

SWIFT ENERGY CO  
Form 4  
May 11, 2006

**FORM 4**

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

OMB APPROVAL

OMB Number: 3235-0287  
Expires: January 31, 2005  
Estimated average burden hours per response... 0.5

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**STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES**

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person \*  
Lanier Douglas J

(Last) (First) (Middle)

16825 NORTHCHASE DRIVE,  
SUITE 400

(Street)

HOUSTON, TX 77060

(City) (State) (Zip)

2. Issuer Name and Ticker or Trading Symbol  
SWIFT ENERGY CO [SFY]

3. Date of Earliest Transaction  
(Month/Day/Year)  
05/09/2006

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

\_\_\_\_ Director \_\_\_\_\_ 10% Owner  
\_\_\_\_ Officer (give title below) \_\_\_\_\_ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)  
 Form filed by One Reporting Person  
 Form filed by More than One Reporting Person

**Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned**

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price
Swift Energy Common Stock	05/09/2006	05/09/2006	A		2,240	A	\$ 0 5,450
						D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

**Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.**

SEC 1474 (9-02)

**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned (e.g., puts, calls, warrants, options, convertible securities)**

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1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. Price of Derivative Security (Instr. 5)	9. Number of Derivative Securities Owned Following Transaction (Instr. 6)
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## Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other

Lanier Douglas J  
 16825 NORTHCHASE DRIVE, SUITE 400  
 HOUSTON, TX 77060

## Signatures

Karen Bryant POA for Douglas J. Lanier	05/11/2006
**Signature of Reporting Person	Date

## Explanation of Responses:

\* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

\*\* Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure. Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. **V style="margin-top: 6pt; font-size: 1pt">**

The cash bonuses will only be paid upon achievement of certain financial goals in 2008. Cash bonuses for Messrs. Kammersgard, Jamal and Davis will be paid from a cash bonus pool which will be funded in direct correlation to company financial results. In order for the cash bonus pool to be funded, the company must meet established financial objectives. If these objectives are not met at a minimum 100% level, then no cash bonus will be

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paid. Moreover, payment of the 2008 target cash bonuses are proportionately dependent on the achievement of additional financial goals and management business objectives, as follows:

<b>Named Executive Officer</b>	<b>Financial Goals</b>	<b>Management Business Objectives</b>
Dana W. Kammersgard	100%	0%
Hanif I. Jamal	80%	20%
Philip A. Davis	75%	25%

The financial goals and management business objectives for 2008 were established by the Compensation Committee and are weighted based on importance. The financial goals relate to operating income and the management business objectives are focused on each executive's respective area of responsibility and designed to support overall corporate goal achievement. These goals were collectively designed to be challenging, and as noted above, similar goals for the named executive officers were not met in fiscal 2007.

***Long-Term Equity-Based Incentives***

Our long-term equity-based incentives are primarily in the form of stock option awards pursuant to our 2000 Amended and Restated Equity Incentive Plan, or the 2000 EIP. The objective of the stock option awards is to further enhance our executive officers' long-term incentive to increase stockholder value, including our stock price. We believe that stock option-based compensation achieves this objective by directly linking the economic benefit to recipients of stock option awards with our stock's performance. We also believe that the performance of the executive team has a direct effect on stock price and that stock option-based compensation encourages executive retention because the awards are designed to vest over time.

Stock options granted to our named executive officers are approved by the Compensation Committee and are granted effective as of the third business day following the first general public release of our annual or quarterly revenues and/or earnings following the date of approval. The Compensation Committee may vary this procedure if it determines that applicable circumstances, such as public disclosure requirements or other factors, justify doing so. Stock options granted to our named executive officers are incentive stock options, to the extent permissible under the Code, and commence vesting upon the effective date of grant. Generally, 25% of the shares subject to the stock options vest one year from the effective date of grant and the remainder of the shares vest in equal monthly installments over the 36 months thereafter, subject to acceleration of vesting in certain circumstances. Certain of the stock options discussed above are also subject to performance-based vesting in accordance with the 2007 Executive Compensation Plan. The stock options expire 10 years from the effective date of grant. The exercise price per share of each stock option granted to our named executive officers is equal to the fair market value of our common stock on the effective date of grant, which is deemed to be equal to the closing sales price of our common stock as reported on the Nasdaq Stock Market on the last market trading day prior to the effective date of grant.

