

CALLON PETROLEUM CO

Form 11-K

June 27, 2006

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 11-K  
ANNUAL REPORT PURSUANT TO SECTION 15(D)  
OF THE SECURITIES EXCHANGE ACT OF 1934**

(Mark One)

**Annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934  
For the fiscal year ended December 31, 2005.**

**OR**

**Transition report pursuant to Section 15(d) of the Securities Exchange Act of 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number 001-14039**

A. Full title of plan and the address of the plan, if different from that of the issuer named below:

**CALLON PETROLEUM COMPANY  
EMPLOYEE SAVINGS & PROTECTION PLAN**

B. Name of the issuer of the securities held pursuant to the plan and the address of its executive office:

**CALLON PETROLEUM COMPANY  
200 NORTH CANAL STREET  
NATCHEZ, MISSISSIPPI 39120**

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The Callon Petroleum Company Employee Savings and Protection Plan (the Callon Petroleum Company Employee Savings and Protection Plan ) is subject to the requirements of the Employee Retirement Income Security Act of 1974, as amended (ERISA ). Attached hereto are the financial statements of the Callon Petroleum Company Employee Savings and Protection Plan for the fiscal year ended December 31, 2005 prepared in accordance with the financial reporting requirements of ERISA.

CALLON PETROLEUM COMPANY  
EMPLOYEE SAVINGS AND  
PROTECTION PLAN  
Employer I.D. Number 94-0744280  
Plan Number 002  
December 31, 2005 and 2004 and  
Year Ended December 31, 2005

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| <u>Consent of Horne LLP</u>  |      |
| Note: Supplemental schedules required by the Employee Retirement Income Security Act of 1974 not included herein are deemed not applicable to Callon Petroleum Company Employee Savings and Protection Plan. |      |

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**REPORT OF INDEPENDENT REGISTERED  
PUBLIC ACCOUNTING FIRM**

To Participants and  
Plan Administrators of the  
Callon Petroleum Company

Employee Savings and Protection Plan

We have audited the accompanying statements of net assets available for benefits of the Callon Petroleum Company Employee Savings and Protection Plan (the Plan ) as of December 31, 2005 and 2004, and the related statement of changes in net assets available for benefits for the year ended December 31, 2005. These financial statements are the responsibility of the Plan s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Callon Petroleum Company Employee Savings and Protection Plan as of December 31, 2005 and 2004, and the changes in net assets available for benefits for the year ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of assets held at end of year as of December 31, 2005 is presented for the purpose of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by the Department of Labor s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The supplemental schedule is the responsibility of the Plan s management. The supplemental schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Jackson, Mississippi  
June 16, 2006

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**CALLON PETROLEUM COMPANY  
EMPLOYEE SAVINGS AND PROTECTION PLAN**

Statements of Net Assets Available for Benefits

December 31, 2005 and 2004

|                                   | <b>2005</b>   | <b>2004</b>   |
|-----------------------------------|---------------|---------------|
| <b>ASSETS</b>                     |               |               |
| Investments                       |               |               |
| Participant directed              |               |               |
| Pooled separate accounts          | \$ 11,656,593 | \$ 10,051,192 |
| Participant loans                 | 685,238       | 756,814       |
| Cash value of life insurance      | 101,077       | 99,454        |
| Employer securities               | 2,941,601     | 2,602,910     |
| <br>                              |               |               |
| Total investments                 | 15,384,509    | 13,510,370    |
| <br>                              |               |               |
| Employer contribution receivable  | 40,250        | 79,795        |
| <br>                              |               |               |
| Total assets                      | \$ 15,424,759 | \$ 13,590,165 |
| <br>                              |               |               |
| Net assets available for benefits | \$ 15,424,759 | \$ 13,590,165 |

See accompanying notes.

