

CALLON PETROLEUM CO

Form DEF 14A

April 11, 2007

**Table of Contents**

OMB APPROVAL

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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 ☐  
Filed by a Party other than the Registrant ☐

Check the appropriate box:

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

**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):

- ☐ No fee required.
- ☐ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) 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:

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o Fee paid previously with preliminary materials.

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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:

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2) Form, Schedule or Registration Statement No.:

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3) Filing Party:

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4) Date Filed:

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Table of Contents

**CALLON PETROLEUM COMPANY  
200 NORTH CANAL STREET  
NATCHEZ, MISSISSIPPI 39120  
NOTICE OF ANNUAL MEETING OF SHAREHOLDERS  
TO BE HELD THURSDAY, MAY 3, 2007**

*To Our Shareholders:*

Notice is hereby given and you are cordially invited to attend the Annual Meeting of Shareholders of the Company which will be held in Natchez, Mississippi, on Thursday, May 3, 2007, 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 one Class I director to hold office until the 2010 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, 2007; and
3. To transact such other business as may properly come before the Annual Meeting or any adjournment or adjournments thereof.

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 19, 2007 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 11, 2007

**IF YOU CANNOT ATTEND THE MEETING IN PERSON, 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 2007 ANNUAL MEETING MAY REVOKE THEIR PROXIES AND VOTE IN PERSON.**

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**TABLE OF CONTENTS**

PROXY STATEMENT

SOLICITATION AND REVOCABILITY OF PROXIES

VOTING REQUIREMENTS

QUORUM AND OTHER MATTERS

PROPOSAL I

BENEFICIAL OWNERSHIP OF SECURITIES

EXECUTIVE COMPENSATION AND OTHER RELATED INFORMATION

PROPOSAL II

SHAREHOLDERS' PROPOSALS

FINANCIAL STATEMENTS AND OTHER AVAILABLE DOCUMENTS

OTHER BUSINESS

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**Table of Contents**

**PROXY STATEMENT**

**CALLON PETROLEUM COMPANY**

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

**ANNUAL MEETING OF SHAREHOLDERS**

**THURSDAY, MAY 3, 2007**

**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, from shareholders of the Company for use at the Annual Meeting of Shareholders of the Company to be held on Thursday, May 3, 2007, 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. The purpose of the meeting is to consider and vote upon the matters described in the accompanying Notice of Annual Meeting of Shareholders.

A proxy in the form accompanying this proxy statement, 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. Proxies submitted by mail must be received on or before May 2, 2007. Submitting your proxy by mail will not affect your right to vote in person if you decide to attend the 2007 annual meeting. If a shareholder holds shares in a broker's account and has given specific voting instructions, the shares will be voted in accordance with those instructions. If no voting instructions have been given, under rules of The New York Stock Exchange the broker may decide how to vote with respect to those shares as to the Board nominee and the ratification of the Company's independent accounting firm for the 2007 fiscal year.

This proxy statement and the accompanying notice and form of proxy are being mailed to shareholders on or about April 11, 2007. The Annual Report for the Company's fiscal year ended December 31, 2006 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 our Board of Directors.

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 our common stock. 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 one Class I director nominee to the Board of Directors named herein, and (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, 2007.

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 our shareholders.

**Table of Contents**

**VOTING REQUIREMENTS**

The Board of Directors has fixed the close of business on March 19, 2007 as 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, our outstanding voting securities consisted of 20,750,449 shares of common stock. Holders of common stock will be entitled to one vote per share 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 ratification of the appointment of the Company's independent registered public accounting firm. If this appointment is not ratified by holders of our voting securities, the Audit Committee and the Board may reconsider its appointment and endorsement, respectively. Even if the selection is ratified, the Audit Committee may direct the appointment of a different independent registered public accounting firm at any time during the year if it determines that such a change would be in the best interests of the Company and its shareholders. Abstaining shares will be considered present at the Annual Meeting for this matter 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 this matter 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**

**PROPOSAL I  
ELECTION OF DIRECTORS**

**Nominees**

Our 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 term of the one Class I director, Mr. John C. Wallace, will expire on the date of the Annual Meeting. Mr. Wallace has been nominated to serve as a Class I director until the 2010 Annual Meeting, or until his successor has been duly elected and qualified. Mr. Wallace was nominated by the Board of Directors upon the recommendation of the Nominating and Corporate Governance Committee.

