option Exercise Price	Option Expiration Date	Number of Shares or Units of Stock That Have Not Been Vested	Market Value of shares or Units of Stock That Have Not Been Vested (4)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested	
	(#)	(#)	(#)	(\$)		(#)	(\$)	(#)	
B. A. Berilgen, President & Chief Executive Officer (PEO)	50,000	50,000 <sup>(2)</sup>	0	\$16.00	7/7/2015	35,000	\$648,375	0	
		30,000 <sup>(3)</sup>		\$18.23	2/24/2016				
Michael J. Rosinski, Executive Vice President & Chief Financial Officer (PFO)	15,400	15,400 <sup>(2)</sup>	0	\$16.00	7/7/2015	9,500	\$175,988	0	
		9,200 <sup>(3)</sup>		\$18.23	2/24/2016				
Charles F. Chambers, Executive Vice President, Corp. Development (NEO)	16,000	16,000 <sup>(2)</sup>	0	\$16.00	7/7/2015	9,500	\$175,988	0	
		8,000 <sup>(3)</sup>		\$18.23	2/24/2016				
Michael H. Hickey, Vice President & General Counsel (NEO)	13,125	13,125 <sup>(2)</sup>	0	\$16.00	8/1/2015	11,500	\$213,038	0	
		8,750 <sup>(3)</sup>		\$18.23	2/24/2016				

Edgar Filing: Rosetta Resources Inc. - Form DEF 14A

Edward E. Seeman, Vice President, Northern Region (NEO)	16,000	16,000 <sup>(2)</sup>	0	\$16.00	7/7/2015	4,500	\$83,363	0
		8,000 <sup>(3)</sup>		\$18.23	2/24/2016			

- (1) No options have been transferred.
- (2) Unvested options vest 50% on 7/7/07, and 50% on 7/7/09.
- (3) Unvested options vest 25% on 2/24/07, 25% on 2/24/08, and 50% on 2/24/09.
- (4) Based on fair market value of \$18.525 as of 12/29/2006, the last trading day of 2006.

**OPTION EXERCISES AND STOCK VESTED TABLE (1)**

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (1)	Value Realized on Exercise (1)	Number of Shares Acquired on Vesting	Value Realized on Vesting
	(#)	(\$)	(#)	(\$)
(a)	(b)	(c)	(d)	(e)
B. A. Berilgen, President & Chief Executive Officer (PEO)	0	0	85,000	\$1,583,050
Michael J. Rosinski, Executive Vice President & Chief Financial Officer (PFO)	0	0	25,500	\$474,915
Charles F. Chambers, Executive Vice President, Corp. Development (NEO)	0	0	25,500	\$474,915
Michael H. Hickey, Vice President & General Counsel (NEO)	0	0	13,500	\$251,685
Edward E. Seeman, Vice President, Northern Region (NEO)	0	0	25,500	\$474,915

(1) No executive has exercised any vested options.

**DIRECTOR COMPENSATION TABLE**

Director Name	Fees earned or paid in cash	Stock Awards (1)	Option Awards (2)	Non-equity incentive plan compensation	Change in pension value and nonqualified deferred compensation earnings	All Other Compensation	Total
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Richard W. Beckler	54,430	76,869	49,414	0	0	0	180,713
G. Louis Graziadio, III	27,239	105,897	155,209	0	0	0	288,345
D. Henry Houston	62,362	77,686	49,414	0	0	0	189,462
Josiah O. Low III	19,000	51,601	113,177	0	0	0	183,778
Donald D. Patteson, Jr.	62,702	73,598	49,414	0	0	0	185,713

- (1) Awards of restricted stock are priced at fair market value (average of high and low trades) on the date of grant. Values reflect both grants of restricted stock and unrestricted stock taken by the director in lieu of cash compensation. Restrictions are lifted as to 25% of the shares one year after grant, 25% two years after grant, and the remaining 50% three years after grant.
- (2) The value of option awards was calculated using the FAS 123R fair market value on the date of grant.
- (3) Mr. Graziadio's total compensation is higher than the other directors because he received stock grants for both his initial election and his reelection as a director in 2006.

**Note: The Company does not provide a pension plan or a non-qualified deferred compensation plan at this time, and as such, has not included either the Pension Benefits Table or the Non-Qualified Deferred Compensation Table in this section.**

**REPORT OF THE COMPENSATION COMMITTEE**

The following report of the Compensation Committee of the Board of Directors shall not be deemed to be “soliciting material” or to be “filed” with the SEC or subject to the SEC’s proxy rules, except for the required disclosure in this Proxy Statement, or subject to the liabilities of Section 18 of the Securities Exchange Act of 1934 (the “Exchange Act”), except to the extent that the Company specifically incorporates by reference into any filing made by the Company under the Securities Act of 1933 or the Exchange Act.

The Compensation Committee of the Company has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management, and based on such review and discussions, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement and Form 10-K.

COMPENSATION COMMITTEE

Donald D. Patteson, Jr., Chairman  
Richard W. Beckler  
D. Henry Houston

**AMENDMENT TO 2005 LONG-TERM COMPENSATION PLAN**

A position has been taken by the top four public accounting firms that financial accounting standards (FAS 123R) require that anti-dilution provisions in plans providing for the grant of equity-based compensation must be non-discretionary in order to avoid negative accounting consequences. In November 2006, the Board approved Amendment No. 2 to the 2005 Long-Term Compensation Plan, amending Section 4.2, to remove such discretion. A full copy of the amended 2005 Long-Term Incentive Plan is attached as Appendix B.

**SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS**

As of December 31, 2006, the following equity securities were authorized for issuance under the Company's existing compensation plans:

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights <sup>(1)</sup>	Weighted-Average Exercise Price of Outstanding Securities	Number of Securities Remaining Available for Future Issuance <sup>(2)</sup>
Equity Compensation Plans Approved by Security Holders	1,023,604	\$17.121	692,667
Equity Compensation Plans Not Approved by Security Holders.	—	—	—
Total	1,023,604	\$17.121	692,667

(1) Includes all stock options currently granted, whether or not vested (1,074,000), less all that have been exercised to date.

(2) Of the 3,000,000 shares in the 2005 Long-Term Incentive Plan, we reserved 1,766,667 to be issued as options. The remainder in this column reflects this initially available amount less all options currently granted, whether or not vested.



**TOTAL RETURN AMONG ROSETTA RESOURCES INC., STANDARD & POOR'S 500 INDEX AND A PEER GROUP**

The following common stock performance graph shows the performance of Rosetta's common stock up to December 31, 2006. As required by applicable rules of the SEC, the performance graph shown below was prepared based on the following assumptions:

§ A \$100 investment was made in Rosetta's common stock, a selected Peer Group and the Standard & Poor's 500 Index (S&P 500) on February 13, 2006.

§ All dividends are reinvested for each measurement period.

The 7 companies that comprise the Peer Group are: Petrohawk Energy Corporation (HAWK), St. Mary Land & Exploration Co. (SM), Bill Barrett Corp. (BBG), Brigham Exploration Co. (BEXP), Berry Petroleum Co. (BRY), Comstock Resources Inc. (CRK), and Range Resources Corp. (RRC).

	<b>2/13/06 (1)</b>	<b>12/31/06</b>
<b>ROSE</b>	\$ 100.00	\$ 98.26
<b>Peer Group</b>	\$ 100.00	\$ 94.82
<b>S&amp;P 500</b>	\$ 100.00	\$ 111.94

(1) February 13, 2006 was the first full trading day following the effective date of the Company's registration statement filed in connection with the public offering of its common stock.

## **SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Exchange Act requires directors and officers of the Company, and persons who beneficially own more than 10% of the Company's common stock, to file with the SEC initial reports of ownership and reports of changes in ownership of the common stock. Directors, officers and more than 10 percent stockholders are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms they file.

To the Company's knowledge, based solely on review of the copies of such reports furnished to it and written representations that no other reports were required, the Company is not aware of any director or executive officer who has not timely filed reports required by Section 16(a) of the Exchange Act during or following the end of Fiscal Year 2006, except for certain late filed Form 3 of Mr. Hickey which was filed by February 22, 2006.

## **CERTAIN TRANSACTIONS**

We have entered into employment agreements with each of the executive officers. See "Compensation Committee Discussion and Analysis" for a detailed description of those agreements. Additionally, we have entered into indemnification agreements with the members of the Board of Directors.

In July 2005, we acquired the domestic oil and natural gas business from Calpine Corporation. At the time of the closing of the transaction, the Company was a wholly-owned indirect subsidiary of Calpine. Upon closing of the transaction, Calpine no longer owned any of the Company common stock or other security. After closing the transaction, Calpine was not an affiliate of the Company. In connection with the transaction with Calpine, the Company entered into certain contracts necessary to complete the transaction. Under a purchase and sale agreement, the Company completed the acquisition of the subsidiaries which held the domestic oil and natural gas properties. Rosetta currently has indemnification obligations and rights under the purchase and sale agreement. Rosetta entered into a gas purchase contract with an affiliate of Calpine under which the Company sells a substantial amount of its California natural gas production through 2009 with Calpine having a ten year right of first refusal thereafter. Under the gas purchase contract, the Company has the right to sell to third parties if Calpine breaches its obligation to fund a daily margin account. Rosetta also entered into a gas marketing agreement under which an affiliate of Calpine provides gas marketing services for the Company's sale of natural gas which, unless extended by mutual agreement, expires at the end of its primary term on June 30, 2007. Additionally, the Company entered into several contracts under which all obligations have been performed or the performance is immaterial to the Company's business and operations.

During the year ended December 31, 2006 and six months ended December 31, 2005, the Company purchased accounting contract services from a firm in which a principal partner is related to an officer of the Company. Total expenditures for these services were \$1.0 million, respectively.

Rosetta Resources Operating LP provided LOTO Energy, LLC (LOTO I) certain services for a fee pursuant to an administrative services agreement that ended on June 30, 2006. LOTO I is indirectly owned in part by family trusts established by the director, G. Louis Graziadio, III. Additionally, in January 2006, Rosetta Resources Operating LP purchased certain leases from LOTO Energy II, LLC (LOTO II) for cash, subject to a retained overriding royalty in favor of LOTO II. Rosetta Resources Operating LP also made certain ongoing development commitments to LOTO II associated with these leases. LOTO II is indirectly owned in part by family trusts established by Mr. Graziadio who was its president at the time of this purchase.

