

CALLON PETROLEUM CO
Form 11-K
June 29, 2009

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, 2008.

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

The Callon Petroleum Company Employee Savings and Protection Plan (the "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 Plan for the fiscal year ended December 31, 2008 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, 2008 and 2007 and
Year Ended December 31, 2008

CONTENTS

<u>Report of Independent Registered Public Accounting Firm</u>	1
Financial Statements	
<u>Statements of Net Assets Available for Benefits</u>	2
<u>Statement of Changes in Net Assets Available for Benefits</u>	3
<u>Notes to Financial Statements</u>	4 – 10
Supplementary Information	
<u>Schedule of Assets (Held at End of Year)</u>	11 – 13

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.

Table of Contents

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, 2008 and 2007, and the related statement of changes in net assets available for benefits for the year ended December 31, 2008. 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 audits 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 Plan as of December 31, 2008 and 2007, and the changes in net assets available for benefits for the year ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

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, 2008 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 United States 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 29, 2009

Table of Contents

CALLON PETROLEUM COMPANY
 EMPLOYEE SAVINGS AND PROTECTION PLAN
 Statements of Net Assets Available for Benefits
 December 31, 2008 and 2007

	2008	2007
ASSETS		
Investments		
Participant directed		
Pooled separate accounts	\$ 13,411,580	\$ 14,955,637
Participant loans	826,099	932,753
Employer securities	500,553	2,665,773
Total investments	14,738,232	18,554,163
Employer contributions receivable	83,549	43,920
Participant contributions receivable	33,055	-
Total receivables	116,604	43,920
Total assets	\$ 14,854,836	\$ 18,598,083
Net assets available for benefits	\$ 14,854,836	\$ 18,598,083

See accompanying notes.

Table of Contents

CALLON PETROLEUM COMPANY
 EMPLOYEE SAVINGS AND PROTECTION PLAN
 Statement of Changes in Net Assets
 Available for Benefits
 Year Ended December 31, 2008

Additions to net assets attributed to	
Investment income	
Net depreciation in fair value of investments	\$(5,137,049)
Interest	37,533
Dividends	293,111
Total investment loss	(4,806,405)
Contributions	
Employer – cash	600,461
Employer – noncash	207,373
Employee	794,371
Total contributions	1,602,205
Net losses	(3,204,200)
Deductions from net assets attributed to	
Benefits paid to participants	537,602
Administrative and other expenses	1,445
Total deductions	539,047
Net decrease	(3,743,247)
Net assets available for Plan benefits	
Beginning of year	18,598,083
End of year	\$ 14,854,836

See accompanying notes.

Table of Contents

CALLON PETROLEUM COMPANY
EMPLOYEE SAVINGS AND PROTECTION PLAN
Year Ended December 31, 2008

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, 2008, 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 .625 percent in cash of every 1 percent that was deferred by the participant, limited to a maximum matching contribution by the Company of 5 percent in cash.

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.

Table of Contents

CALLON PETROLEUM COMPANY
EMPLOYEE SAVINGS AND PROTECTION PLAN
Year Ended December 31, 2008

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 4.75 percent. 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. Participants may repay the loan by having the amount withheld from their check each pay period or by submitting the amount to Callon monthly. Each loan is collateralized by the borrowing participant's vested account balance; however, additional collateral may also be required. For the year ended December 31, 2008, the Plan allowed 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.

Table of Contents

CALLON PETROLEUM COMPANY
 EMPLOYEE SAVINGS AND PROTECTION PLAN
 Year Ended December 31, 2008

 NOTES TO FINANCIAL STATEMENTS

Note 2. Continued

Investment Valuation and Income Recognition

All Plan investments as of December 31, 2008 and 2007 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. Investment in the 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. Realized and unrealized gains and losses on the Plan's investments are included in net appreciation or depreciation in the fair value of investments at year-end in the statement of changes in net assets available for benefits.

Payment of Benefits

Benefits are recorded when paid.

Administrative Expenses

The Company absorbs substantially all administrative expenses of the Plan. The Company paid approximately \$32,000 for administrative expenses for 2008.

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, 2008 and 2007.

	2008	2007
Pooled separate accounts		
ING Fixed Account	\$7,851,218	\$7,004,180
Fidelity VIP Growth Portfolio	\$654,817	\$1,263,366
Employer securities		
Callon Petroleum Company Stock	\$500,553	\$2,665,773
Participant loans	\$826,099	\$932,753

Table of Contents

CALLON PETROLEUM COMPANY
EMPLOYEE SAVINGS AND PROTECTION PLAN
Year Ended December 31, 2008

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) depreciated \$5,137,049 during the year ended December 31, 2008 as follows:

Pooled separate accounts	\$(3,300,702)
Employer securities	
Callon Petroleum Company stock	(1,836,347)
Net depreciation in fair value of investments	\$(5,137,049)

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 investments in pooled separate accounts are 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 exempt party-in-interest transactions. Fees paid by the Company for the investment management services totaled approximately \$32,000 for the year ended December 31, 2008. Fees paid by the Plan for certain administrative services totaled \$1,445 for the year ended December 31, 2008.