All shares of common stock represented by the proxies will be voted **FOR** the election of Mr. Wallace, except where authority to vote in the election of the director has been withheld. Should Mr. Wallace become unable or unwilling to serve as a director at the time of the Annual Meeting, the person or persons exercising the proxies will vote for the election of substitute nominee 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. Mr. Wallace has consented to be nominated and has expressed his intention to serve if elected. The Board of Directors has no reason to believe that Mr. Wallace will be unable or unwilling to serve if elected. Only Mr. Wallace or a substitute nominee designated by the Board of Directors will be eligible to stand for election as director at the Annual Meeting.

**The Board of Directors recommends that you vote **FOR** the election of Mr. Wallace.**



**Table of Contents****Directors and Executive Officers of Callon Petroleum Company**

The following table provides information with respect to the nominee, 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.

<b>Name</b>	<b>Age</b>	<b>Company Position Since</b>	<b>Present Company Position</b>
<b><i>Class I Director:</i></b> <i>(Term Expires in 2007)</i>			
John C. Wallace	68	1994	Director; Nominee
<b><i>Class II Directors:</i></b> <i>(Term Expires in 2008)</i>			
B. F. Weatherly	62	1994	Director, Executive Vice President and Chief Financial Officer
Richard O. Wilson	77	1995	Director
<b><i>Class III Directors:</i></b> <i>(Term Expires in 2009)</i>			
Fred L. Callon	57	1994	Director, Chairman of the Board, President, and Chief Executive Officer
L. Richard Flury	59	2004	Director
<b><i>Other Executive Officers:</i></b>			
Robert A. Mayfield	56	2000	Corporate Secretary
Thomas E. Schwager	56	1997	Vice President
H. Clark Smith	54	2001	Chief Information Officer
Rodger W. Smith	57	1999	Corporate Controller and Treasurer
B. F. Weatherly	62	2006	Executive Vice President and Chief Financial Officer
Stephen F. Woodcock	55	1997	Vice President

The following is a brief description of the background and principal occupation of each director 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

## Table of Contents

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.

**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 Chief 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 Treasurer in April 1999 and Corporate Controller in 2004. Prior to being appointed Treasurer, he 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-five 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** is Executive Vice President and Chief Financial Officer for the Company and Callon Petroleum Operating Company. Prior to joining the Company in November 2006, he was a principal of CapSource Financial, Houston, Texas, an investment-banking firm, since 1989. He was also a general partner of CapSource Fund, L.P., Jackson, Mississippi, an investment fund, and 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.

**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.

## **Table of Contents**

All officers and directors 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.

### **The Board of Directors and Governance Matters**

**General.** In accordance with our by-laws and the laws of Delaware, our state of incorporation, our business and affairs are managed under the direction of the Board of Directors. The Board of Directors generally 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 and telephone conference calls when an important matter requires Board action between regularly scheduled meetings.

During 2006, the Board of Directors of the Company met formally four times and executed five 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, to promote open discussion, the non-management directors meet in executive (private) sessions without management following each quarterly board meeting. The chairperson of such executive sessions is the chairperson of the Nominating and Corporate Governance Committee unless, at the first executive session held in each fiscal year, the independent directors select a different independent director to serve as the chairperson for all executive sessions held during that fiscal year. L. Richard Flury, chairman of the Nominating and Corporate Governance Committee from January 2006 through September 2006 and chairman of the Compensation Committee from October 2006 through December 2006, presided over all executive sessions.

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. These committees are more fully described in the following pages.

**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

## Table of Contents

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, 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 rules, SEC rules and in accordance with our Corporate Governance Principles. Prior to his appointment as Executive Vice President and Chief Financial Officer in November 2006, the Board of Directors also affirmatively determined that Mr. B. F. Weatherly met the criteria and was an independent director. In connection with his employment with the Company, he no longer qualified as an independent director. Mr. Weatherly resigned from all committees of the Board, but will continue his role as a management member of the Board of Directors.

**Corporate Governance Principles.** The Company believes that good corporate governance is important to ensure that Callon Petroleum Company is managed for the short- and long-term benefit of its shareholders. Available on the Company website, [www.callon.com](http://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 (attached as Exhibit A);

Compensation Committee Charter;

Nominating and Corporate Governance Committee Charter; and

Members serving on each of the Board of Directors' Committees.

Any amendments to or waivers of the foregoing documents will also be posted on the Company's website. Copies of these documents are available in print, free of charge, to any shareholder upon request to the Company's Corporate Secretary.