**REPORT OF THE AUDIT COMMITTEE**

To the Stockholders of  
Rosetta Resources Inc.:

The primary purpose of the Audit Committee of the Company's Board of Directors is to assist the Board of Directors in fulfilling its responsibilities for monitoring (i) the integrity of the quarterly and annual financial and accounting information to be provided to the stockholders and the SEC; (ii) the system of internal controls that management has established; (iii) the Company's registered public accountant's qualifications and independence, (iv) the performance of the Company's internal audit functions and its registered public accountant; and (v) the Company's compliance with legal and regulatory requirements governing the preparation and reporting of financial information. The Audit Committee's function is more fully described in its charter, which the Audit Committee and the Board of Directors adopted effective on August 1, 2005. In 2006, we amended the Compensation Committee's charter to clarify its roles with regard to the approval of executive compensation matters, and a copy of the amended charter is attached as Appendix A. A copy of the amended charter is posted on our website at [www.rosettaresources.com](http://www.rosettaresources.com), and may also be obtained by written request to the attention of the Secretary of the Company at 717 Texas, Suite 2800, Houston, Texas 77002. The Audit Committee held nine meetings during 2006, including regular meetings and special meetings addressing earnings releases and related matters.

Messrs. Beckler, Patteson, and Houston serve on the Audit Committee, all of whom are "independent" under the listing standards of The NASDAQ Stock Market LLC and the SEC's rules. Mr. Houston, chairman of the Audit Committee, is an "Audit Committee financial expert," as defined under the rules of the SEC.

**Review and Discussion**

The Audit Committee has reviewed and discussed the Company's audited financial statements with management. It has also discussed with PricewaterhouseCoopers LLP ("PWC"), the Company's registered public accountants, the matters required to be discussed by Statement of Auditing Standards No. 61 (Communication with Audit Committees), as amended by SAS No. 90 (Audit Committee Communications). Additionally, PWC has provided to the Audit Committee the written disclosures required by Independence Standards Board Standard No. 1 Independence Discussions with Audit Committees, and the committee discussed the auditors' independence with management and the auditors.

Based on the Audit Committee's discussions with management and the registered public accountants, and its review of the representations of management and the report of PWC to the Audit Committee, the Audit Committee recommended to the Board of Directors the inclusion of the audited consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2006, as filed with the Securities and Exchange Commission.

**Fees Paid to PricewaterhouseCoopers LLP for Fiscal Years 2006 and 2005:**

<i>(In \$ Thousands)</i>	2006	%	2005	%
Audit Fees	\$ 1,157	100%	\$ 3,915 <sup>(1)</sup>	—

Edgar Filing: Rosetta Resources Inc. - Form DEF 14A

Audit Related Fees	44 <sup>(3)</sup>	—	—	—
Tax	—	—	—	—
Other	—	—	—	—

(1)The audit fees were for professional services rendered in connection with the audits of the 2002, 2003, 2004 combined financial statements (predecessor) included in the Rule 144A Registration Statement on Form S-1 and the combined financial statements for the six months ended June 30, 2005 (predecessor) and consolidated financial statements as of and for the six months ended December 31, 2005 (successor) included in the Annual Report on Form 10-K. The audit fees also include fees related to the issuance of consents and assistance with review of various documents filed with the SEC and the private placement in July 2005. Approximately, \$1 million of these fees were paid out of the proceeds from the closing of the Calpine transaction and wired to Calpine to pay for audit activity prior to closing of the purchase of the Calpine domestic oil and natural gas properties by the Company.

(2)The audit related fees were for professional services rendered in connection with the pre-SOX 404 implementations activities.

### **Audit Committee Pre-Approval Policies and Procedures**

The Audit Committee pre-approves all audit and non-audit services by a registered public accountant prior to the receipt of such services. Any pre-approval of non-audit services by the Audit Committee Chair shall be reported to the Audit Committee at its next scheduled meeting.

All fees for 2006 set forth in the table above were pre-approved by the Audit Committee Chair or the Audit Committee, as provided above, which in either case determined that such services would not impair the independence of the auditor and are consistent with the SEC's rules on auditor independence.

### **Engagement**

We have selected PWC as the Company's independent public accountants for the year ended December 31, 2006. PWC has audited the Company's financial statements and the predecessor's financial statements since 2003. As of the date of this Proxy Statement, the Audit Committee has not reviewed a formal 2007 audit proposal for the 2007 external audit for the Company. As the Audit Committee has not reappointed PWC or engaged an alternative firm as of the date of this Proxy Statement, the Company's stockholders are not being asked to ratify the Company's registered public accountants for the current fiscal year.

As of the date of this Proxy, a representative of PWC is expected to attend the Annual Meeting and is not expected to make a statement, but will be available to respond to appropriate questions and may make a statement if such representative desires to do so.

The information contained in this Audit Committee Report shall not be deemed to be "soliciting material" to be "filed" with the SEC, or shall such information be incorporated by reference into any future filings with the SEC, or subject to the liabilities of Section 18 of the Exchange Act, except to the extent that the Company specifically incorporates it by reference into a document filed under the Securities Act of 1933, or the Exchange Act.

Audit Committee

D. Henry Houston, Chairman  
Donald D. Patteson, Jr.  
Richard W. Beckler

## **OTHER BUSINESS**

Management does not intend to bring any other business before the meeting and has not been informed that any other matters are to be presented at the meeting by others. If other matters properly come before the meeting or any adjournment thereof, the persons named in the accompanying proxy and acting thereunder will vote in accordance with their best judgment.

## **STOCKHOLDER PROPOSALS AND OTHER MATTERS**

To be considered for inclusion in the Proxy Statement for the Company's 2008 Annual Meeting of Stockholders, under Rule 14a-8 of the SEC, a stockholder proposal must be received at the Company's principal executive offices at 717 Texas Avenue, Suite 2800, Houston, Texas 77002; Attn: Corporate Secretary, by December 7, 2007. However, if the Company's date of its 2008 Annual Meeting of Stockholders changes by more than 30 days from the anniversary of the date of the 2007 Annual Meeting of Stockholders, then the deadline is a reasonable time before the Company begins to print and mail its proxy materials for such meeting. A stockholder proposal submitted outside the processes of Rule 14a-8, if received after January 18, 2008, will be considered untimely for presentation at the Company's 2008 Annual Meeting of Stockholders.

The cost of solicitation of proxies will be borne by the Company. Solicitation may be made by mail, personal interview, telephone or telegraph by officers, agents or employees of the Company, who will receive no additional compensation therefore. The Company will bear the reasonable expenses incurred by banks, brokerage firms, custodians, nominees and fiduciaries in forwarding proxy material to beneficial owners.

## **ADDITIONAL INFORMATION**

### **Annual Report**

The annual report to stockholders for the year ended December 31, 2006 is being mailed to all stockholders entitled to vote at the meeting. The annual report to stockholders does not form any part of the proxy soliciting materials. Copies of the Company's Annual Report on Form 10-K for the year ended December 31, 2006, as filed with the Securities and Exchange Commission, are available without charge to stockholders through the Investor Relations section of the website at [www.rosettaresources.com](http://www.rosettaresources.com) or upon request to Michael J. Rosinski, Secretary of Rosetta Resources Inc., 717 Texas, Suite 2800, Houston, Texas 77002.

### **Stockholder Communications with the Board of Directors**

Stockholders who wish to communicate with the Board of Directors or a particular director may send a letter to the Secretary of the Company at 717 Texas Avenue, Suite 2800, Houston, Texas 77002. The mailing envelope must contain a clear notation indicating that the enclosed letter is a "Stockholder-Board Communication" or "Stockholder-Director Communication." All such letters must identify the author as a stockholder and clearly state whether the intended recipients are all members of the Board or just certain specified individual directors. The Secretary will make copies of all such letters and circulate them to the appropriate director or directors.

### **Number of Proxy Statements and Annual Reports**

Only one copy of this Proxy Statement and the annual report accompanying this Proxy Statement will be mailed to stockholders who have the same address unless we receive a request that the stockholders with the same address are to receive separate Proxy Statements and Annual Reports. These additional copies will be supplied at no additional cost to the requesting stockholder.



REGARDLESS OF THE NUMBER OF SHARES YOU OWN, IT IS IMPORTANT THAT THEY BE REPRESENTED AT THE MEETING, AND YOU ARE RESPECTFULLY REQUESTED TO SIGN, DATE AND RETURN THE PROXY CARD IN THE ENVELOPE PROVIDED AS SOON AS POSSIBLE.

By order of the Board of Directors of  
ROSETTA RESOURCES INC.

Michael J. Rosinski  
*Executive Vice President, Chief Financial Officer,  
Treasurer , and Secretary*

Houston, Texas  
March 30, 2007

-32-

---



## APPENDIX A

### AMENDED AND RESTATED COMPENSATION COMMITTEE CHARTER ROSETTA RESOURCES INC.

This Amended and Restated Compensation Committee Charter, dated effective the 25th day of July, 2006, supersedes in its entirety the Compensation Committee Charter adopted by the Board of Directors on the 1st day of August, 2005, and may be further amended from time to time at the discretion of the Board of Directors.

#### **Purpose**

The Compensation Committee will assist the Board of Directors of Rosetta Resources Inc. (the "Corporation") in discharging its responsibilities relating to compensation of the Corporation's executive officers and the members of the Board of Directors. The Compensation Committee has overall responsibility for approval, evaluation and oversight of all compensation and benefit plans, policies and programs of the Corporation.

The Compensation Committee is also responsible for producing an annual Compensation Committee report, discussed below, on executive compensation for inclusion in the Corporation's proxy statement.

#### **Committee Membership**

The Compensation Committee shall consist of no fewer than three members, all of whom shall meet the independence requirements of the NASDAQ National Market rules and other applicable law. The Board of Directors shall appoint the members of the Compensation Committee. The Board of Directors shall also have the power to replace any of the members of the Compensation Committee.

#### **Committee Authority and Responsibilities**

1. The Compensation Committee shall have the sole authority to retain and terminate any compensation consultant who may assist in the evaluation of senior executive compensation and shall have sole authority to approve the consultant's fees and other retention terms. The Compensation Committee shall also have authority to obtain advice and assistance from internal or external human resources, legal, accounting or other advisors.
2. The Compensation Committee shall annually review and make recommendations to the Board of Directors with respect to general compensation policies of the Corporation with respect to all officers and other key executives and directors.
3. The Compensation Committee shall annually review and approve, for the senior executives of the Corporation, (a) the annual base salary level, (b) the grants of stock options, restricted stock or other equity-based awards, (c) awards under other incentive-based compensation plans, (d) employment agreements, retirement plans, severance arrangements, and change-in-control agreements/provisions, in each case as, when and if appropriate, and (e) any special or supplemental benefits or perquisites.
4. The Compensation Committee shall annually review and approve the corporate goals and objectives relevant to the compensation of the senior executives, shall evaluate the senior executives' performance in light of these goals and objectives, and shall recommend to the Board of Directors the compensation levels based on this evaluation.
  5. The Compensation Committee may form and delegate authority to subcommittees when appropriate.
6. The Compensation Committee shall periodically evaluate the Company plans for succession of key executives.
  7. The Compensation Committee shall administer the Long-Term Incentive Plan of the Corporation.
  8. The Compensation Committee shall make regular reports to the Board of Directors.

