CALLON PETROLEUM CO
Form DEF 14A
April 17, 2006

Table of Contents

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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 (Amendment No.)

Filed by the Registrant þ
Filed by a Party other than the Registrant o

Check the appropriate box:

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

CALLON PETROLEUM COMPANY

(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):

þ No fee required.
o 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:

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:

o Fee paid previously with preliminary materials.

o 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:

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TABLE OF CONTENTS

Table of Contents

CALLON PETROLEUM COMPANY
200 NORTH CANAL STREET
NATCHEZ, MISSISSIPPI 39120
NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD THURSDAY, MAY 4, 2006

To the Shareholders of
Callon Petroleum Company (the Company):

Notice is hereby given and you are cordially invited to attend the Annual Meeting of Shareholders (the Annual Meeting) of the Company which will be held in Natchez, Mississippi, on Thursday, May 4, 2006, at 9:00 a.m., in the St. Louis Room of the Natchez Convention Center, 211 Main Street, Natchez, Mississippi 39120, for the following purposes:

1. To elect two Class III directors to hold office until the 2009 Annual Meeting of Shareholders;

2. To ratify the appointment of Ernst & Young LLP as the Company s independent registered public accounting firm for the fiscal year ending December 31, 2006;

3. To approve and ratify the Callon Petroleum Company 2006 Stock Incentive Plan; and

4. To transact such other business as may properly come before the Annual Meeting or any adjournment or adjournments thereof.

The specific details of the matters proposed to be put before the Annual Meeting are set forth in the proxy statement accompanying and forming part of this notice.

Only shareholders of record at the close of business on March 24, 2006 will be entitled to notice of, and to vote at, the Annual Meeting, or any adjournment or postponements thereof. Each common share is entitled to one vote per share. Whether or not you plan to attend the Annual Meeting, we request that you sign, date and promptly mail the enclosed proxy in the pre-addressed envelope enclosed.

By Order of the Board of Directors

/s/ Robert A. Mayfield

Robert A. Mayfield
Corporate Secretary

Natchez, Mississippi
April 14, 2006

YOU ARE CORDIALLY INVITED TO ATTEND THE MEETING IN PERSON. IF YOU CANNOT ATTEND, PLEASE SIGN AND DATE THE ACCOMPANYING PROXY CARD AND RETURN IT PROMPTLY IN THE RETURN ENVELOPE ENCLOSED FOR YOUR USE. NO POSTAGE IS REQUIRED IF THE ENVELOPE IS MAILED IN THE UNITED STATES. STOCKHOLDERS WHO ATTEND THE 2006 ANNUAL MEETING MAY REVOKE THEIR PROXIES AND VOTE IN PERSON.

Table of Contents

PROXY STATEMENT

CALLON PETROLEUM COMPANY

200 North Canal Street
Natchez, Mississippi 39120
(601) 442-1601

ANNUAL MEETING OF SHAREHOLDERS
THURSDAY, MAY 4, 2006

SOLICITATION AND REVOCABILITY OF PROXIES

This Proxy Statement is furnished in connection with the solicitation of proxies on behalf of the Board of Directors of Callon Petroleum Company, a Delaware corporation (the Company), from holders (Shareholders) of the common stock, $.01 par value per share (Common Stock), of the Company for use at the Annual Meeting of Shareholders of the Company to be held on Thursday, May 4, 2006, at 9:00 a.m., in the St. Louis Room of the Natchez Convention Center, 211 Main Street, Natchez, Mississippi 39120, and at any adjournment or postponement thereof (such meeting or adjournment thereof is referred to herein as the Annual Meeting), for the purpose of considering and voting upon the matters set forth in the accompanying Notice of Annual Meeting of Shareholders (Notice).

A proxy in the form accompanying this Proxy Statement (each a Proxy), when properly executed and returned, will be voted in accordance with the directions specified on the Proxy, and otherwise in accordance with the judgment of the persons designated therein as proxies. Any Proxy which does not withhold authority to vote or on which no other instructions are given will be voted for the election of the nominees named herein to the Board of Directors and in favor of the other proposals set forth in the Notice. Any Proxy may be revoked at any time before it is exercised by delivering, to the Corporate Secretary of the Company, written notice of revocation or a duly executed Proxy bearing a later date, or by voting in person at the Annual Meeting.

This Proxy Statement and the accompanying Notice and form of Proxy are being mailed to Shareholders on or about April 14, 2006. The Annual Report for the Company s fiscal year ended December 31, 2005 is also being mailed to Shareholders contemporaneously with this Proxy Statement, although the Annual Report does not form a part of the material for the solicitation of Proxies. The contents of this proxy statement have been approved by the Board of Directors of the Company.

Proxies will be solicited primarily by mail, but employees of the Company may also solicit Proxies in person or by telephone. Arrangements may be made with brokerage firms or other custodians, nominees, and fiduciaries to send proxy materials to the beneficial owners of the Common Stock of the Company. All costs incurred in the solicitation of Proxies will be borne by the Company.

Matters to be Considered at the Annual Meeting

Unless otherwise indicated, Proxies in the form enclosed that are properly executed, duly returned, and not revoked will be voted in favor of (1) the election of two Class III director nominees to the Board of Directors named herein, (2) the ratification of the appointment of Ernst & Young LLP as the Company s independent registered public accounting firm for the fiscal year ending December 31, 2006, and (3) the approval and ratification of the Callon Petroleum Company 2006 Stock Incentive Plan (2006 Stock Incentive Plan.)