**Ethics.** The Company's Code of Business Conduct and Ethics sets forth our policies and expectations. The Code, which applies to every director, officer and employee, addresses a number of topics, including conflicts of interest, relationships with others, corporate payments, disclosure policy, compliance with laws, corporate opportunities and the protection and proper use of the Company's assets. The Code meets the New York Stock Exchange's requirements for a code of business conduct and ethics as well as the SEC's definition of a code of ethics applicable to the Company's senior officers. Neither the Board of Directors nor any Board committee has ever granted a waiver of the Code.

**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 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 Robert A. Mayfield, 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:

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;

relates to routine or insignificant matters that do not warrant the attention of the Board of Directors;

is an advertisement or other commercial solicitation or communication;

is frivolous or offensive; or

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



## **Table of Contents**

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 from time to time and, if appropriate, recommend changes. As of the record date, no such 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 2006 Annual Meeting of Shareholders.

### **Committees of the Board of Directors**

#### **Audit Committee Functions and Responsibilities**

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 ensures 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 has the authority to investigate any matters brought to its attention and to retain outside legal, accounting or other consultants if deemed necessary.

The Audit Committee is composed entirely of non-management 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. The Audit Committee is currently comprised of Messrs. Wallace (Chairman), Flury, and Wilson. Prior to his resignation from the Audit Committee in connection with his employment with the Company, Mr. B. F. Weatherly also served as a member of the committee. 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 held five meetings and did not execute any unanimous written consents during 2006. All members of the Audit Committee attended all the meetings. The Audit Committee's report on its activities during 2006 appears later in this proxy statement under the caption Audit Committee Report.

***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 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 2006 and was appointed by the Audit Committee to serve in that capacity for 2007.

***Audit Fees Paid to Independent Registered Public Accounting Firm.*** 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. Fees paid for professional services rendered related to the year ended December 31, 2006 by Ernst & Young LLP for the annual audit and quarterly reviews (including the requirements under Section 404 of the Sarbanes-Oxley Act) were \$335,892, 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.



**Table of Contents**

***Audit-related Fees.*** There were no audit-related fees paid in 2005 or 2006.

***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 2005 were \$18,040. Professional services billed for the review of the federal tax return, tax advice and tax planning services for 2006 totaled \$8,545.

***All Other Fees.*** There were no other fees paid to the Company's independent registered public accounting firm in 2005 or 2006.

***Pre-Approval Policy of Audit, Audit-Related, Tax and Non-Audit Services.*** 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, 2006 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, 2006. 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  
Richard O. Wilson

### **Compensation Committee Functions and Responsibilities**

The purpose of the Compensation Committee is to:

review the compensation philosophy and strategy of the Company and consult with the CEO, as needed, regarding the role of the Company's compensation strategy in achieving the Company's objectives and performance goals and the short- and long-term interests of the Company's shareholders;

annually review market and industry data to assess the Company's competitive position with respect to the individual elements of total executive compensation to ensure the attraction, retention and appropriate reward of the Company's CEO and other executive officers;

administer the Company's incentive compensation and stock option and other equity based plans in which the CEO and other executive officers and employees may be participants;

**Table of Contents**

annually review and establish the base salary, incentive compensation, stock options, performance shares for the CEO and make recommendations to the Board with respect to compensation of the Company's other executive officers and employees;

annually review and approve corporate goals and objectives relevant to incentive compensation of the CEO and other executive officers and employees;

review, recommend, and discuss with management the compensation discussion and analysis section included in the Company's annual proxy statement; and

prepare an annual report on executive compensation for inclusion in the Company's proxy statement for the Annual Meeting of Shareholders.

Each member of the Committee meets the independence requirements of the New York Stock Exchange and applicable federal securities laws. Effective October 1, 2006, L. Richard Flury was appointed to serve as chairman of the Compensation Committee following the resignation of B.F. Weatherly. Current members are Messrs. Flury (chairman), Wallace and Wilson.

The Compensation Committee held four meetings and executed four unanimous written consents during 2006. All members of the Compensation Committee attended all the meetings.

***Compensation Committee Interlocks and Insider Participation.*** The members of the Company's Compensation Committee are Messrs. L. Richard Flury (Chairman), John C. Wallace and Richard O. Wilson, none of whom are or have been officers or employees of the Company or any of its subsidiaries or had a relationship requiring disclosure under this caption.