A -1

---

9. The Compensation Committee shall review and reassess the adequacy of this Charter annually and recommend any proposed changes to the Board of Directors for approval. The Compensation Committee shall annually review its own performance.

### **Compensation Committee Report**

The Compensation Committee shall prepare a Compensation Committee Report (the "Report") to be included in the Corporation's proxy statement for its annual stockholders meeting. The Report shall contain the disclosure required by Schedule 14A under the Securities Exchange Act of 1934, as amended, and such other disclosure as may be required by law. At a minimum, the Report shall contain the following:

1. Disclosure of the Compensation Committee's compensation policies applicable to the senior executives, including the specific relationship of corporate performance to executive compensation, with respect to compensation reported for the last completed fiscal year.
2. Discussion of the Compensation Committee's bases for the Corporation's compensation reported for the last completed fiscal year, including the factors and criteria upon which the Chief Executive Officer's compensation was based. The Compensation Committee shall include a specific discussion of the relationship of the Corporation's performance to the Chief Executive Officer's compensation for the last completed fiscal year, describing each measure of the Corporation's performance, whether qualitative or quantitative, on which the Chief Executive Officer's compensation was based.

The required disclosure shall be made over the name of each member of the Compensation Committee. If the Board of Directors modified or rejected in any material way any action or recommendation by the Compensation Committee with respect to such decisions in the last completed fiscal year, the disclosure must so indicate and explain the reasons for the Board of Directors' actions, and be made over the names of all members of the Board of Directors.

## APPENDIX B

### ROSETTA RESOURCES INC. 2005 LONG-TERM INCENTIVE PLAN

#### ESTABLISHMENT AND PURPOSE

**Establishment and Purpose.** Rosetta Resources Inc. (“Rosetta”) hereby establishes the Rosetta Resources Inc. 2005 Long-Term Incentive Plan, as set forth in this document. The purpose of the Plan is to attract and retain highly qualified individuals and service providers, to further align the interests of Company employees and other service providers with those of the stockholders of Rosetta, and closely link compensation with Company performance. Rosetta is committed to creating long-term stockholder value. Rosetta’s compensation philosophy is based on a belief that Rosetta can best create stockholder value if key employees, directors, and certain others providing services to the Company act and are rewarded as business owners. Rosetta believes that an equity stake through equity compensation programs effectively aligns employee and stockholder interests by motivating and rewarding long-term performance that will enhance stockholder value.

**4.1 Effectiveness and Term.** This Plan shall become effective as of July 7, 2005 (the “Effective Date”), contingent on the closing of the Acquisition and the Offering, provided that prior to the Effective Date the Plan is duly approved by the holders of at least a majority of the shares of Common Stock either (i) present or represented and entitled to vote at a special meeting of the stockholders of Rosetta duly held in accordance with applicable law or (ii) by written action in lieu of a meeting in accordance with applicable law. Unless terminated earlier by the Board pursuant to Section 14.1, this Plan shall terminate on the day prior to the tenth anniversary of the Effective Date.

#### DEFINITIONS

**2.1 “Acquisition”** means the closing of the transactions contemplated by the Purchase and Sale Agreement.

**2.2 “Affiliate”** means (i) with respect to Incentive Stock Options, a “parent corporation” or a “subsidiary corporation” of Rosetta, as those terms are defined in sections 424(e) and (f) of the Code, respectively, and (ii) with respect to other Awards, (A) a “parent corporation” or a subsidiary corporation” of Rosetta as defined in (i) above, (B) a limited liability company, partnership or other entity in which Rosetta controls 50% or more of the voting power or equity interests.

**2.3 “Award”** means an award granted to a Participant in the form of Options, SARs, Restricted Stock, Restricted Stock Units, Performance Awards, Stock Awards or Other Incentive Awards, whether granted singly or in combination.

**2.4 “Award Agreement”** means a written agreement between Rosetta and a Participant that sets forth the terms, conditions, restrictions and limitations applicable to an Award.

**2.5 “Board”** means the Board of Directors of Rosetta.

**2.6 “Cash Dividend Right”** means a contingent right, granted in tandem with a specific Restricted Stock Unit Award, to receive an amount in cash equal to the cash distributions made by Rosetta with respect to a share of Common Stock during the period such Award is outstanding.

**2.7 “Cause”** means a finding by the Committee of acts or omissions constituting, in the Committee’s reasonable judgment, (i) a breach of duty by the Participant in the course of his employment or service involving fraud, acts of

dishonesty (other than inadvertent acts or omissions), disloyalty to the Company, or moral turpitude constituting criminal felony; (ii) conduct by the Participant that is materially detrimental to the Company, monetarily or otherwise, or reflects unfavorably on the Company or the Participant to such an extent that the

B -1

---

Company's best interests reasonably require the termination of the Participant's employment or service; (iii) acts or omissions of the Participant materially in violation of his obligations under any written employment or other agreement between the Participant and the Company or at law; (iv) the Participant's failure to comply with or enforce Company policies concerning equal employment opportunity, including engaging in sexually or otherwise harassing conduct; (v) the Participant's repeated insubordination; (vi) the Participant's failure to comply with or enforce, in any material respect, all other personnel policies of the Company; (vii) the Participant's failure to devote his full (or other required) working time and best efforts to the performance of his responsibilities to the Company; or (viii) the Participant's conviction of, or entry of a plea agreement or consent decree or similar arrangement with respect to a felony or any violation of federal or state securities laws.

**2.8 "Code"** means the Internal Revenue Code of 1986, as amended from time to time, including regulations thereunder and successor provisions and regulations.

**2.9 "Committee"** means the Compensation Committee of the Board or such other committee of the Board as may be designated by the Board to administer the Plan, which committee shall consist of two or more members of the Board; provided, however, that with respect to the application of the Plan to Awards made to Outside Directors, the "Committee" shall be the Board. During such time as the Common Stock is registered under Section 12 of the Exchange Act, each member of the Committee shall be an Outside Director. To the extent that no Committee exists that has the authority to administer the Plan, the functions of the Committee shall be exercised by the Board.

**2.10 "Common Stock"** means the common stock of Rosetta, \$0.001 par value per share, or any stock or other securities of hereafter issued or issuable in substitution or exchange for the Common Stock.

**2.11 "Company"** means Rosetta and any Affiliate.

**2.12 "Corporate Change"** means (i) the dissolution or liquidation of Rosetta; (ii) a reorganization, merger or consolidation of Rosetta with one or more corporations (other than a merger or consolidation effecting a reincorporation of Rosetta in another state or any other merger or consolidation in which the stockholders of the surviving corporation and their proportionate interests therein immediately after the merger or consolidation are substantially identical to the stockholders of Rosetta and their proportionate interests therein immediately prior to the merger or consolidation) (collectively, a "Corporate Change Merger"); (iii) the sale of all or substantially all of the assets of the Company; or (iv) the occurrence of a Change in Control. A "Change in Control" shall be deemed to have occurred if (x) individuals who were directors of Rosetta immediately prior to a Control Transaction shall cease, within two years of such Control Transaction to constitute a majority of the Board (or of the Board of Directors of any successor to Rosetta or to a company which has acquired all or substantially all its assets) other than by reason of an increase in the size of the membership of the applicable Board that is approved by at least a majority of the individuals who were directors of Rosetta immediately prior to such Control Transaction or (y) any entity, person or Group acquires shares of Rosetta in a transaction or series of transactions that result in such entity, person or Group directly or indirectly owning beneficially 50% or more of the outstanding shares of Common Stock. As used herein, "Control Transaction" means (A) any tender offer for or acquisition of capital stock of Rosetta pursuant to which any person, entity, or Group directly or indirectly acquires beneficial ownership of 20% or more of the outstanding shares of Common Stock; (B) any Corporate Change Merger of Rosetta; (C) any contested election of directors of Rosetta; or (D) any combination of the foregoing, any one of which results in a change in voting power sufficient to elect a majority of the Board. As used herein, "Group" means persons who act "in concert" as described in Sections 13(d)(3) and/or 14(d)(2) of the Exchange Act. Notwithstanding the foregoing, "Corporate Change" shall not include the Acquisition, the Offering, or any public offering of equity of Rosetta pursuant to a registration that is effective under the Securities Act.

**2.13 "Dividend Unit Right"** means a contingent right, granted in tandem with a specific Restricted Stock Unit Award, to have an additional number of Restricted Stock Units credited to a Participant in respect of the Award equal to the

number of shares of Common Stock that could be purchased at Fair Market Value with the amount of each cash distribution made by Rosetta with respect to a share of Common Stock during the period such Award is outstanding.

**2.14** “**Effective Date**” means the date this Plan becomes effective as provided in Section 1.2.

B -2

---

**2.15 “Employee”** means an employee of the Company; provided, however, that the term “Employee” does not include an Outside Director or an individual performing services for the Company who is treated for tax purposes as an independent contractor at the time of performance of the services.

**2.16 “Exchange Act”** means the Securities Exchange Act of 1934, as amended.

**2.17 “Fair Market Value”** means the fair market value of the Common Stock, as determined in good faith by the Committee or (i) if the Common Stock is traded in the over-the-counter market, the average of the representative closing bid and asked prices as reported by NASDAQ for the date the Award is granted (or if there was no quoted price for such date of grant, then for the last preceding business day on which there was a quoted price), or (ii) if the Common Stock is traded in the NASDAQ National Market System, the average of the highest and lowest selling prices for such stock as quoted on the NASDAQ National Market System for the date the Award is granted (or if there are no sales for such date of grant, then for the last preceding business day on which there were sales), or (iii) if the Common Stock is listed on any national stock exchange, the average of the highest and lowest selling prices for such stock as quoted on such exchange for the date the Award is granted (or if there are no sales for such date of grant, then for the last preceding business day on which there were sales).

**2.18 “Good Reason”** means any of the following actions if taken without the Participant’s prior written consent: (i) any material failure by the Company to comply with its obligations under the terms of a written employment agreement; (ii) any demotion of the Participant as evidenced by a material reduction in the Participant’s responsibilities, duties, compensation, or benefits; or (iii) any permanent relocation of the Participant’s place of business to a location 50 miles or more from the then-current location. Neither a transfer of employment among Rosetta and any of its Affiliates, a change in the co-employment relationship, nor a mere change in job title or reporting structure constitutes “Good Reason.”