The Board of Directors is not presently aware of any other proposals that may be brought before the Annual Meeting. In the event other proposals are brought before the Annual Meeting, the persons named in the enclosed Proxy will vote in accordance with what they consider to be in the best interests of the Company and its Shareholders.

Table of Contents

VOTING REQUIREMENTS

The Board of Directors has fixed the close of business on March 24, 2006 as the record date (the Record Date) for the determination of Shareholders entitled to notice of, and to vote at, the Annual Meeting. A complete list of all Shareholders entitled to vote at the Annual Meeting will be open for examination by any Shareholder during normal business hours for a period of ten days prior to the Annual Meeting at the offices of the Company, 200 North Canal Street, Natchez, Mississippi 39120. Such list will also be available at the Annual Meeting and may be inspected by any Shareholder who is present. On the Record Date, the Company s outstanding voting securities consisted of 19,516,239 shares of Common Stock. Holders of Common Stock will be entitled to one vote per share of Common Stock held of record on the Record Date for each proposal to be presented at the Annual Meeting.

QUORUM AND OTHER MATTERS

The holders of a majority of the total shares of Common Stock issued and outstanding on the Record Date, whether present in person or represented by Proxy, will constitute a quorum for the transaction of business at the Annual Meeting. For purposes of determining whether a quorum is present under Delaware law, broker non-votes and abstentions count towards the establishment of a quorum. The election of directors requires the favorable vote of the holders of a plurality of shares of Common Stock present and voting, in person or by Proxy, at the Annual Meeting. Abstentions and broker non-votes have no effect on determinations of plurality except to the extent that they affect the total votes received by any particular candidate. A majority of the votes represented by the Shareholders present at the Annual Meeting, in person or by proxy, is necessary for approval of the 2006 Stock Incentive Plan and ratification of the appointment of the Company s independent registered public accounting firm. Abstaining shares will be considered present at the Annual Meeting for these matters so that the effect of abstentions will be the equivalent of a no vote. With respect to broker non-votes, the shares will not be considered present at the Annual Meeting for these matters so that broker non-votes will have the practical effect of reducing the number of affirmative votes required to achieve a majority vote by reducing the total number of shares from which the majority is calculated. A broker non-vote occurs when a nominee holding shares for a beneficial owner does not vote on a particular proposal because the nominee does not have discretionary voting power with respect to that item and the broker has not received voting instructions from the beneficial owner. Votes cast at the meeting will be counted by the inspector of election.

Table of Contents

BENEFICIAL OWNERSHIP OF SECURITIES

Management and Principal Shareholders

The following table sets forth, as of the Record Date, certain information with respect to the ownership of shares of Common Stock held by (i) all persons known by the Company to be the beneficial owners of 5% or more of the outstanding Common Stock, (ii) each director, (iii) each nominee for director, (iv) each of the executive officers named in the Summary Compensation Table, and (v) all executive officers and directors of the Company as a group. Information set forth in the table with respect to beneficial ownership of Common Stock has been obtained from filings made by the named beneficial owners with the Securities and Exchange Commission (Commission) as of the Record Date or, in the case of executive officers and directors of the Company, has been provided to the Company by such individuals.

Name and Address of Beneficial Owner	Common Stock (a) Beneficial Ownership	Percent
Directors:		
Fred L. Callon	560,464(b)	2.84%
L. Richard Flury	10,000(c)	*
John C. Wallace	144,060(d)	*
B. F. Weatherly	89,481(e)	*
Richard O. Wilson	147,703(f)	*
Named Executive Officers:		*
Stephen F. Woodcock	102,587(g)	*
Thomas E. Schwager	1,856(h)	*
Rodger W. Smith	39,126(i)	*
H. Clark Smith	47,518(j)	*
Directors and Executive Officers:		
As a Group (10 persons)	1,198,027(k)	5.94%
Certain Beneficial Owners:		
Wellington Management Company, LLP 75 State Street Boston, MA 02109	1,391,000(l)	7.13%
Franklin Resources, Inc. One Franklin Parkway San Mateo, CA 94403	1,537,500(m)	7.88%
Dimensional Fund Advisors Inc. 1299 Ocean Avenue, 11th Floor Santa Monica, CA 90401	1,634,900(n)	8.38%
Barclays Global Investors, NA 45 Fremont Street San Francisco, CA 94105	1,377,916(o)	7.06%
Kennedy Capital Management, Inc. 10829 Olive Blvd. St. Louis, MO 63141	1,011,000(p)	5.18%

* Less than 1%

a) Unless otherwise indicated, each of the persons listed in the following table may be deemed to have sole voting and dispositive power with respect to such shares. Beneficial ownership does not include the unvested portion of the 2004 restricted stock awards due to lack of voting and disposition power. Percentage ownership of a holder or class of holders is calculated by dividing (i) the number of shares of Common Stock outstanding attributed to such holder or class of holders plus the total number of shares of Common Stock underlying options exercisable within sixty days of March 24, 2006, by (ii) the total number of shares of Common Stock outstanding plus the total number of shares of Common Stock underlying options exercisable within sixty days of March 24, 2006, but not Common Stock underlying such securities held by any other person.

b) Of the 560,464 shares beneficially owned by Fred L. Callon, 255,720 shares are owned directly by him; 92,170 shares are held by him as custodian for certain minor Callon family members; 11,199 shares are owned within the Company s Employee Savings and Protection Plan; and 201,375 shares are subject to options under the 1996 Plan exercisable within 60 days. Shares indicated as owned by Mr. Callon do not include 24,904 shares of Common Stock owned by his wife over which he disclaims beneficial ownership and 34,400 shares of unvested restricted stock.