In general, each executive officer receives stock option grants in connection with his or her hire or promotion, and annually in the first quarter of each year. The size of each annual grant is based on an analysis of the following key factors for each executive:

benchmarking against our peer group, including an analysis of option plan utilization percentages;

corporate and individual performance against goals; and  
individual stock ownership.

**Table of Contents***Fiscal 2007*

In February 2007, the Compensation Committee approved the following annual stock option grants to our named executive officers.

<b>Executive Officer</b>	<b>Annual Stock Options</b>
Dana W. Kammersgard	200,000
Hanif I. Jamal	75,000
Philip A. Davis	150,000

The options will terminate 10 years after the effective date of grant, or earlier in the event the optionholder's service to us is terminated and have an exercise price per share of \$3.57, the closing price of our common stock as reported on the Nasdaq Stock Market for Monday, February 26, 2007. The annual stock options were awarded after taking into consideration tenure with Dot Hill, corporate and individual performance, competitive benchmarks and individual stock ownership and vest 25% on the first anniversary of the date of grant with the remaining shares vesting monthly over the following three years. Stock option grants made during 2007 to named executive officers are also reflected in the Grants of Plan-Based Awards Table and outstanding stock option awards to named executive officers as of December 31, 2007 are reflected in the Outstanding Equity Awards at Fiscal Year-End Table.

*Fiscal 2008*

In March 2008, the Compensation Committee approved the following annual stock option grants to our named executive officers.

<b>Executive Officer</b>	<b>Annual Stock Options</b>
Dana W. Kammersgard	100,000
Hanif I. Jamal	100,000
Philip A. Davis	75,000

The options will terminate 10 years after the effective date of grant, or earlier in the event the optionholder's service to us is terminated and have an exercise price per share of \$2.40, the closing price of our common stock as reported on the Nasdaq Stock Market for March 17, 2008. The annual stock options were awarded after taking into consideration tenure with Dot Hill, corporate and individual performance, competitive benchmarks and individual stock ownership and vest 25% on the first anniversary of the date of grant with the remaining shares vesting monthly over the following three years.

***Change of Control Payments***

We have entered into change of control agreements with each of our executive officers, the terms of which are described under the headings Employment and Change of Control Agreements and Potential Payments Upon Termination or Change in Control. We believe these change in control benefits are an essential element of our executive compensation package and assist us in recruiting and retaining talented individuals.

***Employee Stock Purchase Plan***

We have also established our 2000 Employee Stock Purchase Plan available to all of our employees, including our executive officers, which is intended to encourage employees to continue in our employ and to motivate employees through an ownership interest in Dot Hill. Under our 2000 Employee Stock Purchase Plan, employees may purchase shares of our common stock at a discount to the market price, subject to certain limits, with the objective of allowing employees to profit when the value of our common stock increases over time.

***Other Benefits***

We provide benefits such as an opportunity to participate in our 401(k) savings/retirement plan, medical, dental and life insurance and disability coverage to all our employees, including our executive officers. We also

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provide personal paid time off and other paid holidays to all employees, including our executive officers, which are comparable to those provided at similar companies.

***Accounting and Tax Considerations***

Section 162(m) of the Code generally prohibits us from deducting any compensation over \$1 million per taxable year paid to any of our named executive officers unless such compensation is treated as performance-based compensation within the meaning of the Code. As the cash compensation paid by us to our named executive officers is expected to be below \$1 million and the Compensation Committee believes that stock options granted under the 2000 EIP to our named executive officers meet the requirements for treatment as performance-based compensation, the Compensation Committee believes that Section 162(m) will not affect the tax deductions available to Dot Hill with respect to the compensation of its executives. In determining the form and amount of compensation for our named executive officers, the Compensation Committee will continue to consider all elements of the cost of such compensation, including the potential impact of Section 162(m).