**2.19 “Grant Date”** means the date an Award is determined to be effective by the Committee upon the grant of such Award.

**2.20 “Inability to Perform”** means and shall be deemed to have occurred if the Participant has been determined under the Company’s or any co-employer’s long-term disability plan to be eligible for long-term disability benefits. In the absence of the Participant’s participation in, application for benefits under, or existence of such a plan, “Inability to Perform” means a finding by the Committee in its sole judgment that the Participant is, despite any reasonable accommodation required by law, unable to perform the essential functions of his position because of an illness or injury for (i) 60% or more of the normal working days during six consecutive calendar months or (ii) 40% or more of the normal working days during twelve consecutive calendar months.

**2.21 “Incentive Stock Option”** means an Option that is intended to meet the requirements of section 422(b) of the Code.

**2.22 “NASDAQ”** means The NASDAQ Stock Market, Inc.

**2.23 “Nonqualified Stock Option”** means an Option that is not an Incentive Stock Option.

**2.24 “Offering”** means the offering, sale and issuance by Rosetta of Common Stock as set forth that certain offering memorandum initially dated June 9, 2005.

**2.25 “Option”** means an option to purchase shares of Common Stock granted to a Participant pursuant to Article VII. An Option may be either an Incentive Stock Option or a Nonqualified Stock Option, as determined by the Committee.



**2.26 “Other Incentive Award”** means an incentive award granted to a Participant pursuant to Article XII.

**2.27 “Outside Director”** means a member of the Board who: (i) meets the independence requirements of the principal exchange or quotation system upon which the shares of Common Stock are listed or quoted, (ii)

B -3

---

from and after the date on which the remuneration paid pursuant to the Plan becomes subject to the deduction limitation under Section 162(m) of the Code, qualifies as an “outside director” under Section 162(m) of the Code, (iii) qualifies as a “non-employee director” of Rosetta under Rule 16b-3, and (iv) satisfies independence criteria under any other applicable laws or regulations relating to the issuance of shares of Common Stock to Employees.

**2.28 “Participant”** means an Employee, director, or other individual or entity who performs services for the Company that has been granted an Award; provided, however, that no Award that may be settled in Common Stock may be issued to a Participant that is not a natural person.

**2.29 “Performance Award”** means an Award granted to a Participant pursuant to Article XI to receive cash or Common Stock conditioned in whole or in part upon the satisfaction of specified performance criteria.

**2.30 “Permitted Transferee”** shall have the meaning given such term in Section 15.4.

**2.31 “Plan”** means the Rosetta Resources Inc. 2005 Long-Term Incentive Plan, as in effect from time to time.

**2.32 “Purchase and Sale Agreement”** means that certain Purchase and Sale Agreement by and among Calpine Gas Holdings LLC, Calpine Fuels Corporation, Calpine Corporation and Rosetta dated July 7, 2005.

**2.33 “Purchased Restricted Stock”** shall have the meaning given such term in Section 9.2.

**2.34 “Restricted Period”** means the period established by the Committee with respect to an Award of Restricted Stock or Restricted Stock Units during which the Award remains subject to forfeiture.

**2.35 “Restricted Stock”** means a share of Common Stock granted to a Participant pursuant to Article IX that is subject to such terms, conditions, and restrictions as may be determined by the Committee.

**2.36 “Restricted Stock Unit”** means a fictional share of Common Stock granted to a Participant pursuant to Article X that is subject to such terms, conditions, and restrictions as may be determined by the Committee.

**2.37 “Rosetta”** means Rosetta Resources Inc., a Delaware corporation, or any successor thereto.

**2.38 “Rule 16b-3”** means Rule 16b-3 promulgated by the SEC under the Exchange Act, or any successor rule or regulation that may be in effect from time to time.

**2.39 “SEC”** means the United States Securities and Exchange Commission, or any successor agency or organization.

**2.40 “Securities Act”** means the Securities Act of 1933, as amended.

**2.41 “Stock Appreciation Right” or “SAR”** means a right granted to a Participant pursuant to Article VIII with respect to a share of Common Stock to receive upon exercise cash, Common Stock or a combination of cash and Common Stock, equal to the appreciation in value of a share of Common Stock.

### ARTICLE III. PLAN ADMINISTRATION

**3.1 Plan Administrator and Discretionary Authority.** The Plan shall be administered by the Committee. The Committee shall have total and exclusive responsibility to control, operate, manage and administer the Plan in accordance with its terms. The Committee shall have all the authority that may be necessary or helpful to enable it to discharge its responsibilities with respect to the Plan. Without limiting the generality of the preceding sentence, the Committee shall have the exclusive right to: (i) interpret the Plan and the Award Agreements executed hereunder; (ii)

decide all questions concerning eligibility for, and the amount of, Awards granted under the Plan; (iii) construe any ambiguous provision of the Plan or any Award Agreement; (iv) prescribe the form of Award Agreements; (v) correct any defect, supply any omission or reconcile any inconsistency in the Plan or any Award

B -4

---

Agreement; (vi) issue administrative guidelines as an aid to administering the Plan and make changes in such guidelines as the Committee from time to time deems proper; (vii) make regulations for carrying out the Plan and make changes in such regulations as the Committee from time to time deems proper; (viii) determine whether Awards should be granted singly or in combination; (ix) to the extent permitted under the Plan, grant waivers of Plan terms, conditions, restrictions and limitations; (x) accelerate the exercise, vesting or payment of an Award when such action or actions would be in the best interests of the Company; (xi) require Participants to hold a stated number or percentage of shares of Common Stock acquired pursuant to an Award for a stated period; and (xii) take any and all other actions the Committee deems necessary or advisable for the proper operation or administration of the Plan. The Committee shall have authority in its sole discretion with respect to all matters related to the discharge of its responsibilities and the exercise of its authority under the Plan, including without limitation its construction of the terms of the Plan and its determination of eligibility for participation in, and the terms of Awards granted under, the Plan. The decisions of the Committee and its actions with respect to the Plan shall be final, conclusive and binding on all persons having or claiming to have any right or interest in or under the Plan, including without limitation Participants and their respective Permitted Transferees, estates, beneficiaries and legal representatives.

**3.2 Liability; Indemnification.** No member of the Committee, nor any person to whom it has delegated authority, shall be personally liable for any action, interpretation or determination made in good faith with respect to the Plan or Awards granted hereunder, and each member of the Committee (or delegatee of the Committee) shall be fully indemnified and protected by Rosetta with respect to any liability he may incur with respect to any such action, interpretation or determination, to the maximum extent permitted by applicable law.

#### **ARTICLE IV. SHARES SUBJECT TO THE PLAN**

##### **4.2 Available Shares.**

(a) Subject to adjustment as provided in Section 4.2, the maximum number of shares of Common Stock that shall be available for grant of Awards under the Plan shall be 3,000,000 shares of Common Stock.

(b) The maximum number of shares of Common Stock that may be subject to Incentive Stock Options granted under the Plan is 3,000,000. The maximum number of shares of Common Stock that may be subject to all Awards granted under the Plan to any one Participant (i) during the fiscal year of Rosetta in which the Participant is first hired by the Company is 300,000 shares and (ii) during each subsequent fiscal year is 200,000 shares. The limitations provided in this Section 4.1(b) shall be subject to adjustment as provided in Section 4.2.

(c) Shares of Common Stock issued pursuant to the Plan may be original issue or treasury shares or a combination of the foregoing, as the Committee, in its sole discretion, shall from time to time determine. During the term of this Plan, Rosetta will at all times reserve and keep available such number of shares of Common Stock as shall be sufficient to satisfy the requirements of the Plan.

**4.3 Adjustments for Recapitalizations and Reorganizations.** Subject to Article XIII, if there is any change in the number or kind of shares of Common Stock outstanding (i) by reason of a stock dividend, spin-off, recapitalization, stock split, or combination or exchange of shares, (ii) by reason of a merger, reorganization, or consolidation, (iii) by reason of a reclassification or change in par value, or (iv) by reason of any other extraordinary or unusual event affecting the outstanding Common Stock as a class without Rosetta's receipt of consideration, or if the value of outstanding shares of Common Stock is reduced as a result of a spin-off or Rosetta's payment of an extraordinary cash dividend, or distribution or dividend or distribution consisting of any assets of Rosetta other than cash, the maximum number and kind of shares of Common Stock available for issuance under the Plan, the maximum number and kind of shares of Common Stock for which any individual may receive Awards in any fiscal year, the number and kind of shares of Common Stock covered by outstanding Awards, and the price per share or the applicable market value or performance target of such Awards shall be equitably and proportionately adjusted by the Committee to reflect any increase or decrease in the number of, or change in the kind or value of, issued shares of Common Stock to preclude, to the extent practicable, the enlargement or dilution of rights under such Awards; provided, however, that any fractional shares resulting from such adjustment shall be eliminated.

**4.4 Adjustments for Awards.** The Committee shall have sole discretion to determine the manner in which shares of Common Stock available for grant of Awards under the Plan are counted. Without limiting the discretion of the Committee under this Section 4.3, unless otherwise determined by the Committee, the following rules shall apply for the purpose of determining the number of shares of Common Stock available for grant of Awards under the Plan:

(a) **Options, Restricted Stock and Stock Awards.** The grant of Options, Restricted Stock or Stock Awards shall reduce the number of shares of Common Stock available for grant of Awards under the Plan by the number of shares of Common Stock subject to such an Award.

(b) **SARs.** The grant of SARs that may be paid or settled (i) only in Common Stock or (ii) in either cash or Common Stock shall reduce the number of shares available for grant of Awards under the Plan by the number of shares subject to such an Award; provided, however, that upon the exercise of SARs, the excess of the number of shares of Common Stock with respect to which the Award is exercised over the number of shares of Common Stock issued upon exercise of the Award shall again be available for grant of Awards under the Plan. The grant of SARs that may be paid or settled only for cash shall not affect the number of shares available for grant of Awards under the Plan.

(c) **Restricted Stock Units.** The grant of Restricted Stock Units (including those credited to a Participant in respect of a Dividend Unit Right) that may be paid or settled (i) only in Common Stock or (ii) in either cash or Common Stock shall reduce the number of shares available for grant of Awards under the Plan by the number of shares subject to such an Award; provided, however, that upon settlement of the Award, the excess, if any, of the number of shares of Common Stock that had been subject to such Award over the number of shares of Common Stock issued upon its settlement shall again be available for grant of Awards under the Plan. The grant of Restricted Stock Units that may be paid or settled only for cash shall not affect the number of shares available for grant of Awards under the Plan.