Table of Contents

c) Of the 10,000 shares beneficially owned by L. Richard Flury, 5,000 shares are owned directly by him and 5,000 shares are subject to options under the 1996 Plan exercisable within 60 days. Shares indicated as owned by Mr. Flury do not include 20,000 shares of unvested restricted stock.

d) Of the 144,060 shares beneficially owned by John C. Wallace, 59,060 shares are owned directly by him; 15,000 shares are subject to options under the 1994 Plan exercisable within 60 days; 65,000 shares are subject to options under the 1996 Plan exercisable within 60 days; and 5,000 shares are subject to options under the 2002 Plan exercisable within 60 days. Shares indicated as owned by Mr. Wallace do not include 20,000 shares of unvested restricted stock.

e) Of the 89,481 shares beneficially owned by B. F. Weatherly, 2,288 shares are owned within his personal IRA account; 2,193 shares are held in joint tenancy with his wife; 15,000 shares are subject to options under the 1994 Plan exercisable within 60 days; 65,000 shares are subject to options under the 1996 Plan exercisable within 60 days; and 5,000 shares are subject to options under the 2002 Plan exercisable within 60 days. Shares indicated as owned by Mr. Weatherly do not include 20,000 shares of unvested restricted stock.

f) Of the 147,703 shares beneficially owned by Richard O. Wilson, 15,000 shares are subject to options under the 1994 Plan exercisable within 60 days; 65,000 shares are subject to options under the 1996 Plan exercisable within 60 days; 5,000 shares are subject to options under the 2002 Plan exercisable within 60 days; 55,884 shares are held in a family limited partnership; and 6,819 shares are held in a Trust account. Shares indicated as owned by Mr. Wilson do not include 20,000 shares of unvested restricted stock.

g) Of the 102,587 shares beneficially owned by Stephen F. Woodcock, 4,836 are owned directly by him; 7,001 shares are owned within the Company s Employee Savings and Protection Plan; 69,000 shares are subject to options under the 1996 Plan exercisable within 60 days; and 21,750 shares are subject to options under the 2002 Plan exercisable within 60 days. Shares indicated as owned by Mr. Woodcock do not include 14,800 shares of unvested restricted stock.

h) Of the 1,856 shares beneficially owned by Thomas E. Schwager, 1,651 are owned directly by him; and 205 shares are owned within the Company s Employee Savings and Protection Plan. Shares indicated as owned by Mr. Schwager do not include 14,000 shares of unvested restricted stock.

i) Of the 39,126 shares beneficially owned by Rodger W. Smith, 1,463 shares are owned directly by him; 6,980 shares are owned within the Company s Employee Savings and Protection Plan; 28,000 shares are subject to options under the 1996 Plan exercisable within 60 days; and 2,683 shares are subject to options under the 2002 Plan exercisable within 60 days. Shares indicated as owned by Mr. Smith do not include 10,000 shares of unvested restricted stock.

j) Of the 47,518 shares beneficially owned by H. Clark Smith, 15,704 shares are owned directly by him; 4,764 shares are owned within the Company s Employee Savings and Protection Plan; 7,000 shares are subject to options under the 1994 Plan exercisable within 60 days; 12,000 shares are subject to options under the 1996 Plan exercisable within 60 days; and 8,050 shares are subject to options under the 2002 Plan exercisable within 60 days. Shares indicated as owned by Mr. Smith do not include 8,800 shares of unvested restricted stock.

k) Includes 59,000 shares subject to options under the 1994 Plan exercisable within 60 days; 529,925 shares subject to options under the 1996 Plan exercisable within 60 days; 53,483 shares are subject to options under the 2002 Plan exercisable within 60 days; and 34,254 shares are owned within the Company s Employee Savings and Protection Plan. Shares indicated as owned do not include 170,800 shares of unvested restricted stock.

l) Information is based upon a Schedule 13G/A filed with the Commission on February 14, 2006 by Wellington Management Company, LLP (Wellington). In this Schedule 13G/A, Wellington represents that it has shared voting power with respect to 782,800 shares and shared dispositive power with respect to 1,391,000 shares of Common Stock.

m) Information is based upon a Schedule 13G/A filed with the Commission on February 13, 2006 by Franklin Resources, Inc. (parent holding company), Charles B. Johnson and Rupert H. Johnson, Jr. (principal shareholders of parent holding company), and Franklin Advisers, Inc. (investment adviser), (collectively Franklin Advisers). In this Schedule 13G, Franklin Advisers, Inc.

represents that it has sole voting power and sole dispositive power with respect to 1,537,500 shares of Common Stock issuable upon exercise of warrants.

n) Information is based upon a Schedule 13G/A filed with the Commission on February 6, 2006 by Dimensional Fund Advisors Inc. (Dimensional). In this Schedule 13G, Dimensional represents that it has sole voting power and sole dispositive power with respect to 1,634,900 shares of Common Stock.

o) Information is based upon a Schedule 13G filed with the Commission on January 26, 2006 by Barclays Global Investors, NA., Barclays Global Fund Advisors, Barclays Global Investors, LTD., and Barclays Global Investors Japan Trust and Banking Company Limited (collectively Barclays). In this Schedule 13G, Barclays represents that it has sole voting power with respect to 1,257,687 shares of common stock and sole dispositive power with respect to 1,377,916 shares of Common Stock.

p) Information is based upon a Schedule 13G filed with the Commission on February 14, 2006 by Kennedy Capital Management, Inc. (Kennedy). In this Schedule 13G, Kennedy represents that it has sole voting power with respect to 981,400 shares of common stock and sole dispositive power with respect to 1,011,000 shares of Common Stock.