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**CALLON PETROLEUM COMPANY**  
**EMPLOYEE SAVINGS AND PROTECTION PLAN**  
 Statement of Changes in Net Assets  
 Available for Benefits  
 Year Ended December 31, 2005

|  |               |
|--|---------------|
| Additions to net assets attributed to              |               |
| Investment income                                  |               |
| Net appreciation in fair value of investments      | \$ 836,293    |
| Interest   | 37,263        |
| Dividends  | 214,560       |
| Increase in cash surrender value of life insurance | 1,623         |
| <br>   |               |
| Total investment income                            | 1,089,739     |
| <br>   |               |
| Contributions                                      |               |
| Employer cash                                      | 481,504       |
| Employer noncash                                   | 177,851       |
| Employee   | 633,672       |
| Rollovers  | 2,618         |
| <br>   |               |
| Total contributions                                | 1,295,645     |
| <br>   |               |
| Total additions                                    | 2,385,384     |
| <br>   |               |
| Deductions from net assets attributed to           |               |
| Benefits paid to participants                      | 548,115       |
| Administrative and other expenses                  | 2,675         |
| <br>   |               |
| Total deductions                                   | 550,790       |
| <br>   |               |
| Net increase                                       | 1,834,594     |
| <br>   |               |
| Net assets available for plan benefits             |               |
| Beginning of year                                  | 13,590,165    |
| <br>   |               |
| End of year  | \$ 15,424,759 |

See accompanying notes.

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**CALLON PETROLEUM COMPANY  
EMPLOYEE SAVINGS AND PROTECTION PLAN**

December 31, 2005 and 2004 and

Year Ended December 31, 2005

**NOTES TO FINANCIAL STATEMENTS**

**Note 1. Description of the Plan**

The following description of the Callon Petroleum Company Employee Savings and Protection Plan (the Plan ) provides only general information. Participants should refer to the Plan agreement for a more complete description of the Plan s provisions.

**General**

Employees of Callon Petroleum Company (the Company ) become eligible to participate in the Plan on the first eligibility date of their employment and attainment of age twenty-one. Eligibility dates are the first day of each month. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 ( ERISA ).

**Contributions**

Participating employees may make salary deferrals up to the maximum allowable by the Internal Revenue Service. For the year ended December 31, 2005, the Company contributed a 2.5 percent non-matching contribution in cash and a 2.5 percent non-matching contribution in the form of Callon Petroleum Company common stock for each employee s eligible compensation. The Company also made a matching contribution at the rate of .3125 percent in cash and .3125 percent in stock for every 1 percent that was deferred by the participant, limited to a maximum matching contribution by the Company of 2.5 percent in cash and 2.5 percent in stock.

**Participant Accounts**

Each participant s account is credited with the participant s contribution, the Company s matching contribution and earnings thereon and an allocation of the Company s non-matching contribution, and Plan earnings. Allocations are based on participant compensation or account balances, as defined. The benefit to which a participant is entitled is the benefit that can be provided from the participant s vested account.

**Investment Options**

Participants direct contributions, including employer cash matching contributions, into any of the investment options offered by ING. Participants may change their investment options at any time.

**Vesting**

Participants are immediately vested in their voluntary contributions plus actual earnings thereon and in the Company s contributions and earnings thereon.



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**CALLON PETROLEUM COMPANY  
EMPLOYEE SAVINGS AND PROTECTION PLAN**

December 31, 2005 and 2004 and

Year Ended December 31, 2005

**NOTES TO FINANCIAL STATEMENTS**

**Note 1. Continued**

**Participant Loans**

Loans are available to participants on a reasonably equivalent basis, at a minimum amount of \$1,000 and bearing interest at a reasonable rate. Participants have up to 5 years to repay the loan unless it is for a principal residence, in which case the repayment period is 30 years. Each loan is secured by the borrowing participant's vested account balance; however, additional collateral may also be required. For the year ended December 31, 2005, the Plan allows participants to borrow up to seven loans at a time, which consist of five regular loans and two residential loans. The maximum of any new loans, when added to the outstanding balance of all other loans from the Plan, will be limited to the lesser of (a) \$50,000 reduced by the excess, if any, of the participant's highest outstanding balance of loans from the Plan during the one-year period ending on the day before the date of the new loan over the participant's current outstanding balance of loans as of the date of the new loan, or (b) one-half of the participant's vested interest in the Plan.