(d) **Other Incentive Awards.** The grant of a Performance Award or Other Incentive Award in the form of Common Stock or that may be paid or settled (i) only in Common Stock or (ii) in either Common Stock or cash shall reduce the number of shares available for grant of Awards under the Plan by the number of shares subject to such an Award; provided, however, that upon settlement of the Award, the excess, if any, of the number of shares of Common Stock that had been subject to such Award over the number of shares of Common Stock issued upon its settlement shall again be available for grant of Awards under the Plan. The grant of a Performance Award or Other Incentive Award that may be paid or settled only for cash shall not affect the number of shares available for grant of Awards under the Plan.

(e) **Cancellation, Forfeiture and Termination.** If any Award referred to in Sections 4.3(a), (b), (c), or (d) (other than an Award that may be paid or settled only for cash) is canceled or forfeited, or terminates, expires or lapses, for

any reason, the shares then subject to such Award shall again be available for grant of Awards under the Plan.

B -6

---

(f) **Payment of Exercise Price and Withholding Taxes.** If previously acquired shares of Common Stock are used to pay the exercise price of an Award, the number of shares available for grant of Awards under the Plan shall be increased by the number of shares delivered as payment of such exercise price. If previously acquired shares of Common Stock are used to pay withholding taxes payable upon exercise, vesting or payment of an Award, or shares of Common Stock that would be acquired upon exercise, vesting or payment of an Award are withheld to pay withholding taxes payable upon exercise, vesting or payment of such Award, the number of shares available for grant of Awards under the Plan shall be increased by the number of shares delivered or withheld as payment of such withholding taxes.

## ARTICLE V. ELIGIBILITY

The Committee shall select Participants from those Employees, Outside Directors and other individuals or entities providing services to the Company that, in the opinion of the Committee, are in a position to make a significant contribution to the success of the Company. Once a Participant has been selected for an Award by the Committee, the Committee shall determine the type and size of Award to be granted to the Participant and shall establish in the related Award Agreement the terms, conditions, restrictions and limitations applicable to the Award, in addition to those set forth in the Plan and the administrative guidelines and regulations, if any, established by the Committee.

## ARTICLE VI. FORM OF AWARDS

**6.1 Form of Awards.** Awards may be granted under the Plan, in the Committee's sole discretion, in the form of Options pursuant to Article VII, SARs pursuant to Article VIII, Restricted Stock pursuant to Article IX, Restricted Stock Units pursuant to Article X, Performance Awards pursuant to Article XI, and Stock Awards and Other Incentive Awards pursuant to Article XII, or a combination thereof. All Awards shall be subject to the terms, conditions, restrictions and limitations of the Plan. The Committee may, in its sole discretion, subject any Award to such other terms, conditions, restrictions and/or limitations (including without limitation the time and conditions of exercise, vesting or payment of an Award and restrictions on transferability of any shares of Common Stock issued or delivered pursuant to an Award), provided they are not inconsistent with the terms of the Plan. The Committee may, but is not required to, subject an Award to such conditions as it determines are necessary or appropriate to ensure that an Award constitutes "qualified performance based compensation" within the meaning of section 162(m) of the Code and the regulations thereunder. Awards under a particular Article of the Plan need not be uniform, and Awards under more than one Article of the Plan may be combined in a single Award Agreement. Any combination of Awards may be granted at one time and on more than one occasion to the same Participant. Subject to compliance with applicable tax law, an Award Agreement may provide that a Participant may elect to defer receipt of income attributable to the exercise or vesting of an Award.

**6.2 No Repricing or Reload Rights.** Except for adjustments made pursuant to Section 4.2, no Award may be repriced, replaced, regranted through cancellation or otherwise modified without stockholder approval, if the effect would be to reduce the exercise price for the shares underlying such Award. The Committee may not cancel an outstanding Option that is under water for the purpose of granting a replacement Award of a different type.

**6.3 Loans.** The Committee may, in its sole discretion, approve the extension of a loan by the Company to a Participant who is an Employee to assist the Participant in paying the exercise price or purchase price of an Award; provided, however, that no loan shall be permitted if the extension of such loan would violate any provision of applicable law. Any loan will be made upon such terms and conditions as the Committee shall determine.

## ARTICLE VII. OPTIONS

**7.1 General.** Awards may be granted in the form of Options that may be Incentive Stock Options or Nonqualified Stock Options, or a combination of both; provided, however, that Incentive Stock Options may be granted only to

Employees.

**7.2 Terms and Conditions of Options.** An Option shall be exercisable in whole or in such installments and at such times as may be determined by the Committee. The price at which a share of Common

B -7

---



Stock may be purchased upon exercise of an Option shall be determined by the Committee, but such exercise price shall not be less than 100% of the Fair Market Value per share of Common Stock on the Grant Date unless the Option was granted through the assumption of, or in substitution for, outstanding awards previously granted to individuals who became Employees as a result of a merger, consolidation, acquisition, or other corporate transaction involving the Company and complies with section 409A of the Code. Except as otherwise provided in Section 7.3, the term of each Option shall be as specified by the Committee; provided, however, that no Options shall be exercisable later than ten years after the Grant Date. Options may be granted with respect to Restricted Stock or shares of Common Stock that are not Restricted Stock, as determined by the Committee in its sole discretion.

### **7.3 Restrictions Relating to Incentive Stock Options.**

(a) Options granted in the form of Incentive Stock Options shall, in addition to being subject to the terms and conditions of Section 7.2, comply with section 422(b) of the Code. To the extent the aggregate Fair Market Value (determined as of the times the respective Incentive Stock Options are granted) of Common Stock with respect to which Incentive Stock Options are exercisable for the first time by an individual during any calendar year under all incentive stock option plans of the Company exceeds \$100,000, such excess Incentive Stock Options shall be treated as options that do not constitute Incentive Stock Options. The Committee shall determine, in accordance with the applicable provisions of the Code, which of a Participant's Incentive Stock Options will not constitute Incentive Stock Options because of such limitation and shall notify the Participant of such determination as soon as practicable after such determination. The price at which a share of Common Stock may be purchased upon exercise of an Incentive Stock Option shall be determined by the Committee, but such exercise price shall not be less than 100% of the Fair Market Value of a share of Common Stock on the Grant Date. No Incentive Stock Option shall be granted to an Employee under the Plan if, at the time such Option is granted, such Employee owns stock possessing more than 10% of the total combined voting power of all classes of stock of Rosetta or an Affiliate, within the meaning of section 422(b)(6) of the Code, unless (i) on the Grant Date of such Option, the exercise price of such Option is at least 110% of the Fair Market Value of the Common Stock subject to the Option and (ii) such Option by its terms is not exercisable after the expiration of five years from the Grant Date of the Option.

(b) Each Participant awarded an Incentive Stock Option shall notify Rosetta in writing immediately after the date he or she makes a disqualifying disposition of any shares of Common Stock acquired pursuant to the exercise of such Incentive Stock Option. A disqualifying disposition is any disposition (including any sale) of such Common Stock before the later of (i) two years after the Grant Date of the Incentive Stock Option or (ii) one year after the date of exercise of the Incentive Stock Option.

### **7.4 Exercise of Options.**

(a) Subject to the terms and conditions of the Plan, Options shall be exercised by the delivery of a written notice of exercise to Rosetta, setting forth the number of whole shares of Common Stock with respect to which the Option is to be exercised, accompanied by full payment for such shares.

(b) Upon exercise of an Option, the exercise price of the Option shall be payable to Rosetta in full either: (i) in cash or an equivalent acceptable to the Committee, or (ii) in the sole discretion of the Committee and in accordance with any applicable administrative guidelines established by the Committee, by tendering one or more previously acquired nonforfeitable, unrestricted shares of Common Stock that have been held by the Participant for at least six months having an aggregate Fair Market Value at the time of exercise equal to the total exercise price, or (iii) in a combination of the forms of payment specified in clauses (i) and (ii) above.

(c) During such time as the Common Stock is registered under Section 12 of the Exchange Act, to the extent permissible under applicable law, payment of the exercise price of an Option may also be made, in the absolute discretion of the Committee, by delivery to Rosetta or its designated agent of an executed irrevocable option exercise

form together with irrevocable instructions to a broker-dealer to sell or margin a sufficient portion of the shares with respect to which the Option is exercised and deliver the sale or margin loan proceeds directly to Rosetta to pay the exercise price and any required withholding taxes.

B -8

---

(d) As soon as reasonably practicable after receipt of written notification of exercise of an Option and full payment of the exercise price and any required withholding taxes, Rosetta shall (i) deliver to the Participant, in the Participant's name or the name of the Participant's designee, a stock certificate or certificates in an appropriate aggregate amount based upon the number of shares of Common Stock purchased under the Option, or (ii) cause to be issued in the Participant's name or the name of the Participant's designee, in book-entry form, an appropriate number of shares of Common Stock based upon the number of shares purchased under the Option.

**7.5 Termination of Employment or Service.** Each Award Agreement embodying the Award of an Option shall set forth the extent to which the Participant shall have the right to exercise the Option following termination of the Participant's employment or service with the Company. Such provisions shall be determined by the Committee in its absolute discretion, need not be uniform among all Options granted under the Plan and may reflect distinctions based on the reasons for termination of employment or service. In the event a Participant's Award Agreement embodying the award of an Option does not set forth such termination provisions, the following termination provisions shall apply with respect to such Award:

(a) **Termination Other Than For Cause.** If the employment or service of a Participant shall terminate for any reason other than Cause, each outstanding Option held by the Participant may be exercised, to the extent then vested, until the earlier of (i) the expiration of one year from the date of such termination of employment or service or (ii) the expiration of the term of such Option.

(b) **Termination for Cause.** Notwithstanding paragraphs (a) above, if the employment or service of a Participant shall terminate for Cause, each outstanding Option held by the Participant may be exercised, to the extent then vested, until the earlier of (i) the expiration of 30 days from the date of such termination of employment or service or (ii) the expiration of the terms of such Option.

Notwithstanding the foregoing, an Option will not be treated as an Incentive Stock Option unless at all times beginning on the Grant Date and ending on the day three months (one year in the case of a Participant who is "disabled" within the meaning of Section 22(e)(3) of the Code) before the date of exercise of the Option, the Participant is an employee of Rosetta or an Affiliate (or a corporation or a parent or subsidiary corporation of such corporation issuing or assuming an option in a transaction to which Section 424(a) of the Code applies).