**Nominating and Corporate Governance Committee Functions and Responsibilities**

The purpose of the Nominating and Corporate Governance 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;

oversee the annual self-evaluation of the performance of the Board and the annual evaluation of the Company's management; and

recommend to the Board a successor to the CEO when a vacancy occurs.

Each member of the Committee meets the independence requirements of the New York Stock Exchange and applicable federal securities laws. Prior to October 1, 2006, L. Richard Flury served as chairman of the Nominating and Corporate Governance Committee. Effective October 1, 2006, Richard O. Wilson replaced Mr. Flury as chairman and Mr. B. F. Weatherly resigned from the Nominating and Corporate Governance Committee. Current members are Messrs. Wilson (Chairman), Wallace, and Flury. The Nominating and Corporate Governance Committee held two meetings and executed two unanimous written consents during 2006. 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.

***Director Identification and Selection.*** 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

**Table of Contents**

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.

**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) the 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
<i>Directors:</i>		
Fred L. Callon	575,769(b)	2.75%
L. Richard Flury	20,000(c)	*
John C. Wallace	141,705(d)	*
B. F. Weatherly	85,356(e)	*
Richard O. Wilson	138,224(f)	*
<i>Named Executive Officers:</i>		*
Stephen F. Woodcock	111,638(g)	*
Thomas E. Schwager	8,927(h)	*
Rodger W. Smith	42,989(i)	*
<i>Directors and Executive Officers:</i>		
<i>As a Group (10 persons)</i>	1,228,627(j)	5.76%
<i>Certain Beneficial Owners:</i>		
Wellington Management Company, LLP 75 State Street Boston, MA 02109	1,300,200(k)	6.27%
New York Life Investment Management, LLC. 51 Madison Avenue New York, NY 10010	1,064,530(l)	5.13%
Dimensional Fund Advisors LP 1299 Ocean Avenue Santa Monica, CA 90401	1,689,800(m)	8.14%
Barclays Global Investors, NA 45 Fremont Street San Francisco, CA 94105	1,456,824(n)	7.02%
Kennedy Capital Management, Inc. 10829 Olive Blvd. St. Louis, MO 63141	1,229,800(o)	5.93%

\* Less than 1%

a) Unless otherwise indicated, each of the persons



listed in the 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 performance 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 beneficially owned by such holder or class of holders plus the total number of shares of common stock underlying options exercisable within sixty days of March 19, 2007, 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 19, 2007,  
but not common  
stock underlying  
such securities  
held by any  
other person.

- b) Of the 575,769  
shares  
beneficially  
owned by Fred  
L. Callon,  
270,720 shares  
are owned  
directly by him;  
92,170 shares  
are held by him  
as custodian for  
certain minor  
Callon family  
members;  
11,504 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

**Table of Contents**

wife over whom  
he disclaims  
beneficial  
ownership and  
65,800 shares of  
unvested  
performance  
stock.

- c) Of the 20,000  
shares  
beneficially  
owned by L.  
Richard Flury,  
15,000 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 15,000  
shares of  
unvested  
performance  
stock.

- d) Of the 141,705  
shares  
beneficially  
owned by John C.  
Wallace, 76,705  
shares are owned  
directly by him;  
15,000 shares are  
subject to options  
under the 1994  
Plan, exercisable  
within 60 days;  
45,000 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 15,000 shares of unvested performance stock.

- e) Of the 85,356 shares beneficially owned by B. F. Weatherly, 2,288 shares are owned within his personal IRA account; 18,024 shares are held in joint tenancy with his wife; 44 shares are owned within the Company's Employee Savings and Protection Plan; 15,000 shares are subject to options under the 1994 Plan, exercisable within 60 days; 45,000 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  
60,000 shares of  
unvested  
performance  
stock.

f) Of the 138,224  
shares  
beneficially  
owned by  
Richard O.  
Wilson, 66,405  
shares are held in  
a family limited  
partnership;  
6,819 shares are  
held in a Trust  
account; 15,000  
shares are subject  
to options under  
the 1994 Plan,  
exercisable  
within 60 days;  
45,000 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. Wilson do  
not include  
15,000 shares of  
unvested  
performance  
stock.

g) Of the 111,638  
shares  
beneficially  
owned by  
Stephen F.  
Woodcock,  
13,556 are owned  
directly by him;

7,332 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 43,100 shares of unvested performance stock.

- h) Of the 8,927 shares beneficially owned by Thomas E. Schwager, 8,437 are owned directly by him; and 490 shares are owned within the Company's Employee Savings and Protection Plan. Shares indicated as owned by Mr. Schwager do not include 36,100 shares of unvested performance stock.