**Payment of Benefits**

Upon termination of service, a participant may elect to (a) receive a lump sum equal to the value of the participant's vested interest in his or her account, or (b) receive installments over a period not to exceed the employee's and beneficiary's assumed life expectancy.

**Plan Termination**

Although it has not expressed any intent to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA.

**Note 2. Summary of Significant Accounting Principles**

**Basis of Presentation**

The accompanying financial statements of the Plan have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

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**CALLON PETROLEUM COMPANY  
EMPLOYEE SAVINGS AND PROTECTION PLAN**

December 31, 2005 and 2004 and

Year Ended December 31, 2005

**NOTES TO FINANCIAL STATEMENTS****Note 2. Continued****Investment Valuation and Income Recognition**

All Plan investments as of December 31, 2005 and 2004 are held by ING, the Plan custodian. Investments in pooled separate accounts are reported at the value reported to the Plan by ING, which approximates fair value. Investments in Callon Petroleum Company common stock is reported at quoted market values. Participant's loans are valued at their outstanding principal balances, which approximate fair value.

Investment security transactions are accounted for on the date the securities are purchased or sold (trade date). Interest income is recorded as it is earned. Dividends are recorded on the ex-dividend date.

**Payment of Benefits**

Benefits are recorded when paid.

**Administrative Expenses**

The Company absorbs substantially all administrative expenses of the Plan.

**Note 3. Investments**

The following table presents the fair value of the Plan's investments that represent 5 percent or more of the Plan's net assets at December 31, 2005 and 2004.

|                                | <b>2005</b> | <b>2004</b> |
|--------------------------------|-------------|-------------|
| Pooled separate accounts       |             |             |
| ING Fixed Account              | \$6,272,256 | \$5,257,639 |
| Fidelity VIP Growth Portfolio  | 740,323     | 737,712     |
| Employer securities            |             |             |
| Callon Petroleum Company Stock | 2,941,601   | 2,602,910   |
| Participant loans              | 685,238     | 756,814     |

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**CALLON PETROLEUM COMPANY  
EMPLOYEE SAVINGS AND PROTECTION PLAN**

December 31, 2005 and 2004 and

Year Ended December 31, 2005

**NOTES TO FINANCIAL STATEMENTS****Note 3. Continued**

The Plan's investments (including gains and losses on investments bought and sold, as well as held during the year) appreciated \$836,293 during the year ended December 31, 2005 as follows:

|   |            |
|---|------------|
| Pooled separate accounts                      | \$ 295,261 |
| Employer securities                           |            |
| Callon Petroleum Company stock                | 541,032    |
| Net appreciation in fair value of investments | \$ 836,293 |

**Note 4. Tax Status of Plan**

The trust established under the Plan to hold the Plan's assets is qualified pursuant to the appropriate section of the Internal Revenue Code, and, accordingly, the trust's net investment income is exempt from income taxes. The Plan has obtained a favorable tax determination letter from the Internal Revenue Service. Although the Plan has been amended since receiving the determination letter, the Plan's Administrator believes that the Plan is currently designed and being operated in compliance with the applicable requirements of the Internal Revenue Code.

**Note 5. Related-Party Transactions**

The investment in pooled separate accounts is managed by ING. ING is the custodian of the Plan assets as defined by the Plan and, therefore, transactions in these investments, as well as investments in employer securities and participant loans, qualify as party-in-interest transactions. Fees paid by the Company for the investment management services amounted to \$28,166 for the year ended December 31, 2005.

**Note 6. Risks and Uncertainties**

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the statement of net assets available for benefits.

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**CALLON PETROLEUM COMPANY  
EMPLOYEE SAVINGS AND PROTECTION PLAN**

December 31, 2005 and 2004 and

Year Ended December 31, 2005

**NOTES TO FINANCIAL STATEMENTS****Note 7. Reconciliation of Financial Statements to Form 5500**

The financial information included in the Plan's Form 5500 is reported on the cash basis of accounting. Therefore, the following reconciliation is included to reconcile the net assets available for benefits and the net decrease in net assets available for benefits per the financial statements to the Form 5500.