## ARTICLE VIII. STOCK APPRECIATION RIGHTS

**8.1 General.** The Committee may grant Awards in the form of SARs in such numbers and at such times as it shall determine. SARs shall vest and be exercisable in whole or in such installments and at such times as may be determined by the Committee. The price at which SARs may be exercised shall be determined by the Committee but shall not be less than 100% of the Fair Market Value per share of Common Stock on the Grant Date unless the SARs were granted through the assumption of, or in substitution for, outstanding awards previously granted to individuals who became Employees as a result of a merger, consolidation, acquisition, or other corporate transaction involving the Company and comply with section 409A of the Code. The term of each SAR shall be as specified by the Committee; provided, however, that no SARs shall be exercisable later than ten years after the Grant Date. At the time of an Award of SARs, the Committee may, in its sole discretion, prescribe additional terms, conditions, restrictions and limitations applicable to the SARs, including without limitation rules pertaining to the termination of employment or service (by reason of death, permanent and total disability, or otherwise) of a Participant prior to exercise of the SARs, as it determines are necessary or appropriate, provided they are not inconsistent with the Plan.

**8.2 Exercise of SARs.** SARs shall be exercised by the delivery of a written notice of exercise to Rosetta, setting forth the number of whole shares of Common Stock with respect to which the Award is being exercised. Upon the

exercise of SARs, the Participant shall be entitled to receive an amount equal to the excess of the aggregate Fair Market Value of the shares of Common Stock with respect to which the Award is exercised (determined as of the date of such exercise) over the aggregate exercise price of such shares. Such amount shall be payable to the Participant in cash or in shares of Common Stock, as provided in the Award Agreement; provided,

B -9

---

however, that if SARs are to be settled in cash, the SARs shall be structured to avoid negative tax consequences to the Participant under Section 409A of the Code.

## ARTICLE IX. RESTRICTED STOCK

**9.1 General.** Awards may be granted in the form of Restricted Stock in such numbers and at such times as the Committee shall determine. The Committee shall impose such terms, conditions and restrictions on Restricted Stock as it may deem advisable, including without limitation providing for vesting upon the achievement of specified performance goals pursuant to a Performance Award and restrictions under applicable Federal or state securities laws. A Participant shall not be required to make any payment for Restricted Stock unless required by the Committee pursuant to Section 9.2.

**9.2 Purchased Restricted Stock.** The Committee may in its sole discretion require a Participant to pay a stipulated purchase price for each share of Restricted Stock (“Purchased Restricted Stock”).

**9.3 Restricted Period.** At the time an Award of Restricted Stock is granted, the Committee shall establish a Restricted Period applicable to such Restricted Stock. Each Award of Restricted Stock may have a different Restricted Period in the sole discretion of the Committee.

**9.4 Other Terms and Conditions.** Restricted Stock shall constitute issued and outstanding shares of Common Stock for all corporate purposes. Restricted Stock awarded to a Participant under the Plan shall be registered in the name of the Participant or, at the option of Rosetta, in the name of a nominee of Rosetta, and shall be issued in book-entry form or represented by a stock certificate. Subject to the terms and conditions of the Award Agreement, a Participant to whom Restricted Stock has been awarded shall have the right to receive dividends thereon during the Restricted Period, to vote the Restricted Stock and to enjoy all other stockholder rights with respect thereto, except that (i) Rosetta shall retain custody of any certificates evidencing the Restricted Stock during the Restricted Period, and (ii) the Participant may not sell, transfer, pledge, exchange, hypothecate or otherwise dispose of the Restricted Stock during the Restricted Period. A breach of the terms and conditions established by the Committee pursuant to the Award of the Restricted Stock may result in a forfeiture of the Restricted Stock. At the time of an Award of Restricted Stock, the Committee may, in its sole discretion, prescribe additional terms, conditions, restrictions and limitations applicable to the Restricted Stock, including without limitation rules pertaining to the termination of employment or service (by reason of death, permanent and total disability, retirement, cause or otherwise) of a Participant prior to expiration of the Restricted Period.

**9.5 Miscellaneous.** Nothing in this Article shall prohibit the exchange of shares of Restricted Stock pursuant to a plan of merger or reorganization for stock or other securities of Rosetta or another corporation that is a party to the reorganization, provided that the stock or securities so received in exchange for shares of Restricted Stock shall, except as provided in Article XIII, become subject to the restrictions applicable to such Restricted Stock. Any shares of Common Stock received as a result of a stock split or stock dividend with respect to shares of Restricted Stock shall also become subject to the restrictions applicable to such Restricted Stock.

## ARTICLE X. RESTRICTED STOCK UNITS

**10.1 General.** Awards may be granted in the form of Restricted Stock Units in such numbers and at such times as the Committee shall determine. The Committee shall impose such terms, conditions and restrictions on Restricted Stock Units as it may deem advisable, including without limitation prescribing the period over which and the conditions upon which a Restricted Stock Unit may become vested or be forfeited, and providing for vesting upon the achievement of specified performance goals pursuant to a Performance Award. Upon the lapse of restrictions with respect to each Restricted Stock Unit, the Participant shall be entitled to receive from the Company one share of Common Stock or an amount of cash equal to the Fair Market Value of one share of Common Stock, as provided in

the Award Agreement. A Participant shall not be required to make any payment for Restricted Stock Units.

**10.2 Restricted Period.** At the time an Award of Restricted Stock Units is granted, the Committee shall establish a Restricted Period applicable to such Restricted Stock Units. Each Award of Restricted Stock Units may have a different Restricted Period in the sole discretion of the Committee.

B -10

---

**10.3 Cash Dividend Rights and Dividend Unit Rights.** To the extent provided by the Committee in its sole discretion, a grant of Restricted Stock Units may include a tandem Cash Dividend Right or Dividend Unit Right grant. A grant of Cash Dividend Rights may provide that such Cash Dividend Rights shall be paid directly to the Participant at the time of payment of related dividend, be credited to a bookkeeping account subject to the same vesting and payment provisions as the tandem Award (with or without interest in the sole discretion of the Committee), or be subject to such other provisions or restrictions as determined by the Committee in its sole discretion. A grant of Dividend Unit Rights may provide that such Dividend Unit Rights shall be subject to the same vesting and payment provisions as the tandem Award or be subject to such other provisions and restrictions as determined by the Committee in its sole discretion.

**10.4 Other Terms and Conditions.** At the time of an Award of Restricted Stock Units, the Committee may, in its sole discretion, prescribe additional terms, conditions, restrictions and limitations applicable to the Restricted Stock Units, including without limitation rules pertaining to the termination of employment or service (by reason of death, permanent and total disability, retirement, cause or otherwise) of a Participant prior to expiration of the Restricted Period. Awards of Restricted Stock Units are considered nonqualified deferred compensation subject to section 409A of the Code and will be designed to comply with that section.

## ARTICLE XI. PERFORMANCE AWARDS

**11.1 General.** Awards may be granted in the form of Performance Awards that may be payable in the form of cash, shares of Common Stock, or a combination of both, in such amounts and at such times as the Committee shall determine. Performance Awards shall be conditioned upon the level of achievement of one or more stated performance goals over a specified performance period that shall not be shorter than one year. Performance Awards may be combined with other Awards to impose performance criteria as part of the terms of such other Awards.

**11.2 Terms and Conditions.** Each Award Agreement embodying a Performance Award shall set forth (i) the amount, including a target and maximum amount if applicable, a Participant may earn in the form of cash or shares of Common Stock or a formula for determining such amount, (ii) the performance criteria and level of achievement versus such criteria that shall determine the amount payable or number of shares of Common Stock to be granted, issued, retained and/or vested, (iii) the performance period over which performance is to be measured, (iv) the timing of any payments to be made, (v) restrictions on the transferability of the Award, and (vi) such other terms and conditions as the Committee may determine that are not inconsistent with the Plan.

**11.3 Code Section 162(m) Requirements.** From and after the date on which remuneration paid pursuant to the Plan becomes subject to the deduction limitation of Section 162(m) of the Code, the Committee shall determine in its sole discretion whether all or any portion of a Performance Award shall be intended to satisfy the requirements for “performance-based compensation” under section 162(m) of the Code (the “162(m) Requirements”). The performance criteria for any Performance Award that is intended to satisfy the 162(m) Requirements shall be established in writing by the Committee based on one or more performance goals as set forth in Section 11.4 not later than 90 days after commencement of the performance period with respect to such Award, provided that the outcome of the performance in respect of the goals remains substantially uncertain as of such time. The maximum amount that may be paid in cash pursuant to Performance Awards granted to a Participant with respect to a Rosetta’s fiscal year that are intended to satisfy the 162(m) Requirements is \$1,000,000; provided, however, that such maximum amount with respect to a Performance Award that provides for a performance period longer than one fiscal year shall be the foregoing limit multiplied by the number of full fiscal years in the performance period. At the time of the grant of a Performance Award and to the extent permitted under Code section 162(m) and regulations thereunder for a Performance Award intended to satisfy the 162(m) Requirements, the Committee may provide for the manner in which the performance goals will be measured in light of specified corporate transactions, extraordinary events, accounting changes and other

similar occurrences.

**11.4 Performance Goals.** The performance measure(s) to be used for purposes of Performance Awards may be described in terms of objectives that are related to the individual Participant or objectives that are Company-wide or related to a subsidiary, division, department, region, function or business unit of the Company in

B -11

---



which the Participant is employed or with respect to which the Participant performs services, and may consist of one or more or any combination of the following criteria: (i) earnings or earnings per share (whether on a pre-tax, after-tax, operational or other basis), (ii) return on equity, (iii) return on assets or net assets, (iv) return on capital or invested capital and other related financial measures, (v) cash flow, (vi) revenues, (vii) income or operating income, (viii) expenses or expense levels, (ix) one or more operating ratios, (x) stock price, (xi) total stockholder return, (xii) market share, (xiii) operating profit, (xiv) profit margin, (xv) capital expenditures, (xvi) net borrowing, debt leverage levels, credit quality or debt ratings, (xvii) the accomplishment of mergers, acquisitions, dispositions, public offerings or similar extraordinary business transactions, (xviii) net asset value per share, (xix) economic value added, (xx) individual business objectives, (xxi) growth in production, and (xxii) added reserves. The performance goals based on these performance measures may be made relative to the performance of other business entities.

**11.5 Certification and Negative Discretion.** Prior to the payment of any compensation pursuant to a Performance Award that is intended to satisfy the 162(m) Requirements, the Committee shall certify the extent to which the performance goals and other material terms of the Award have been achieved or satisfied. The Committee in its sole discretion shall have the authority to reduce, but not to increase, the amount payable and the number of shares to be granted, issued, retained or vested pursuant to a Performance Award.

## ARTICLE XII. STOCK AWARDS AND OTHER INCENTIVE AWARDS

**12.1 Stock Awards.** Stock Awards may be granted to Participants upon such terms and conditions as the Committee may determine. Shares of Common Stock issued pursuant to Stock Awards may be issued for cash consideration or for no cash consideration. The Committee shall determine the number of shares of Common Stock to be issued pursuant to a Stock Award.