With respect to shares issuable upon exercise of stock options, the named individuals acquire investment power for these shares immediately upon a change of control as defined in the applicable plan.

PROPOSAL I
ELECTION OF DIRECTORS

Nominees

The Company s Certificate of Incorporation provides for a classified Board of Directors. The Board of Directors is divided into three classes of nearly equal size, designated as Class I (currently with one director), Class II (currently with two directors) and Class III (currently with two directors). One class of directors is elected at each annual meeting of Shareholders to serve for a three-year term.

The terms of the two Class III directors, Messrs. Fred L. Callon and L. Richard Flury, will expire on the date of the Annual Meeting.

Messrs. Fred L. Callon and L. Richard Flury have been nominated to serve as Class III directors until the 2009 Annual Meeting, or until their respective successors have been duly elected and qualified. Each of the persons described in the preceding sentence (the Nominees) was nominated by the Board of Directors upon the recommendation of the Nominating and Corporate Governance Committee.

It is intended that all shares of Common Stock represented by the Proxies will be voted FOR the election of the Nominees, except where authority to vote in the election of directors has been withheld. Should the Nominees become unable or unwilling to serve as directors at the time of the Annual Meeting, the person or persons exercising the Proxies will vote for the election of substitute Nominees designated by the Board of Directors, or the Board of Directors may choose to reduce the number of members of the Board of Directors to be elected at the Annual Meeting in order to eliminate the vacancy. The Nominees have consented to be nominated and have expressed their intention to serve if elected. The Board of Directors has no reason to believe that the Nominees will be unable or unwilling to serve if elected. Only the Nominees or substitute Nominees designated by the Board of Directors will be eligible to stand for election as directors at the Annual Meeting. See Shareholders Proposals for 2007 Annual Meeting.

The Board of Directors recommends that you vote FOR the election of Messrs. Callon and Flury.

Table of Contents

Directors and Executive Officers

The following table provides information with respect to the Nominees, all current directors whose terms will continue after the Annual Meeting, and the present executive officers of the Company. Each executive officer has been elected to serve until his or her successor is duly appointed or elected by the Board of Directors or their earlier removal or resignation from office.

Name	Age	Company Position Since	Present Company Position
Class I Directors: *(Term Expires in 2007)*			
John C. Wallace	67	1994	Director
Class II Directors: *(Term Expires in 2008)*			
B. F. Weatherly	61	1994	Director
Richard O. Wilson	76	1995	Director
Class III Directors: *(Term Expires in 2006)*			
Fred L. Callon	56	1994	Director, Chairman of the Board, President, Chief Executive Officer, and Nominee
L. Richard Flury	58	2004	Director, Nominee
Other Executive Officers:			
Robert A. Mayfield	55	2000	Corporate Secretary
Thomas E. Schwager	55	1997	Vice President
H. Clark Smith	53	2001	Corporate Information Officer
Rodger W. Smith	56	1999	Corporate Controller and Treasurer
Stephen F. Woodcock	54	1997	Vice President

The following is a brief description of the background and principal occupation of each director (including each Nominee) and executive officer:

Fred L. Callon has been Chairman of the Board of Directors of the Company since May 2004 and President and Chief Executive Officer of the Company and Callon Petroleum Operating Company since January 1997. Prior to January 1997, he was President and Chief Operating Officer of the Company, positions he had held with the Company or its predecessors since 1984. He has been employed by the Company or its predecessors since 1976. Mr. Callon graduated from Millsaps College in 1972 and received his M.B.A. degree from the Wharton School of Finance in 1974. Following graduation and until his employment by Callon Petroleum Operating Company, he was employed by Peat, Marwick, Mitchell & Co., certified public accountants. He is the nephew of the late John S. Callon, the Company s founder.

L. Richard Flury is a graduate of the University of Victoria (Canada). He spent over 30 years with Amoco Corporation, and later, BP plc, from which he retired as Chief Executive, Gas and Power and Renewables, on December 31, 2001, a position he had held since June of 1999. Prior to Amoco s merger with BP in 1998, he served in various executive positions and was Chief Executive for Worldwide Exploration and Production and Executive Vice

President of Amoco Corporation at the time of the merger. Currently, he is a member of the Board of Directors of Questar Corporation, a publicly-traded oil and gas company, and the Chicago Bridge and Iron Company, N.V., a publicly-traded engineering, procurement and construction company, and serves as a Trustee of Thunderbird The Garvin School of International Management.

Robert A. Mayfield is the Corporate Secretary and also oversees Tax Services for the Company and Callon Petroleum Operating Company. He was appointed Corporate Secretary in February 2000. Prior to his appointment as Corporate Secretary, he had served as the Manager of Tax Services and Securities and Exchange Commission Reporting since 1981. Prior to joining Callon, he was employed by McCormick Oil and Gas Company in Houston, Texas, where he served as an assistant to the tax manager. Mr. Mayfield received his B.S. degree in accounting from Louisiana Tech University in 1972 and is a member of the Society of Corporate Secretaries & Governance Professionals.

Table of Contents

Thomas E. Schwager has been Vice President of Engineering and Operations for the Company and Callon Petroleum Operating Company since November 1997. Mr. Schwager has held various engineering positions with the Company and its predecessors since 1981. Prior to joining the Company, Mr. Schwager held engineering positions with Exxon Company USA in Louisiana and Texas. He received his B.S. degree in petroleum engineering from Louisiana State University in 1972. He is a registered professional engineer and a member of the Society of Petroleum Engineers.