Effective January 1, 2006, we adopted the fair value method of accounting for stock-based compensation arrangements in accordance with SFAS No. 123R, which establishes accounting for non-cash, stock-based awards exchanged for employee services and requires companies to expense the estimated fair value of these awards over the requisite employee service period, which for us is generally the vesting period. We adopted SFAS No. 123R using the modified prospective method. Under the modified prospective method, prior periods are not revised for comparative purposes. The valuation provisions of SFAS No. 123R apply to new awards and to awards that are outstanding on the effective date and subsequently modified or cancelled. Estimated non-cash compensation expense for awards outstanding at the effective date will be recognized over the remaining service period using the compensation cost calculated for pro-forma disclosure purposes under Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation*.

**Table of Contents****Summary of Compensation**

The following table sets forth in summary form information concerning the compensation that was earned during the fiscal years ended December 31, 2006 and December 31, 2007 by our chief executive officer and each of our other executive officers earning greater than \$100,000. We refer to these officers in this proxy statement as the named executive officers.

**2006 and 2007 Summary Compensation Table(1)**

Name and Principal Position	Year	Salary (\$)	Bonus(2) (\$)	Non-Equity Incentive			Total (\$)
				Option Awards(3) (\$)	Plan Compensation(4) (\$)	All Other Compensation (\$)	
Dana W. Kammersgard <i>President, Chief Executive Officer</i>	2007	\$ 367,500		\$ 737,229			\$ 1,105,469
	2006	\$ 367,500		\$ 465,308			\$ 832,808
Hanif I. Jamal <i>Senior Vice President, Chief Financial Officer, Treasurer and Corporate Secretary</i>	2007	\$ 270,000		\$ 221,434			\$ 491,434
	2006	\$ 114,231	\$ 29,986	\$ 45,370	\$ 11,994		\$ 201,581
Philip A. Davis(5) <i>Executive Vice President of Worldwide Field Operations</i>	2007	\$ 260,000		\$ 347,658		\$ 92,071	\$ 698,931
	2006	\$ 242,000		\$ 187,392	\$ 21,742	\$ 90,517	\$ 541,651

- (1) In accordance with the rules of the SEC, the compensation described in this table does not include various perquisites and other benefits received by a named executive officer which do not exceed \$10,000 in the aggregate.
- (2) Amounts listed in this column represent guaranteed and discretionary bonuses earned during the fiscal year ended December 31, 2006.
- (3) Amounts listed in this column represent the dollar amount we recognized for financial statement reporting purposes during the applicable fiscal year under SFAS No. 123R. Assumptions made for the purpose of computing these amounts are discussed in our Annual Report on Form 10-K for the year ended December 31, 2007 in Note 1 to Consolidated Financial Statements under the heading Change in Accounting for Share-Based Compensation.
- (4) Amounts listed in this column represent performance-based bonuses earned during the fiscal years ended December 31, 2006 and December 31, 2007. Annual bonuses earned during a fiscal year are paid in the first quarter of the subsequent fiscal year.
- (5) All Other Compensation for Mr. Davis consisted of commissions on revenue.



## **Employment and Change of Control Agreements**

In August 1999, we entered into an employment contract with Dana W. Kammersgard. The employment contract may be terminated at the option of either us or Mr. Kammersgard for cause or, upon 30 days written notice, for convenience and without cause. If we terminate for convenience, Mr. Kammersgard is entitled to a severance payment equal to his then-current annual base salary. In addition, following termination of employment other than due to death or disability, we may hire Mr. Kammersgard as a consultant for a period of one year at a cost of 25% of his then-current annual base salary, during which period Mr. Kammersgard may not engage in any business activities that directly compete with our business. The agreement also provides for indemnification of Mr. Kammersgard, non-disclosure of our confidential or proprietary information and health and dental insurance for Mr. Kammersgard, his spouse and his children under the age of 21.

In April 2006, we amended Mr. Kammersgard's change of control agreement, which was originally entered into in August 2001, and entered into a change of control agreement with Mr. Davis. Mr. Kammersgard's amended change of control agreement provides that, in the event of an acquisition of Dot Hill or similar corporate event, Mr. Kammersgard's then remaining unvested stock and options will become fully vested and he will be entitled to a lump sum cash payment equal to 125% of his annual base salary then in effect, reduced by any severance payments

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payable under his employment agreement. Mr. Davis' change of control agreement provides that if Mr. Davis' employment with us is terminated by us other than for cause or by Mr. Davis for good reason within two months prior to or 24 months after a change of control of Dot Hill, Mr. Davis' then remaining unvested stock and options will become fully vested and he will be entitled to a lump sum cash payment equal to 125% of his annual base salary then in effect.