The following is a reconciliation of net assets available for benefits per the financial statements to the Form 5500:

|  | <b>December 31,</b> |               |
|--|---------------------|---------------|
|  | <b>2005</b>         | <b>2004</b>   |
| Net assets available for benefits per the financial statements | \$ 15,424,759       | \$ 13,590,165 |
| Employer contribution receivable                               | (40,250)            | (79,795)      |
| Net assets available for benefits per the Form 5500            | \$ 15,384,509       | \$ 13,510,370 |

The following is a reconciliation of net increase in net assets available for benefits per the financial statements to the Form 5500:

|  | <b>Year Ended<br/>December<br/>31,<br/>2005</b> |
|--|---|
| Net increase in net assets available for benefits per the financial statements | \$ 1,834,594                                    |
| Less current year employer contribution receivable                             | (40,250)  |
| Plus prior year employer contribution receivable                               | 79,795  |
| Net increase in net assets available for benefits per the Form 5500            | \$ 1,874,139                                    |

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**CALLON PETROLEUM COMPANY  
EMPLOYEE SAVINGS AND PROTECTION PLAN**

Employer I.D. Number 94-0744280  
Plan Number 002  
Schedule H, line 4i  
Schedule of Assets (Held at End of Year)  
December 31, 2005

| (a) | (b) Identity of Issuer, Borrower | (c) Description   | (d) Current Value |
|-----|----------------------------------|---|-------------------|
|     | Pooled accounts                  |   |                   |
| *   | ING                              | Separate Account, ING Fixed Account   | \$6,272,256       |
| *   | ING                              | Separate Account, ING VP Money Market Portfolio<br>8,809.848 units                  | 96,588            |
| *   | ING                              | Separate Account, ING GNMA Income Fund<br>904.900 units                             | 10,491            |
| *   | ING                              | Separate Account, ING PIMCO Total Return Portfolio<br>7,344.685 units               | 87,564            |
| *   | ING                              | Separate Account, Pioneer High Yield Fund<br>12,413.486 units                       | 177,673           |
| *   | ING                              | Separate Account, ING Van Kampen Equity & Income<br>8,845.895 units                 | 107,715           |
| *   | ING                              | Separate Account, ING VP Strategic Allocation Balanced Portfolio<br>4,712.395 units | 51,695            |
| *   | ING                              | Separate Account, ING VP Strategic Allocation Income Portfolio<br>1,494.652 units   | 17,369            |
| *   | ING                              | Separate Account, Oppenheimer Capital Income Fund<br>27,933.588 units               | 358,824           |

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**CALLON PETROLEUM COMPANY**  
**EMPLOYEE SAVINGS AND PROTECTION PLAN**

Employer I.D. Number 94-0744280  
Plan Number 002  
Schedule H, line 4i  
Schedule of Assets (Held at End of Year)  
December 31, 2005

| (a) | (b) Identity of<br>Issuer, Borrower | (c) Description   | (d) Current<br>Value |
|-----|-------------------------------------|---|----------------------|
|     | Pooled accounts (continued)         |   |                      |
| *   | ING                                 | Separate Account, Alliance Bernstein<br>Growth and Income<br>Portfolio 37,608.915 units | \$ 443,520           |
| *   | ING                                 | Separate Account, ING Van<br>Kampen Comstock<br>Portfolio 22,017.909 units              | 287,251              |
| *   | ING                                 | Separate Account, ING VP<br>Index Plus LargeCap<br>Portfolio 20,964.258 units           | 181,263              |
| *   | ING                                 | Separate Account, Fidelity<br>VIP Growth Portfolio<br>108,458.387 units                 | 740,323              |
| *   | ING                                 | Separate Account, Fidelity<br>VIP II Contrafund<br>36,688.008 units                     | 457,741              |
| *   | ING                                 | Separate Account, ING T.<br>Rowe Price Growth Equity<br>Portfolio 15,973.863 units      | 145,929              |
| *   | ING                                 | Separate Account, Ariel<br>Appreciation Fund<br>2,934.808 units                         | 36,813               |
| *   | ING                                 | Separate Account, Ariel<br>Fund 20,809.387 units  | 393,408              |
| *   | ING                                 | Separate Account, Baron<br>Growth Fund 28,403.058 units                                 | 471,769              |