H. Clark Smith is Corporate Information Officer for the Company and Callon Petroleum Operating Company. Prior to being appointed to that position in March 2001, he had served as Manager Information Technology since January 1990 and in other computer related positions with the Company and its predecessors since 1983. At Mississippi State University, he majored in Industrial Technology. During his tenure with the Company, he has received extensive technical and management training from the University of Southern Mississippi, International Business Machines, Microsoft, Novell, and Arthur Andersen & Company. He has also served as Manager Information Services with Jefferson Davis Regional Medical Center and as a principal of the consulting firm, Mississippi Computing Consultants.

Rodger W. Smith is the Corporate Controller and Treasurer for the Company and Callon Petroleum Operating Company. Mr. Smith was appointed Corporate Controller in 2004. Prior to being appointed Treasurer in April 1999, he had served as Manager of Budget and Analysis since 1994. Prior to 1994, Mr. Smith was Manager of Exploration and Production Accounting and has been employed by the Company and its predecessors since 1983. Prior to his employment with the Company, he was employed by International Paper Company as a plant controller. He received his B.S. degree in accounting from the University of Southern Mississippi in 1973.

John C. Wallace is a Chartered Accountant having qualified with PricewaterhouseCoopers in Canada in 1963, after which he joined Baring Brothers & Co., Limited in London, England. For over twenty years, he has served as Chairman of Fred. Olsen Ltd., a London-based corporation that he joined in 1968 and which specializes in the business of shipping, renewable energy and property development. He received his B. Comm degree majoring in Accounting and Economics from McGill University in 1959. In November 2004 he successfully completed the International Uniform Certified Public Accountant Qualification Examination (IQEX) and has received a CPA Certificate from the State of Illinois. Mr. Wallace is a director of Fred. Olsen Energy ASA, a publicly-held Norwegian company engaged in the offshore energy service industry; and Ganger Rolf ASA and Bonheur ASA, Oslo, both publicly-traded shipping companies.

B. F. Weatherly has been a principal of CapSource Financial, Houston, Texas, an investment-banking firm, since 1989. He is also a general partner of CapSource Fund, L.P., Jackson, Mississippi, an investment fund, and has held that position since 1997. Mr. Weatherly received a Master of Accountancy degree from the University of Mississippi in 1967. Mr. Weatherly has previously been associated with Arthur Andersen LLP, and has served as a Senior Vice President of Brown & Root, Inc. and Weatherford International, Inc. B. F. Weatherly and the late John S. Weatherly were brothers.

Richard O. Wilson is an Offshore Consultant. In his 50 years of working in offshore drilling and construction, he spent two years with Zapata Offshore and 21 years with Brown & Root, Inc. working in various managerial capacities in the Gulf of Mexico, Venezuela, Trinidad, Brazil, the Netherlands, the United Kingdom, Norway and Mexico. Mr. Wilson was a Director and Senior Group Vice President of Brown & Root, Inc. and Senior Vice President of Halliburton, Inc. For 18 years he was associated with Fred. Olsen Interests where he served as Chairman of OGC International PLC, Dolphin A/S and Dolphin Drilling Ltd. He holds a B.S. degree in Civil Engineering from Rice University. Mr. Wilson is a Fellow in the American Society of Civil Engineers, a Director of Flotek Industries, Inc. and a Director of the Museum of Printing History in Houston, Texas. In 2000 Mr. Wilson was elected an Industry Pioneer by the Offshore Energy Center, Houston, Texas.

Stephen F. Woodcock is Vice President of Exploration for the Company and Callon Petroleum Operating Company. Prior to being appointed to this position in November 1997, Mr. Woodcock had served as Manager of Geology and Geophysics since his initial employment by the Company and Callon Petroleum Operating Company in 1995. Prior thereto, he was Manager of Geophysics for CNG Producing Company and Division Geophysicist for Amoco Production Company. Mr. Woodcock received a master s degree in geophysics from Oregon State University in 1975.

All officers and directors (including the Nominees) of the Company are United States citizens, except Mr. Wallace, who is a citizen of Canada. L. Richard Flury holds both U.S. and Canadian citizenship.

Table of Contents

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company s directors and executive officers, and persons who beneficially own more than ten percent of a registered class of the Company s equity securities, to file with the Commission initial reports of ownership and reports of changes in ownership of Common Stock and other equity securities of the Company. Officers, directors and greater than ten percent shareholders are required by the Commission s regulations to furnish the Company and the New York Stock Exchange copies of all Section 16(a) forms they file with the Commission.

Based solely on review of the copies of such reports furnished to the Company during, or with respect to, the fiscal year ended December 31, 2005, and written representations from all of the Company s officers and directors, to the Company s knowledge, all of the Company s officers, directors and greater than ten percent shareholders have complied with all Section 16(a) filing requirements for the year ended December 31, 2005.

Information Concerning the Operation of the Board of Directors

The business of the Company is managed under the direction of the Board of Directors. The Board of Directors meets on a quarterly basis to review significant developments affecting the Company and to act on matters requiring Board approval. The Board of Directors may also hold special meetings when an important matter requires Board action between regularly scheduled meetings.

During 2005, the Board of Directors of the Company met formally four times and executed three Unanimous Written Consents. All of the Company s directors attended more than 75% of the aggregate of the total number of board meetings. In addition, the non-employee directors meet in executive sessions without management following each quarterly board meeting. Richard O. Wilson, chairman of the Nominating and Corporate Governance Committee for the period prior to August 2005, presided over all executive sessions. Beginning in August 2005, L. Richard Flury, chairman of the Nominating and Corporate Governance Committee, presided over all other executive sessions.