**12.2 Other Incentive Awards.** Other Incentive Awards may be granted in such amounts, upon such terms and at such times as the Committee shall determine. Other Incentive Awards may be granted based upon, payable in or otherwise related to, in whole or in part, shares of Common Stock if the Committee, in its sole discretion, determines that such Other Incentive Awards are consistent with the purposes of the Plan. Each grant of an Other Incentive Award shall be evidenced by an Award Agreement that shall specify the amount of the Other Incentive Award and the terms, conditions, restrictions and limitations applicable to such Award. Payment of Other Incentive Awards shall be made at such times and in such form, which may be cash, shares of Common Stock or other property (or a combination thereof), as established by the Committee, subject to the terms of the Plan.

## ARTICLE XIII. CORPORATE CHANGE

**13.1 Vesting of Awards.** Except as provided otherwise below in this Article or in an Award Agreement at the time an Award is granted or amended, notwithstanding anything to the contrary in this Plan, if a Participant's employment or service with the Company is terminated for any reason other than death, Cause or Inability to Perform or if a Participant voluntarily terminates employment or service for Good Reason, in either case within the one-year period following a Corporate Change of Rosetta, any time periods, conditions or contingencies relating to the exercise or realization of, or lapse of restrictions under, any Award shall be automatically accelerated or waived so that:

- (a) if no exercise of the Award is required, the Award may be realized in full at the time of the occurrence of the Participant's termination of employment or service; or
- (b) if exercise of the Award is required, the Award may be exercised in full commencing on the date of the Participant's termination of employment or service.

In the event all outstanding Awards are replaced in connection with a Corporate Change by comparable types of awards of at least substantially equivalent value, as determined by the Committee in its sole discretion, such

replacement awards shall provide for automatic acceleration or waiver as provided above in the event of a Participant's involuntary termination of employment or service with the Company other than for Cause or voluntary termination of employment or service for Good Reason, as applicable.

B -12

---

**13.2 Cancellation of Awards.** Notwithstanding the foregoing, on or prior to the date of a Corporate Change, the Committee may take any of the following actions with respect to any or all outstanding Awards, without the consent of any Participant: (i) the Committee may require that Participants surrender their outstanding Options and SARs in exchange for payment by the Company, in cash, Common Stock, the securities of another company, or a combination thereof, as determined by the Committee, in an amount equal to the amount, if any, by which the then Fair Market Value of the shares of Common Stock subject to the Participant's unexercised Options and SARs exceeds the exercise price or grant price, and (ii) with respect to Participants holding Restricted Stock, Restricted Stock Units, Performance Awards or Other Incentive Awards, and related Cash Dividend Rights and Dividend Unit Rights (if applicable), the Committee may determine that such Participants shall receive payment in settlement of such Awards (and dividend rights), in an amount equivalent to the value of such Awards (and dividend rights) at the time of such settlement.

#### ARTICLE XIV. AMENDMENT AND TERMINATION

**14.1 Plan Amendment and Termination.** The Board may at any time suspend, terminate, amend or modify the Plan, in whole or in part; provided, however, that no amendment or modification of the Plan shall become effective without the approval of such amendment or modification by the holders of at least a majority of the shares of Common Stock if (i) such amendment or modification increases the maximum number of shares subject to the Plan (except as provided in Article IV) or changes the designation or class of persons eligible to receive Awards under the Plan, or (ii) counsel for Rosetta determines that such approval is otherwise required by or necessary to comply with applicable law or the listing requirements of NASDAQ or such other exchange or association on which the Common Stock is then listed or quoted. An amendment to the Plan shall not require stockholder approval if it curtails rather than expands the scope of the Plan, nor if it is made to conform the Plan to new statutory or regulatory requirements that arise after submission of the Plan to stockholders for their approval, such as, without limitation, changes to section 409A of the Code, or regulations issued thereunder. Upon termination of the Plan, the terms and provisions of the Plan shall, notwithstanding such termination, continue to apply to Awards granted prior to such termination. Except as otherwise provided herein, no suspension, termination, amendment or modification of the Plan shall adversely affect in any material way any Award previously granted under the Plan, without the consent of the Participant (or the Permitted Transferee) holding such Award.

**14.2 Award Amendment and Cancellation.** The Committee may amend the terms of any outstanding Award granted pursuant to the Plan, but except as otherwise provided herein, no such amendment shall adversely affect in any material way the Participant's (or a Permitted Transferee's) rights under an outstanding Award without the consent of the Participant (or the Permitted Transferee) holding such Award.

#### ARTICLE XV. MISCELLANEOUS

**15.1 Award Agreements.** After the Committee grants an Award under the Plan to a Participant, Rosetta and the Participant shall enter into an Award Agreement setting forth the terms, conditions, restrictions and limitations applicable to the Award and such other matters as the Committee may determine to be appropriate. The Committee may permit or require a Participant to defer receipt of the payment of cash or the delivery of shares of Common Stock that would otherwise be due to the Participant in connection with any Award. Awards that are not paid currently shall be recorded as payable on Rosetta's records for the Plan. The terms and provisions of the respective Award Agreements need not be identical. All Award Agreements shall be subject to the provisions of the Plan, and in the event of any conflict between an Award Agreement and the Plan, the terms of the Plan shall govern.

**15.2 Listing; Suspension.**

(a) As long as the Common Stock is listed on a national securities exchange or system sponsored by a national securities association, the issuance of any shares of Common Stock pursuant to an Award shall be conditioned upon such shares being listed on such exchange or system. Rosetta shall have no obligation to issue such shares unless and until such shares are so listed, and the right to exercise any Option or other Award with respect to such shares shall be suspended until such listing has been effected.

B -13

---

(b) If at any time counsel to Rosetta or its Affiliates shall be of the opinion that any sale or delivery of shares of Common Stock pursuant to an Award is or may in the circumstances be unlawful or result in the imposition of excise taxes on Rosetta or its Affiliates under the laws of any applicable jurisdiction, Rosetta or its Affiliates shall have no obligation to make such sale or delivery, or to make any application or to effect or to maintain any qualification or registration under the Securities Act, or otherwise, with respect to shares of Common Stock or Awards, and the right to exercise any Option or other Award shall be suspended until, in the opinion of such counsel, such sale or delivery shall be lawful or will not result in the imposition of excise taxes on Rosetta or its Affiliates.

(c) Upon termination of any period of suspension under this Section, any Award affected by such suspension that shall not then have expired or terminated shall be reinstated as to all shares available before such suspension and as to shares that would otherwise have become available during the period of such suspension, but no such suspension shall extend the term of any Award unless otherwise determined by the Committee in its sole discretion.

**15.3 Additional Conditions.** Notwithstanding anything in the Plan to the contrary: (i) the Committee may, if it shall determine it necessary or desirable in its sole discretion, at the time of grant of any Award or the issuance of any shares of Common Stock pursuant to any Award, require the recipient of the Award or such shares of Common Stock, as a condition to the receipt thereof, to deliver to Rosetta a written representation of present intention to acquire the Award or such shares of Common Stock for his own account for investment and not for distribution, (ii) the certificate for shares of Common Stock issued to a Participant may include any legend that the Committee deems appropriate to reflect any restrictions on transfer, and (iii) all certificates for shares of Common Stock delivered under the Plan shall be subject to such stop transfer orders and other restrictions as the Committee may deem advisable under the rules, regulations and other requirements of the SEC, any stock exchange or association upon which the Common Stock is then listed or quoted, any applicable federal or state securities law, and any applicable corporate law, and the Committee may cause a legend or legends to be placed on any such certificates to make appropriate reference to such restrictions.

#### **15.4 Transferability.**

(a) All Awards granted to a Participant shall be exercisable during his lifetime only by such Participant, or if applicable, a Permitted Transferee as provided in subsection (c) of this Section; provided, however, that in the event of a Participant's legal incapacity, an Award may be exercised by his guardian or legal representative. When a Participant dies, the personal representative, beneficiary, or other person entitled to succeed to the rights of the Participant may acquire the rights under an Award. Any such successor must furnish proof satisfactory to Rosetta of the successor's entitlement to receive the rights under an Award under the Participant's will or under the applicable laws of descent and distribution.

(b) Except as otherwise provided in this Section, no Award shall be subject to execution, attachment or similar process, and no Award may be sold, transferred, pledged, exchanged, hypothecated or otherwise disposed of, other than by will or pursuant to the applicable laws of descent and distribution. Any attempted sale, transfer, pledge, exchange, hypothecation or other disposition of an Award not specifically permitted by the Plan or the Award Agreement shall be null and void and without effect.

(c) If provided in the Award Agreement, Nonqualified Stock Options may be transferred by a Participant to a Permitted Transferee. For purposes of the Plan, "Permitted Transferee" means (i) a member of a Participant's immediate family, (ii) any person sharing the Participant's household (other than a tenant or employee of the Participant), (iii) trusts in which a person listed in (i) or (ii) above has more than 50% of the beneficial interest, (iv) a foundation in which the Participant or a person listed in (i) or (ii) above controls the management of assets, (v) any other entity in which the Participant or a person listed in (i) or (ii) above owns more than 50% of the voting interests, provided that in the case of the preceding clauses (i) through (v), no consideration is provided for the transfer, and (vi) any transferee permitted under applicable securities and tax laws as determined by counsel to Rosetta. In determining whether a

person is a “Permitted Transferee,” immediate family members shall include a Participant’s child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law,

B -14

---

father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law, including adoptive relationships.

(d) Incident to a Participant's divorce, the Participant may request that Rosetta agree to observe the terms of a domestic relations order which may or may not be part of a qualified domestic relations order (as defined in Code section 414(p)) with respect to all or a part of one or more Awards made to the Participant under the Plan. Rosetta's decision regarding such a request shall be made by the Committee, in its sole and absolute discretion, based upon the best interests of Rosetta. The Committee's decision need not be uniform among Participants. As a condition of participation, a Participant agrees to hold Rosetta harmless from any claim that may arise out of Rosetta's observance of the terms of any such domestic relations order.

**15.5 Withholding Taxes.** The Company shall be entitled to deduct from any payment made under the Plan, regardless of the form of such payment, the amount of all applicable income and employment taxes required by law to be withheld with respect to such payment, may require the Participant to pay to the Company such withholding taxes prior to and as a condition of the making of any payment or the issuance or delivery of any shares of Common Stock under the Plan, and shall be entitled to deduct from any other compensation payable to the Participant any withholding obligations with respect to Awards. In accordance with any applicable administrative guidelines it establishes, the Committee may allow a Participant to pay the amount of taxes required by law to be withheld from or with respect to an Award by (i) withholding shares of Common Stock from any payment of Common Stock due as a result of such Award, or (ii) permitting the Participant to deliver to the Company previously acquired shares of Common Stock, in each case having an aggregate Fair Market Value equal to the amount of such required withholding taxes. No payment shall be made and no shares of Common Stock shall be issued pursuant to any Award unless and until the applicable tax withholding obligations have been satisfied.