- i) Of the 42,989 shares

beneficially owned by Rodger W. Smith, 5,069 shares are owned directly by him; 7,237 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 25,100 shares of unvested performance stock.

- j) Includes 59,000 shares subject to options under the 1994 Plan, exercisable within 60 days; 469,925 shares subject to options under the 1996 Plan, exercisable within 60 days; 53,483 shares subject to options under the 2002 Plan, exercisable within 60 days; and 36,104 shares are owned within the Company's Employee

Savings and Protection Plan. Shares indicated as owned do not include 313,900 shares of unvested performance stock.

- k) Information is based upon a Schedule 13G/A filed with the Commission on February 14, 2007 by Wellington Management Company, LLP. In this Schedule 13G/A, Wellington represents that it has shared voting power with respect to 717,000 shares and shared dispositive power with respect to 1,300,200 shares of common stock.
- l) Information is based upon a Schedule 13G filed with the Commission on February 13, 2007 by New York Life Investment Management, LLC. In this Schedule 13G, New York Life represents that it has sole voting power and sole dispositive power



with respect to  
1,064,530 shares  
of common stock.

**Table of Contents**

m) Information is based upon a Schedule 13G/A filed with the Commission on February 9, 2007 by Dimensional Fund Advisors LP. In this Schedule 13G, Dimensional represents that it has sole voting power and sole dispositive power with respect to 1,689,800 shares of common stock.

n) Information is based upon a Schedule 13G filed with the Commission on January 23, 2007 by Barclays Global Investors, NA., Barclays Global Fund Advisors, Barclays Global Investors, LTD., and Barclays Global Investors Japan Trust and Banking Company Limited, Barclays Global Investors Japan Limited. In this Schedule 13G, Barclays represents that it has sole voting power with respect to

1,390,856 shares  
of common stock  
and sole  
dispositive  
power with  
respect to  
1,456,824 shares  
of common  
stock.

- o) Information is  
based upon a  
Schedule 13G  
filed with the  
Commission on  
February 13,  
2007 by  
Kennedy Capital  
Management,  
Inc. ( Kennedy ).  
In this  
Schedule 13G,  
Kennedy  
represents that it  
has sole voting  
power with  
respect to  
1,198,150 shares  
of common stock  
and sole  
dispositive  
power with  
respect to  
1,229,800 shares  
of common  
stock.

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

#### **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, 2006, 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, 2006.

#### **Compensation Discussion and Analysis on Executive Compensation**

### **Oversight of Executive Compensation Program**

The Compensation Committee of our Board of Directors oversees our compensation programs. Consistent with the listing requirements of the New York Stock Exchange, the Compensation Committee is composed entirely of independent members of our Board of Directors. The primary function of the Committee is to assist our Board of Directors in the discharge of its fiduciary responsibilities relating to compensation of our Chief Executive Officer and other executives. From time to time the Committee has retained a compensation consultant to assess the effectiveness of the Company's compensation program. The Committee did not engage a consultant in 2006.

### **Compensation Program Philosophy and Objectives**

Our business strategy is to enhance shareholder value through sustained growth in our reserve base, production levels and resulting cash flows from operations. Over the past several years, we have shifted our emphasis from the acquisition of producing properties to the acquisition of acreage with development and exploratory drilling opportunities. Our compensation program is designed to help us successfully implement our strategy. Our compensation program has four objectives:

To attract, retain and motivate qualified executives whose performance is key to the successful execution of our strategy and the achievement of our corporate goals;

To create a performance-oriented environment that rewards achievement of our short- and long-term strategic goals;

## **Table of Contents**

To provide an executive compensation structure that is internally equitable based upon the level of responsibility of our executives; and

To align the interests of our executive officers with those of our shareholders.

The Committee considers various factors such as each executive's motivation level, leadership ability, overall knowledge and experience in his particular segment of our business, the competitive compensation environment for such individual, that person's unique skills and his or her expected future contribution to the success of our company. We feel that if these qualities are rewarded, the executives will be motivated to achieve our corporate goals and implement our strategies.

### **Elements of Compensation**

The Committee believes that the compensation environment for qualified technical professionals in the domestic oil and gas industry is highly competitive, particularly as a result of current efforts to reduce dependence on foreign oil. It also believes that similar compensation pressure has resulted from increased financial reporting and corporate governance regulatory issues implemented within recent years. In order to compete in this environment, our executive officers' compensation has four components:

base salary;

annual discretionary cash bonuses;

stock option and performance share awards granted periodically under our incentive plans; and

other benefits that, in most cases, are available to all salaried employees.