Compensation of Non-Employee Directors. Each non-employee director receives an annual retainer of $40,000 per year with an additional $20,000 per year for the chairman of the Audit Committee and an additional $10,000 per year to the chairman of the Compensation Committee and the chairman of the Nominating and Corporate Governance Committee. Each non-employee director is reimbursed for out-of-pocket expenses incurred to attend Board meetings. On the date he or she is initially elected or appointed to the Board, each non-employee director receives an automatic grant of an option to purchase 5,000 shares of Common Stock for an exercise price equal to the fair market price on the date of grant and for a ten-year term. Thereafter, for each subsequent year in which the non-employee director serves as a director, he or she is automatically granted an option to purchase an additional 5,000 shares on the same terms. Periodically, the Compensation Committee has approved additional option and restricted stock grants to non-employee directors.

Director Independence. It is the policy of the Board of Directors that a majority of the members of the Board be independent of the Company s management. The Company s Corporate Governance Principles contain the following guidelines to assist the Board in determining director independence in accordance with the applicable New York Stock Exchange and SEC rules:

No director who is an employee or former employee of the Company, or whose immediate family member is an executive officer or former executive officer of the Company, shall be considered independent until three years after such employment has ended;

No director who is receiving, or in the last three years has received, or whose immediate family member is receiving, or in the last three years has received, more than $100,000 per year in direct compensation from the Company, other than fees received in such director s capacity as a member of the Board or any Board committee and pension payments or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service) shall be considered independent. Compensation received by an immediate family member for service as a non-executive employee of the Company need not be considered in determining independence;

No director who is, or in the past three years has been, affiliated with or employed by, or whose immediate family member is, or in the past three years has been, affiliated with or employed in a professional capacity by, a present or former internal auditor or independent auditing firm of the Company shall be considered independent;

No director who is, or in the past three years has been, employed as, or whose immediate family member is, or in the past three years has been, employed as, an executive officer by any company for which any executive officer of the Company serves as a member of its compensation committee (or, in the absence of a compensation committee, the board committee performing equivalent functions, or, in the absence of such committee, the board of directors) shall be considered independent;

No director who is an executive officer or an employee, or whose immediate family member is an executive officer, of a company that makes payments to, or receives payments from, the Company for property or services in an amount which, in any single fiscal year, exceeds the greater of $1,000,000 or 2% of such other company s consolidated gross revenue shall be considered independent until three years after such payments fall below such threshold; and

An immediate family member includes a person s spouse, parents, children, siblings, mothers and fathers-in-law, sons and daughters-in-law, brothers and sisters-in-law, and anyone (other than domestic employees) who shares such person s home. When applying the three-year look-back provisions, it does not include individuals who are no longer immediate family members as a result of legal separation or divorce, or those who have died or become incapacitated.

The Board of Directors has affirmatively determined that Messrs. Flury, B.F. Weatherly, Wallace and Wilson do not have any material relationships with the Company that may interfere with the exercise of their independence from management and the Company and are independent directors under applicable New York Stock Exchange and SEC rules. Each of these directors also meets the standards for independence contained in the Company s Corporate Governance Principles as described above.

Corporate Governance Principles. The Company believes that good corporate governance is important to ensure that Callon Petroleum Company is managed for the long-term benefit of its shareholders. Available on the Company website, www.callon.com, under the section Governance , are copies of the Company s:

Corporate Governance Principles;

Code of Business Conduct and Ethics;

Audit Committee Charter;

Compensation Committee Charter; and

Nominating and Corporate Governance Committee Charter.

Copies of these documents are also available in print, free of charge, to any shareholder upon request to the Company s Corporate Secretary.

Any amendments to or waivers of the foregoing documents will also be posted on the Company s website.

Communication with the Board of Directors. In order to provide the Company s shareholders and other interested parties with a direct and open line of communication to the Board of Directors, the Board of Directors has adopted the following procedures for communications to directors. Callon shareholders and other interested persons may communicate with the Chairman of the Company s Audit Committee or with the non-management directors of the Company as a group by written communications addressed in care of Corporate Secretary, Callon Petroleum Company, 200 North Canal Street, Natchez, MS 39120.

All communications received in accordance with these procedures will be reviewed initially by senior management of the Company. Senior management will relay all such communications to the appropriate director or directors unless it is determined that the communication (a) does not relate to the business or affairs of the Company or the functioning or constitution of the Board of Directors or any of its committees; (b) relates to routine or insignificant matters that do not warrant the attention of the Board of Directors; (c) is an advertisement or other commercial solicitation or communication; (d) is frivolous or offensive; or (e) is otherwise not appropriate for delivery to directors.

The director or directors who receive any such communication will have discretion to determine whether the subject matter of the communication should be brought to the attention of the full Board of Directors or one or more of its committees and whether any response to the person sending the communication is appropriate. Any such response will be made only in accordance with applicable law and regulations relating to the disclosure of information.

The Corporate Secretary will retain copies of all communications received pursuant to these procedures for a period of at least one year. The Board of Directors will review the effectiveness of these procedures

9

from time to time and, if appropriate, recommend changes. As of the Record Date, no communications have been received.

Attendance at Annual Meeting of Shareholders. It is the policy of the Board that, to the extent possible, all directors attend the annual meeting of shareholders. All directors attended the 2005 annual meeting of shareholders.

Board Committees. In order to facilitate the various functions of the Board of Directors, the Board of Directors has created an Audit Committee, a Compensation Committee and a Nominating and Corporate Governance Committee.