In July 2006, we entered into an employment offer letter with Hanif I. Jamal pursuant to which Mr. Jamal became our Senior Vice President, Chief Financial Officer, Treasurer and Corporate Secretary. Mr. Jamal's employment agreement may be terminated by us or Mr. Jamal at will. The agreement also provides for non-disclosure of our confidential or proprietary information and health and dental insurance for Mr. Jamal and his spouse. Also in July 2006, we entered into a change of control agreement with Mr. Jamal, which provides that if Mr. Jamal's employment with us is terminated by us other than for cause or by Mr. Jamal for good reason within two months prior to or 24 months after a change of control of Dot Hill, Mr. Jamal's then remaining unvested stock and options will become fully vested and he will be entitled to a lump sum cash payment equal to 125% of his annual base salary then in effect.

In establishing the triggering events for payment obligations in connection with termination events under our employment and change of control agreements with our named executive officers, the Compensation Committee considered several factors. Payments upon termination by us without cause or by the employee for good reason are provided because we consider such a termination to be generally beyond the control of a terminated employee and a termination that under different circumstances would not have occurred. The termination benefits are intended to ease the consequences to an employee of an unexpected termination of employment. Dot Hill benefits by requiring a general release from terminated employees. In addition, Dot Hill may request non-compete and non-solicitation provisions in connection with individual separation agreements. Payments and option acceleration upon terminations in connection with a change of control are intended to mitigate the distraction and loss of key management personnel that may occur in connection with rumored or actual fundamental corporate changes. Such payments protect stockholder interests by enhancing employee focus during rumored or actual change in control activity through incentives to remain with Dot Hill despite uncertainties while a transaction is under consideration or pending, assurance of severance and benefits for terminated employees and access to the equity component of total compensation after a change of control.

**Potential Payments Upon Termination or Change-In-Control**

The following table sets forth potential payments to our named executive officers upon various termination or change of control events assuming such events occurred as of December 31, 2007.

<b>Name</b>	<b>Benefit(1)</b>	<b>Termination Without Cause or Upon Good Reason</b>	<b>Change of Control</b>	<b>Termination Without Cause or Upon Good Reason after Change of Control</b>
Dana W. Kammersgard	lump sum cash	\$ 367,500	\$ 459,375	\$ 459,375
	option vesting acceleration			\$ 996,569
Hanif I. Jamal	lump sum cash			\$ 337,500
	option vesting acceleration			\$ 424,486
Philip A. Davis	lump sum cash			\$ 325,000

option vesting acceleration

\$ 599,396

- (1) Amounts shown for option vesting acceleration represent the value of in-the-money unvested options that would have accelerated if the named executive officer was terminated on December 31, 2007 in connection with a change of control based on the difference between the market value of our common stock on that date and the exercise price of the respective options.

**Table of Contents****Grants of Plan-Based Awards**

We grant stock options to our executive officers under the 2000 EIP. As of February 15, 2008, options to purchase a total of 5,708,547 shares were outstanding under the 2000 EIP, and a total of 1,366,362 shares remained available for grant under the 2000 EIP.

All stock options granted to our named executive officers are incentive stock options, to the extent permissible under the Code. Generally, 25% of the shares subject to options vest one year from the date of hire and the remainder of the shares vest in equal monthly installments over the 36 months thereafter, subject to acceleration of vesting pursuant to the change of control agreements described in Employment and Change of Control Agreements. Options expire ten years from the date of grant. The exercise price per share of each option granted to our named executive officers was equal to the fair market value of our common stock on the date of the grant. The fair market value of our common stock on a given date is deemed to be equal to the closing sales price for such stock as reported on the Nasdaq Stock Market on the last market trading day prior to such date.

The following table provides information regarding grants of plan-based awards to the named executive officers in the fiscal year ended December 31, 2007.