We pay base salaries at appropriate levels to recognize each executive officer's unique value and historical contributions to the Company's success in light of salary norms in the industry and the general marketplace; to match competition for executive talent; to provide executives with predictable, regularly-paid income; and to reflect the executive's position and level of responsibility. In general, the Committee believes that base salary should be relatively stable over time, providing the executive a dependable, minimum level of compensation.

We include an annual cash bonus as part of our compensation program because we believe this element of compensation helps to motivate management to achieve key short-term (annual) corporate objectives. We also provide an annual cash bonus in order to be competitive from a total remuneration standpoint.

Long-term equity-based incentive compensation is an element of our compensation policy because we believe it aligns management and executives' interests with the interests of the Company's shareholders. Our equity incentives also reward the attainment of long-term corporate objectives by our executives. We generally grant equity awards that are subject to vesting over several years in order to encourage management and executive retention. We also believe that grants of equity-based compensation are necessary to enable us to be competitive from a total remuneration standpoint.

We also offer benefits such as matching 401(k) contributions and payment of insurance premiums in order to provide a competitive remuneration package.

### **How We Determine Our Compensation Levels**

**Base Salaries.** There are two components to how we determine base salaries. First, in January of each year, all employee salaries, including salaries of our executive officers, are automatically increased by a cost of living adjustment. The amount of the actual increase is determined by the Compensation Committee and is tied, generally, to the Consumer Price Index published by the U. S. Department of Labor for the previous year. Based on this information, the cost of living adjustment approved by the Committee in January 2006 was 5%.

Second, at a regularly scheduled meeting, generally in March, the Committee reviews annual base salaries of the executive officers, beginning with the Chief Executive Officer. His compensation package is compared to the compensation packages of CEOs at other companies the Committee deems at that time to be similar in operational aspects and in size to us, which we refer to as Peer Companies. For 2006, the Peer Companies were W&T Offshore, Inc.; ATP Oil & Gas Corporation; PetroQuest Energy, Inc.; Energy Partners, Ltd.; and Stone Energy Corporation.

Compensation information with respect to these Peer Companies is obtained from public filings made by the Peer Companies.

**Table of Contents**

The Committee then establishes the CEO's base salary for the ensuing year, targeting the mid to upper salary range of the Peer Companies. Following this review and discussion, the CEO joins the Committee meeting. The remaining executive officers' base salaries are discussed with the CEO along with his suggestions for adjustments, if necessary. The Committee approves all base salary adjustments for the executive officers which generally become effective on the next bi-weekly payroll.

In addition to the annual cost of living adjustment and annual base salary reviews, the Committee, with input from the CEO, has the discretion to periodically approve any additional salary adjustments it feels are warranted based on general compensation changes within the industry, individual performance or significant changes in duties and responsibilities.

In January 2006, Mr. Callon's salary was increased from \$414,000 in 2005 to \$434,700, representing the 5% cost of living adjustment. At its regular meeting in March 2006, after comparing Mr. Callon's salary to CEO salaries at the Peer Companies and determining that his salary was already in the mid to upper range, the Committee determined that no further adjustment was necessary.

In January 2006, Messrs. Woodcock's, Schwager's, and Smith's salaries were increased from \$188,555; \$177,463; and \$139,725 to \$197,982; \$186,336; and \$146,711, respectively, representing the 5% cost of living adjustment. In March 2006, their salaries were increased to \$225,000, \$200,000, and \$175,000, respectively. These increases were primarily the result of comparisons to Peer Companies, targeting the mid to upper range of salaries for similar positions.

In November 2006, B.F. Weatherly was hired as the Company's Executive Vice President and Chief Financial Officer. His initial annual salary was set by the committee at \$350,000. This salary level was selected based on a comparison of salaries paid for the similar position at the Peer Companies and targeted the mid to upper range.

**Annual Cash Bonuses.** Executive officers, senior management and other non-management technical personnel have the potential to receive a significant portion of their annual cash compensation as a cash bonus. Each year, following the Board of Directors' approval of the annual operating budget and financial forecast for the next year, at its regular November meeting, the Compensation Committee sets cash bonus guidelines for the next year. These guidelines, weighted equally, are based on