Audit Committee. The principal function of the Audit Committee is to assist the Board of Directors in the areas of financial reporting and accounting integrity. The Audit Committee reviews the accounting and auditing procedures and financial reporting practices of the Company and is responsible for the engagement of, and overseeing all audit work conducted by, the Company s independent registered public accounting firm. The Audit Committee is governed by a Charter that has been approved by the Board of Directors. The Audit Committee meets periodically with the Company s management, internal auditor and independent registered public accounting firm to review the Company s financial information and systems of internal controls and ensure such parties are properly discharging their responsibilities. The independent registered public accounting firm reports directly to the Audit Committee and periodically meets with the Audit Committee without management representatives present.

The Audit Committee is composed entirely of non-employee members of the Board, each of whom satisfy the independence requirements for audit committee members under Rule 10A-3 of the Securities Exchange Act of 1934, and are independent and financially literate as defined by New York Stock Exchange rules. Members of the Audit Committee may not simultaneously serve on the audit committee of more than two other public companies. Following the death of his brother, John S. Weatherly, the former Senior Vice President and Chief Financial Officer of the Company, B. F. Weatherly was appointed to the Audit Committee in August 2005. The Audit Committee is comprised of Messrs. Wallace (Chairman), Flury, Weatherly and Wilson. Additionally, the Board of Directors has determined that Mr. Wallace has the accounting or financial management expertise to be considered a financial expert as defined and required by the New York Stock Exchange s rules and by the Securities Exchange Act of 1934. The Audit Committee s report on its activities during 2004 and 2005 appears later in this proxy statement under the caption Audit Committee Report.

The Audit Committee held six meetings and did not execute any Unanimous Written Consents during 2005. All members of the Audit Committee attended all the meetings.

Compensation Committee. The purpose of the Compensation Committee is to assist the Board of Directors in the discharge of its fiduciary responsibilities relating to the fair and competitive compensation of the Company s Chief Executive Officer ("CEO") and other executives. In addition, the Committee administers the Company s incentive compensation and stock option and other equity based plans in which the CEO and other executive officers may be participants and recommends to the Board amendments to such plans or adoption of new plans.

Each member of the Committee meets the independence requirements of the New York Stock Exchange and applicable federal securities laws. Prior to August 2005, L. Richard Flury served as chairman of the Compensation Committee. In August 2005, B.F. Weatherly was appointed to the committee and currently serves as the chairman. Current members are Messrs. Weatherly (chairman), Flury, Wallace and Wilson. The Compensation Committee held three meetings and executed one Unanimous Written Consent during 2005. All members of the Compensation Committee attended all the meetings.

Nominating and Corporate Governance Committee. The purpose of the Committee is to:

- identify and recommend to the Board individuals qualified to be nominated for election to the Board;
- recommend to the Board the members and Chairperson for each Board committee;
- periodically review and assess the Company s Corporate Governance Principles and the Company s Code of Business Conduct and Ethics and make recommendations for changes thereto to the Board; and
- oversee the annual self-evaluation of the performance of the Board and the annual evaluation of the Company s management.

Each member of the Committee meets the independence requirements of the New York Stock Exchange and applicable federal securities laws. Prior to August 2005, Richard O. Wilson served as chairman of the

Table of Contents

Nominating and Corporate Governance Committee. In August 2005, L. Richard Flury replaced Mr. Wilson as chairman and Mr. B. F. Weatherly was appointed to the Nominating and Corporate Governance Committee. Current members are Messrs. Flury (Chairman), Wallace, B.F. Weatherly, and Wilson. The Nominating and Corporate Governance Committee held three meetings and executed two Unanimous Written Consents during 2005. All members of the Nominating and Corporate Governance Committee attended all the meetings. Prior to the formation of this Committee, the entire Board of Directors performed these functions.

Nominee Qualifications. The Nominating and Corporate Governance Committee has established certain criteria it considers as guidelines in considering nominations to the Company s Board of Directors. The criteria include:

- personal characteristics, including such matters as integrity, age, education, diversity of background and experience, absence of potential conflicts of interest with the Company or its operations, and the availability and willingness to devote sufficient time to the duties of a director of the Company;
- experience in corporate management, such as serving as an officer or former officer of a publicly held company;
- experience in the Company s industry and with relevant social policy concerns;
- experience as a board member of another publicly held company;
- academic expertise in an area of the Company s operations; and
- practical and mature business judgment.

The criteria are not exhaustive and the Nominating and Corporate Governance Committee and the Board of Directors may consider other qualifications and attributes which they believe are appropriate in evaluating the ability of an individual to serve as a member of the Board of Directors. The Nominating and Corporate Governance Committee s goal is to assemble a Board of Directors that brings to the Company a variety of perspectives and skills derived from high quality business and professional experience. In order to ensure that the Board consists of members with a variety of perspectives and skills, the Nominating and Corporate Governance Committee has not set any minimum qualifications and also considers candidates with appropriate non-business backgrounds. Other than ensuring that at least one member of the Board is a financial expert and a majority of the Board members meet all applicable independence requirements, the Committee does not have any specific skills that it believes are necessary for any individual director to possess. Instead, the Committee evaluates potential nominees based on the contribution such nominee s background and skills could have upon the overall functioning of the Board. In accordance with the Company s by-laws, any shareholder may nominate a person for election to the Board of Directors upon delivery of written notice to the Company of such nomination, stating the name and address of the nominee and describing his qualifications. Such notice shall be sent by certified mail or delivered to the principal office of the Company to the attention of the Board of Directors, with a copy to the President and Corporate Secretary of the Company.