	Grant Date	Date of Board Action Granting Award	Estimated Future Payouts Under Non-Equity Incentive Plan			Estimated Future Payouts Under Equity Incentive Plan		All Other Option Awards:		Grant Price	Grant Date
			Threshold	Awards(1) Target	Maximum	Threshold	Target	Number of Securities Underlying Options	Exercise or Base Price of Option Awards		
			(\$)	(\$)	(\$)	(#)	(#)	(#)	(\$/Sh)	(\$/Sh)	
sgard	2/26/07	2/26/07	\$ 73,500	\$ 147,000	\$ 367,500						
	2/27/07	2/26/07				40,834	81,667		\$ 3.57	\$ 3.35	\$
	2/27/07	2/26/07						200,000	\$ 3.57	\$ 3.35	\$
amal	2/26/07	2/26/07	\$ 37,125	\$ 74,250	\$ 178,200						
	2/27/07	2/26/07				20,625	41,250		\$ 3.57	\$ 3.35	\$
	2/27/07	2/26/07						75,000	\$ 3.57	\$ 3.35	\$
	2/26/07	2/26/07	\$ 32,500	\$ 65,000	\$ 154,375						
	2/27/07	2/26/07				18,056	36,111		\$ 3.57	\$ 3.35	\$
	2/27/07	2/26/07						150,000	\$ 3.57	\$ 3.35	\$

(1) The amounts shown in these columns represent the threshold, target and maximum payout levels under our 2007 Executive Compensation Plan. The actual amount of incentive bonus earned by each named executive officer in 2007 is reported under the Non-Equity Incentive Plan Compensation column in the Summary Compensation

Table.

- (2) The amounts shown in these columns represent the threshold and target vesting levels for the fiscal 2007 performance-based stock options under our 2007 Executive Compensation Plan. None of the shares subject to the fiscal 2007 performance-based stock options vested at fiscal 2007 year end.
- (3) Amounts listed in this column represent the aggregate grant date fair value computed in accordance with SFAS No. 123R. Assumptions made for the purpose of computing these amounts are discussed in our Annual Report on Form 10-K for the year ended December 31, 2007 in Note 1 to Consolidated Financial Statements under the heading Change in Accounting for Share-Based Compensation.

**Table of Contents****Outstanding Equity Awards at Fiscal Year-End**

The following table provides information regarding all outstanding equity awards held by each of our named executive officers as of December 31, 2007.

Name	Number of Securities Underlying Unexercised Options		Option Awards Equity Incentive	Option Exercise Price (\$)	Option Expiration Date
	Number of Securities Underlying Unexercised Options (#)	Number of Securities Underlying Unexercised Options (#)	Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)(2)		
Dana W. Kammersgard	10,000			\$ 9.38	4/1/2008
	75,000			\$ 3.375	10/23/2010
	100,000			\$ 1.89	7/23/2011
	50,000			\$ 3.10	1/1/2013
	50,000			\$ 15.15	1/1/2014
	192,708	57,292		\$ 6.25	11/1/2014
	58,333	21,667		\$ 6.10	1/31/2015
	65,625	84,375		\$ 6.87	3/7/2016
		200,000	81,667	\$ 3.57	2/27/2017
Hanif I. Jamal	79,688	145,312		\$ 3.03	7/31/2016
		75,000	41,250	\$ 3.57	2/27/2017
Philip A. Davis	100,000			\$ 10.82	3/24/2014
	72,917	27,083		\$ 6.10	1/31/2015
	43,749	56,251		\$ 6.87	3/7/2016
		150,000	36,111	\$ 3.57	2/27/2017

(1) Unvested options appearing in this column were granted under the 2000 EIP. One-fourth of the option grant vests on the first anniversary of the grant date. Following the first anniversary of the grant date, the remaining options vest *pro-rata* on a monthly basis and become fully-vested on the fourth anniversary of the grant date.

(2) Shares appearing in this column represent shares subject to the fiscal 2007 performance-based stock options granted under our 2007 Executive Compensation Plan. None of the shares subject to the fiscal 2007 performance-based stock options vested at fiscal 2007 year end.

**Option Exercises and Stock Vested**

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The following table provides information regarding the number of shares of common stock acquired and the value realized pursuant to the exercise of stock options, and all stock awards vested and the value realized pursuant to the vesting of stock awards, during 2007 by each of our named executive officers.