**15.6 No Fractional Shares.** No fractional shares of Common Stock shall be issued or delivered pursuant to the Plan or any Award granted hereunder, provided that the Committee in its sole discretion may round fractional shares down to the nearest whole share or settle fractional shares in cash.

**15.7 Notices.** All notices required or permitted to be given or made under the Plan or pursuant to any Award Agreement (unless provided otherwise in such Award Agreement) shall be in writing and shall be deemed to have been duly given or made if (i) delivered personally, (ii) transmitted by first class registered or certified United States mail, postage prepaid, return receipt requested, (iii) sent by prepaid overnight courier service, or (iv) sent by telecopy or facsimile transmission, with confirmation receipt, to the person who is to receive it at the address that such person has theretofore specified by written notice delivered in accordance herewith. Such notices shall be effective (i) if delivered personally or sent by courier service, upon actual receipt by the intended recipient, (ii) if mailed, upon the earlier of five days after deposit in the mail or the date of delivery as shown by the return receipt therefor, or (iii) if sent by telecopy or facsimile transmission, when the answer back is received. Rosetta or a Participant may change, at any time and from time to time, by written notice to the other, the address that it or such Participant had theretofore specified for receiving notices. Until such address is changed in accordance herewith, notices hereunder or under an Award Agreement shall be delivered or sent (i) to a Participant at his address as set forth in the records of the Company or (ii) to Rosetta at the principal executive offices of Rosetta clearly marked "Attention: General Counsel."

**15.8 Compliance with Law and Stock Exchange or Association Requirements.** In addition, it is the intent of Rosetta that Options designated Incentive Stock Options comply with the applicable provisions of Section 422 of the Code, and that Awards intended to constitute "qualified performance-based awards" comply with the applicable provisions of Section 162(m) of the Code and that any deferral of the receipt of the payment of cash or the delivery of shares of Common Stock that the Committee may permit or require, and any Award granted that is subject to Section 409A of the Code, comply with the requirements of Section 409A of the Code. To the extent that any legal requirement of Section 16 of the Exchange Act or Sections 422, 162(m) or 409A of the Code as set forth in the Plan ceases to be required under Section 16 of the Exchange Act or Sections 422, 162(m) or 409A of the Code, that Plan provision shall cease to apply. Any provision of this Plan to the contrary notwithstanding, the Committee may revoke

any Award if it is contrary to law, governmental regulation, or stock exchange requirements or modify an Award to bring it into compliance with any government regulation or stock exchange requirements. The Committee may agree to limit its authority under this Section.

B -15

---



**15.9 California Blue Sky Laws.** Prior to the effective registration of the Common Stock under Section 12 of the Exchange Act, (i) Rosetta shall deliver a balance sheet and an income statement at least annually to each Participant performs services in the State of California, unless such Participant is a key employee whose duties in connection with the Company assure such Participant access to equivalent information, (ii) the Compensation Committee may not impose upon any Award grant made to a Participant performs services in the State of California a vesting schedule that is more restrictive than 20 percent per year vesting, with the initial vesting to occur not later than one year after the Award's grant date; provided, however, that such vesting limitation shall not be applicable to any Award grants made to individuals who are officers of Rosetta and (iii) with respect to California Participants (including any individual whose Award is based in whole or in part on services performed in California), the Plan shall otherwise be administered in accordance with California Corporations Code section 25102(o) and California Code of Regulations, Title 10, sections 260.140.41, 260.140.42, 260.140.45, and 260.140.46.

**15.10 Binding Effect.** The obligations of Rosetta under the Plan shall be binding upon any successor corporation or organization resulting from the merger, consolidation or other reorganization of Rosetta, or upon any successor corporation or organization succeeding to all or substantially all of the assets and business of Rosetta. The terms and conditions of the Plan shall be binding upon each Participant and his Permitted Transferees, heirs, legatees, distributees and legal representatives.

**15.11 Severability.** If any provision of the Plan or any Award Agreement is held to be illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining provisions of the Plan or such agreement, as the case may be, but such provision shall be fully severable and the Plan or such agreement, as the case may be, shall be construed and enforced as if the illegal or invalid provision had never been included herein or therein.

**15.12 No Restriction of Corporate Action.** Nothing contained in the Plan shall be construed to prevent Rosetta or any Affiliate from taking any corporate action (including any corporate action to suspend, terminate, amend or modify the Plan) that is deemed by Rosetta or such Affiliate to be appropriate or in its best interest, whether or not such action would have an adverse effect on the Plan or any Awards made or to be made under the Plan. No Participant or other person shall have any claim against Rosetta or any Affiliate as a result of such action.

**15.13 Governing Law.** The Plan shall be governed by and construed in accordance with the internal laws (and not the principles relating to conflicts of laws) of the State of Texas except as superseded by applicable federal law.

**15.14 No Right, Title or Interest in Company Assets.** No Participant shall have any rights as a stockholder of Rosetta as a result of participation in the Plan until the date of issuance of Common Stock in his name and, in the case of Restricted Stock, unless and until such rights are granted to the Participant pursuant to the Plan. To the extent any person acquires a right to receive payments from the Company under the Plan, such rights shall be no greater than the rights of an unsecured general creditor of the Company, and such person shall not have any rights in or against any specific assets of the Company. All Awards shall be unfunded.

**15.15 Risk of Participation.** Nothing contained in the Plan shall be construed either as a guarantee by Rosetta or the Affiliates, or their respective stockholders, directors, officers or employees, of the value of any assets of the Plan or as an agreement by Rosetta or the Affiliates, or their respective stockholders, directors, officers or employees, to indemnify anyone for any losses, damages, costs or expenses resulting from participation in the Plan.

**15.16 No Guarantee of Tax Consequences.** No person connected with the Plan in any capacity, including without limitation Rosetta and the Affiliates and their respective directors, officers, agents and employees, makes any representation, commitment or guarantee that any tax treatment, including without limitation federal, state and local income, estate and gift tax treatment, will be applicable with respect to any Awards or payments thereunder made to or for the benefit of a Participant under the Plan or that such tax treatment will apply to or be available to a Participant on account of participation in the Plan.

**15.17 Continued Employment or Service.** Nothing contained in the Plan or in any Award Agreement shall confer upon any Participant the right to continue in the employ or service of the Company, or interfere in any way with the rights of the Company to terminate a Participant's employment or service at any time, with or without cause.

B -16

---

The loss of existing or potential profit in Awards will not constitute an element of damages in the event of termination of employment or service for any reason, even if the termination is in violation of an obligation of Rosetta or an Affiliate to the Participant.

**15.18 Miscellaneous.** Headings are given to the articles and sections of the Plan solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction of the Plan or any provisions hereof. The use of the masculine gender shall also include within its meaning the feminine. Wherever the context of the Plan dictates, the use of the singular shall also include within its meaning the plural, and vice versa.

B -17

---

**ANNUAL MEETING OF THE STOCKHOLDERS OF**

**ROSETTA RESOURCES INC.**

**May 15, 2007**

Please date, sign and mail  
your proxy card in the  
envelope provided as soon  
as possible.

Please detach along perforated line and mail in the envelope provided.

The Company's Board of Directors recommends a vote FOR Proposal 1.

**PLEASE SIGN, DATE AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE. PLEASE MARK YOUR  
VOTE IN BLUE OR BLACK INK AS SHOWN HERE.**

1. Election of Directors:

FOR ALL NOMINEES

WITHHOLD  
AUTHORITY  
FOR ALL NOMINEES

FOR ALL EXCEPT  
(SEE  
INSTRUCTIONS BELOW)

**INSTRUCTION:** To  
withhold authority to vote  
for any individual  
nominee(s), mark "FOR ALL  
EXCEPT" and fill in the  
circle next to each nominee  
you wish to withhold, as  
shown here;

B.A. BERILGEN

RICHARD W.  
BECKLER

DONALD D.  
PATTESON, JR.

D. HENRY  
HOUSTON

G. LOUIS  
GRAZIADIO, III

JOSIAH O. LOW III

2. In their discretion, the proxies are  
authorized to vote upon such other  
business or matters as may properly  
come before the meeting or any  
adjournment thereof.

**THE PROXY HOLDERS CANNOT  
VOTE YOUR SHARES UNLESS  
YOU SIGN AND RETURN THIS  
CARD. IF THIS PROXY IS SIGNED  
AND RETURNED, IT WILL BE  
VOTED IN ACCORDANCE WITH  
YOUR INSTRUCTIONS. YOU ARE  
ENCOURAGED TO SPECIFY  
YOUR CHOICES BY MARKING  
THE APPROPRIATE BOXES, BUT  
IF YOU DO NOT SPECIFY HOW  
THE PROXY SHOULD BE VOTED,  
IT WILL BE VOTED "FOR"  
PROPOSAL 1.**

I hereby revoke any proxy or proxies  
previously given to represent or vote the  
shares of common stock of the Company  
that I am entitled to vote, and I ratify and  
confirm all actions that the proxies, their  
substitutes, or any of them, may lawfully  
take in accordance with the terms of this  
proxy card.

Edgar Filing: Rosetta Resources Inc. - Form DEF 14A

To change the address on your account, please check the box at right and indicate your new address in the address space above. Please note that changes to the registered name(s) on the account may not be submitted via this method.

Signature of  
Stockholder

Date:

Signature of Stockholder

Date:

**Note:** Please sign exactly as your name or names appear on this Proxy. When shares are held jointly, each holder should sign. When signing as executor, administrator, attorney, trustee or guardian, please give full title as such. If the signer is a corporation, please sign full corporate name by duly authorized officer, giving full title as such. If signer is a partnership, please sign in partnership name by authorized person.

---

ROSETTA RESOURCES INC.

**THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS**

I have received the Notice of Annual Meeting of Stockholders to be held on May 15, 2007, and a Proxy Statement furnished by the Board of Directors of Rosetta Resources Inc. (the "Company") for the Meeting. I appoint B.A. Berilgen and Michael J. Rosinski, and each of them, as proxies with power of substitution in each, to represent me and to vote all the shares of common stock of the Company that I am entitled to vote at the Annual Meeting on May 15, 2007 in the manner shown on this form as to the following matters and in their discretion on any other matters that come before the meeting.

**(Continued and to be signed on the reverse side.)**

---