The Board of Directors believes that, based on the Nominating and Corporate Governance Committee s knowledge of the Company s Corporate Governance Principles and the needs and qualifications of the Board at any given time, the Nominating and Corporate Governance Committee is best equipped to select nominees that will result in a well-qualified and well-rounded board of directors. In making its nominations, the Nominating and Corporate Governance Committee identifies nominees by first evaluating the current members of the Board willing to continue their service. Current members with qualifications and skills that are consistent with the Committee s criteria for Board service are re-nominated. As to new candidates, the committee will generally poll the Board members and members of management for recommendations. The committee may also review the composition and qualification of the boards of directors of the Company s competitors, and may seek input from industry experts or analysts. The committee reviews the qualifications, experience and background of the candidates. Final candidates are interviewed by the independent directors and executive management. In making its determinations, the committee evaluates each individual in the context of the Board as whole, with the objective of assembling a group that can best represent shareholder interests through the exercise of sound judgment. After review and deliberation of all feedback and data, the committee makes its recommendation to the Board of Directors. The committee may in the future choose to engage third-party search firms in situations where particular qualifications are required or where existing contacts are not sufficient to identify an appropriate candidate.

Relationship with Independent Registered Public Accounting Firm

Management is responsible for establishing and maintaining internal controls over financial reporting and for assessing the effectiveness of those controls. The independent registered public accounting firm is

Table of Contents

responsible for performing independent audits of the Company s consolidated financial statements and internal controls over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States) and issuing reports thereon. The Audit Committee s responsibility is to monitor and oversee these processes. Ernst & Young LLP, an independent registered public accounting firm, served as the Company s independent registered public accounting firm during 2005 and was appointed by the Audit Committee to serve in that capacity for 2006.

Audit Fees Paid to Independent Registered Public Accounting Firm. Fees paid for professional services rendered related to the year ended December 31, 2004 by Ernst & Young LLP for the annual audit and quarterly reviews (including the requirements under Section 404 of the Sarbanes-Oxley Act) were $289,384, including out-of-pocket expenses. Fees paid for professional services rendered related to the year ended December 31, 2005 by Ernst & Young LLP for the annual audit and quarterly reviews (including the requirements under Section 404 of the Sarbanes-Oxley Act) were $304,916, including out-of-pocket expenses. The Audit Committee has concluded that providing the tax-related services mentioned below is compatible with maintaining the principal registered public accounting firm s independence.

Audit-related Fees. There were no audit-related fees paid in 2004 or 2005.

Tax Fees. Professional services billed by Ernest & Young LLP for the review of the federal tax return, federal, state and local tax planning and advice, quarterly estimated tax payments, and assistance/analysis of tax attributes for 2004 were $8,200. Professional services billed for the review of the federal tax return, tax advice and tax planning services for 2005 totaled $18,040.

All Other Fees. There were no other fees paid to the Company s independent registered public accounting firm in 2004 or 2005.

The Audit Committee pre-approves all audit services and non-audit services (including the fees and terms thereof) to be performed for the Company by its independent registered public accounting firm, as required by applicable law or listing standards and subject to the terms of the audit and non-audit services pre-approval policy adopted by the Audit Committee. The Committee may delegate authority to one or more of its members when appropriate, including the authority to grant pre-approvals of audit and permitted non-audit services, provided that decisions of any such member to grant pre-approvals are consistent with the terms of the Pre-Approval Policy and are presented to the full Committee at its next scheduled meeting.

Audit Committee Report

Acting pursuant to its Charter, the Audit Committee reviewed and discussed the Company s audited financial statements at, and for the year ended, December 31, 2005 with management and the Company s independent registered public accounting firm and recommended to the Company s Board of Directors that the Company s audited financial statements be included in the Company s Annual Report on Form 10-K for the year ended December 31, 2005. This recommendation was based on:

- the Audit Committee s review of the audited financial statements;
- discussion of the financial statements with management;
- discussion with the Company s independent registered public accounting firm, Ernst & Young LLP, of the matters required to be discussed by auditing standards generally accepted in the United States of America, including the matters required to be discussed by SAS 61;
- receipt from Ernst &Young LLP of the written disclosures and letter required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees);
- discussions with Ernst & Young LLP regarding its independence from the Company and its management;
- Ernst & Young LLP s confirmation that it would issue its opinion that the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its consolidated subsidiaries

and the results of their operations and cash flows for the periods presented in conformity with accounting principles generally accepted in the United States of America; and

other matters the Audit Committee deemed relevant and appropriate.

John C. Wallace, Chairman
L. Richard Flury
B. F. Weatherly
Richard O. Wilson

12

Table of Contents

EXECUTIVE COMPENSATION

Summary Compensation Table

The following table sets forth information with respect to the Chief Executive Officer of the Company and the four most highly compensated executive officers of the Company serving in such positions as of December 31, 2005 and one additional officer (Named Executive Officers) for the years ended December 31, 2005, 2004 and 2003.

		Annual Compensation			Long-Term Compensation Awards		
	Year	Salary ($)	Bonus ($)(a)	Other Annual Compen-sation ($)(b)	Restricted Stock Award(s) ($)(c)	Securities Underlying Options (#)(d)	All Other Compen-sation ($)(e)
Fred L. Callon Chairman and	2005	414,000	230,000				37,678
Chief	2004	344,405	100,000		594,260		30,718
Executive Officer	2003	285,605					27,052
John S. Weatherly Senior Vice	2005	99,519	125,000				11,172
President	2004	241,331	300,000		414,600		25,158
and Chief Financial	2003	228,484					23,566
Officer (f)							
Stephen F. Woodcock							