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**CALLON PETROLEUM COMPANY**  
**EMPLOYEE SAVINGS AND PROTECTION PLAN**

Employer I.D. Number 94-0744280  
Plan Number 002  
Schedule H, line 4i  
Schedule of Assets (Held at End of Year)  
December 31, 2005

| (a) | (b) Identity of Issuer, Borrower | (c) Description   | (d) Current Value |
|-----|----------------------------------|---|-------------------|
|     | Pooled accounts (continued)      |   |                   |
| *   | ING                              | Separate Account, Fidelity Advisor Mid Cap Fund<br>5,674.393 units                  | \$ 72,181         |
| *   | ING                              | Separate Account, Franklin Balance Sheet Investment Fund<br>8,094.055 units         | 150,165           |
| *   | ING                              | Separate Account, Franklin Small-Mid Cap Growth Fund<br>12,745.462 units            | 94,161            |
| *   | ING                              | Separate Account, ING American Century Small Cap Value Portfolio<br>4,949.171 units | 71,175            |
| *   | ING                              | Separate Account, ING VP Index Plus SmallCap Portfolio<br>2,594.688 units           | 41,229            |
| *   | ING                              | Separate Account, Lord Abbett Mid-Cap Value Fund<br>12,073.607 units                | 191,514           |
| *   | ING                              | Separate Account, Prudential Jennison Equity Opportunity Fund<br>2,995.657 units    | 37,036            |
| *   | ING                              | Separate Account, ING VP International Value Portfolio<br>15,065.003 units          | 202,431           |

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**CALLON PETROLEUM COMPANY  
EMPLOYEE SAVINGS AND PROTECTION PLAN**

Employer I.D. Number 94-0744280  
Plan Number 002  
Schedule H, line 4i  
Schedule of Assets (Held at End of Year)  
December 31, 2005

| (a) | (b) Identity of<br>Issuer, Borrower | (c) Description   | (d) Current<br>Value |
|-----|-------------------------------------|---|----------------------|
|     | Pooled accounts (continued)         |   |                      |
| *   | ING                                 | Separate Account, ING<br>Oppenheimer Global Portfolio<br>9,264.251 units                                    | \$ 132,361           |
| *   | ING                                 | Separate Account, Templeton<br>Foreign Fund 9,504.462 units   | 139,265              |
| *   | ING                                 | Separate Account, Templeton<br>Growth Fund 12,005.042 units   | 186,883              |
|     | Total pooled accounts               |   | 11,656,593           |
| *   | Participant loans                   | 4.75 percent interest rate,<br>maturity of up to 5 years,<br>with residential loans<br>maturing in 30 years | 685,238              |
| *   | Callon Petroleum Company            | 166,663 shares  | 2,941,601            |
|     | Equitable Life Assurance<br>Society | Life Insurance Policies   | 101,077              |
|     |                                     |   | \$ 15,384,509        |

\* Party-in-interest



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SIGNATURES

The Plan. Pursuant to the requirements of the Securities Exchange Act of 1934, the Plan Administrator has duly caused this annual report to be signed on their behalf by the undersigned hereunto duly authorized.

CALLON PETROLEUM COMPANY  
(Registrant)

Date: June 27, 2006

By: /s/ Fred L. Callon

Fred L. Callon  
President and Chief Executive Officer  
(on behalf of the registrant and as the  
principal  
financial officer)

June 27, 2006

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EXHIBIT INDEX

| Exhibit<br>Index | Description   |
|------------------|---|
| 23.1             | Consent of Horne llp, independent registered public accounting firm |