<b>Name</b>	<b>Option Awards</b>	
	<b>Number of Shares Acquired on Exercise (#)</b>	<b>Value Realized on Exercise (\$)</b>
Dana W. Kammersgard		
Hanif I. Jamal		
Philip A. Davis		

**Pension Benefits**

We have no pension plans.

**Table of Contents****Nonqualified Defined Contribution and Other Nonqualified Deferred Compensation Plans**

We have no nonqualified defined contribution or other nonqualified deferred compensation plans.

**Equity Compensation Plan Information**

The following table provides certain information as of December 31, 2007, with respect to all of our equity compensation plans in effect on that date.

	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans approved by stockholders(1)	6,672,092	\$ 5.36	2,841,345
Equity compensation plans not approved by stockholders(2)			
Total	6,672,092	\$ 5.36	2,841,345

(1) Includes the 2000 EIP, the Directors Plan and our 2000 Employee Stock Purchase Plan. 1,449,729 shares under column (c) are attributable to our 2000 Employee Stock Purchase Plan.

(2) As of December 31, 2007, we did not have any equity compensation plans that were not approved by our stockholders.

**Policies and Procedures with Respect to Related Party Transactions**

Our Board of Directors is committed to upholding the highest legal and ethical conduct in fulfilling its responsibilities and recognizes that related party transactions can present a heightened risk of potential or actual conflicts of interest. Accordingly, as a general matter, it is Dot Hill's preference to avoid related party transactions. Our Audit Committee Charter requires that members of the Audit Committee, all of whom are independent directors, review and approve all related party transactions for which such approval is required under applicable law, including SEC rules and Nasdaq listing standards. A related party transaction includes any transaction, arrangement or relationship involving an amount that exceeds \$120,000 in which Dot Hill is a participant and in which any of the following persons has or will have a direct or indirect interest: any executive officer, director, or more than 5% stockholder of Dot Hill, including any of their immediate family members, and any entity owned or controlled by such persons.



In addition, the Audit Committee is responsible for reviewing and investigating any matters pertaining to the integrity of management, including conflicts of interest and adherence to our Code of Business Conduct and Ethics. Under our Code of Business Conduct and Ethics, directors, officers and all other members of the workforce are expected to avoid any relationship, influence or activity that would cause or even appear to cause a conflict of interest.

### **Certain Relationships and Related Transactions**

During the fiscal year ended December 31, 2007, we granted options to purchase an aggregate of 684,028 shares of our common stock to our directors and executive officers, with exercise prices ranging from \$3.57 to \$3.85.

Our bylaws provide that we will indemnify our directors and executive officers, and may indemnify other officers, employees and other agents, to the fullest extent permitted by law. Our bylaws also permit us to secure insurance on behalf of any officer, director, employee or other agent for any liability arising out of his or her actions in connection with their services to us. We have obtained a policy of directors and officers liability insurance.

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We have entered, and intend to continue to enter, into indemnification agreements with our directors and executive officers, in addition to the indemnification provided for in our bylaws. These agreements, among other things, require us to indemnify our directors and executive officers for certain expenses, including attorneys' fees, judgments, fines and settlement amounts incurred by a director or executive officer in any action or proceeding arising out of their services as one of our directors or executive officers, or any of our subsidiaries or any other company or enterprise to which the person provides services at our request.

Please see *Employment and Change of Control Agreements* and *Potential Payments Upon Termination or Change-in-Control*.

## **Householding of Proxy Materials**

The SEC has adopted rules that permit companies and intermediaries (e.g., brokers, banks or other agents) to satisfy the delivery requirements for proxy statements and annual reports with respect to two or more stockholders sharing the same address by delivering a single proxy statement addressed to those stockholders. This process, which is commonly referred to as *householding*, potentially means extra convenience for stockholders and cost savings for companies.

This year, a number of broker, banks or other agents with account holders who are stockholders of Dot Hill will be *householding* our proxy materials. A single proxy statement will be delivered to multiple stockholders sharing an address unless contrary instructions have been received from the affected stockholders. Once you have received notice from your broker, bank or other agent that it will be *householding* communications to your address, *householding* will continue until you are notified otherwise or until you revoke your consent. If, at any time, you no longer wish to participate in *householding* and would prefer to receive a separate proxy statement and annual report, please notify your broker, bank or other agent, and direct a written request for the separate proxy statement and annual report to 2200 Faraday Avenue, Suite 100, Carlsbad, California 92008, Attn: Kirsten Garvin, or contact Ms. Garvin at (760) 476-3811. Stockholders whose shares are held by their broker, bank or other agent as nominee and who currently receive multiple copies of the proxy statement at their address that would like to request *householding* of their communications should contact their broker, bank or other agent.

## **Other Matters**

Our Board of Directors knows of no other matters that will be presented for consideration at the annual meeting. If any other matters are properly brought before the meeting, it is the intention of the persons named in the accompanying proxy to vote on such matters in accordance with their best judgment.

By Order of the Board of Directors

Dana W. Kammersgard  
*President and Chief Executive Officer*

Carlsbad, California  
April 4, 2008

**A copy of our Annual Report on Form 10-K for the fiscal year ended December 31, 2007 filed with the SEC is available without charge upon written request to: 2200 Faraday Avenue, Suite 100, Carlsbad, California 92008, Attn: Secretary.**



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**DOT HILL SYSTEMS CORP. PROXY SOLICITED BY THE BOARD OF DIRECTORS FOR THE ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON MAY 9, 2008**

The undersigned hereby appoints Dana W. Kammersgard and Hanif I. Jamal, and each of them, as attorneys and proxies of the undersigned, with full power of substitution, to vote all of the shares of stock of Dot Hill Systems Corp. which the undersigned may be entitled to vote at the Annual Meeting of Stockholders of Dot Hill Systems Corp. to be held at 2200 Faraday Avenue, Suite 100, Carlsbad, California on Friday, May 9, 2008, at 8:30 a.m. (Pacific time), and at any and all postponements, continuations and adjournments thereof, with all powers that the undersigned would possess if personally present, upon and in respect of the following matters and in accordance with the following instructions, and with discretionary authority as to any and all other matters that may properly come before the meeting.

Unless a contrary direction is indicated, this Proxy will be voted for the nominee listed in Proposal 1 and for Proposal 2, as more specifically described in the Proxy Statement. If specific instructions are indicated, this Proxy will be voted in accordance therewith. (continued and to be signed on other side)

Address Changes/Comments:

(If you noted any Address Changes/Comments above, please mark corresponding box on the reverse side.)

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THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED. KEEP THIS PORTION FOR YOUR RECORDS DETACH AND RETURN THIS PORTION ONLY TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS: Signature [PLEASE SIGN WITHIN BOX] Date Signature (Joint Owners) Date DOT HILL SYSTEMS CORP. DOTHL1 VOTE BY INTERNET www.proxyvote.com Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 P.M. Eastern Time on May 8, 2008. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form. ELECTRONIC DELIVERY OF FUTURE STOCKHOLDER COMMUNICATIONS If you would like to reduce the costs incurred by Dot Hill Systems Corp. in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access stockholder communications electronically in future years. VOTE BY PHONE 1-800-690-6903

Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M. Eastern Time on May 8, 2008. Have your proxy card in hand when you call and then follow the instructions.

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

DOT HILL SYSTEMS CORP. 2200 FARADAY AVENUE, SUITE 100 CARLSBAD, CA 92008 For Against Abstain For address changes and/or comments, please check this box and write them on the back where indicated.

Vote On Directors 01) Dana W. Kammersgard The Board of Directors recommends a vote for the election of the nominee for director. Proposal 1: To elect one director, Dana W. Kammersgard, to hold office until the 2011 Annual Meeting. Nominee: Vote On Proposal For Against

Proposal 2: To ratify the selection of Deloitte & Touche LLP as independent auditors of Dot Hill for its fiscal year ending December 31, 2008.

The Board of Directors recommends a vote for Proposal 2.

Please vote, date and promptly return this proxy in the enclosed return envelope which is postage prepaid if mailed in the United States.

Please sign exactly as your name appears hereon. If the stock is registered in the names of two or more persons, each should sign. Executors, administrators, trustees, guardians and attorneys-in-fact should add their titles. If signer is a corporation, please give full corporate name and have a duly authorized officer sign, stating title. If signer is a partnership, please sign in partnership name by authorized person.