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.

Subsequent to year-end, the credit and liquidity crisis in the United States and throughout the global financial system has resulted in substantial volatility in financial markets and the banking system. These and other economic events have had a significant adverse impact on investment portfolios. As

7

Table of Contents

CALLON PETROLEUM COMPANY
EMPLOYEE SAVINGS AND PROTECTION PLAN
Year Ended December 31, 2008

NOTES TO FINANCIAL STATEMENTS

Note 6. Continued

a result, the Plan's investments have likely incurred a significant decline in fair value since December 31, 2008.

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 increase 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:

	December 31,	
	2008	2007
Net assets available for benefits per the financial statements	\$ 14,854,836	\$ 18,598,083
Employer contribution receivable	(83,549)	(43,920)
Participant contribution receivable	(33,055)	-
Net assets available for benefits per the Form 5500	\$ 14,738,232	\$ 18,554,163

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

	Year Ended December 31, 2008
Net decrease in net assets available for benefits per the financial statements	\$(3,743,247)
Less current year employer contribution receivable	(83,549)
Less current year participant contribution receivable	(33,055)
Plus prior year employer contribution receivable	43,920
Net decrease in net assets available for benefits per the Form 5500	\$(3,815,931)

Table of Contents

CALLON PETROLEUM COMPANY
EMPLOYEE SAVINGS AND PROTECTION PLAN
Year Ended December 31, 2008

NOTES TO FINANCIAL STATEMENTS

Note 8. Fair Value Measurements

FASB Statement No. 157, Fair Value Measurements, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB Statement No. 157 are described as follows:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.
- Level 2 Inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2008 and 2007.

Pooled Separate Accounts: Valued at the net asset value ("NAV") of shares held by the Plan at year- end.

Employer Securities: The common stocks are valued at the closing price reported on the active market on which the individual securities are traded.

Participant Loans: Valued at amortized cost, which approximates fair value.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Table of Contents

CALLON PETROLEUM COMPANY
EMPLOYEE SAVINGS AND PROTECTION PLAN
Year Ended December 31, 2008

NOTES TO FINANCIAL STATEMENTS

Note 8. Continued

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of December 31, 2008:

Assets at fair value as of December 31, 2008:

	Level 1	Level 2	Level 3
Pooled separate accounts	\$13,411,580	\$-	\$-
Participant loans	-	-	826,099
Employer securities	500,553	-	-
Total assets at fair value	\$13,912,133	\$-	\$826,099

The following table sets forth a summary of changes in the fair value of the Plan's level 3 assets for the year ended December 31, 2008.

	Participant Loans
Balance, beginning of year	\$932,753
Realized gains/(losses)	-
Unrealized gains/(losses) relating to instruments still held at reporting date	-
Purchases, sales, issuances and settlements, net	(106,654)
Balance, end of year	\$826,099

Table of Contents

CALLON PETROLEUM COMPANY
 EMPLOYEE SAVINGS AND PROTECTION PLAN
 Employee Identification Number 94-0744280
 Plan Number: 002
 Schedule H, line 4(i)
 Schedule of Assets (Held at End of Year)
 December 31, 2008

(a)	(b) Identity of Issue, Borrower, Lessor or Similar Party	(c) Description of Investment, Including Maturity Date, Rate of Interest, Collateral, Par or Maturity Value	(d) Cost	(e) Current Value
	Pooled accounts			
*ING		Fixed Account 7,581,218.26 shares	\$	7,851,218
*ING		VP Money Market Portfolio 10,464.969 shares		127,594
*ING		GNMA Income Fund 1,655.298 shares		22,629
*ING		PIMCO Total Return Portfolio 5,243.955 shares		70,650
*ING		Pioneer High Yield Fund 13,917.397 shares		146,815
*ING		Van Kampen Equity & Income Fund 11,958.642 shares		128,643
*ING		VP Strategic Allocation Balanced 2,830.286 shares		25,160
*ING		VP Strategic Allocation Income 6,669.398 shares		67,511
*ING		Oppenheimer Capital Income Fund 32,689.953 shares		295,675
*ING		Alliance Bernstein VPS Growth and Income Portfolio 39,279.610 shares		334,155
*ING		Van Kampen Comstock Portfolio 21,701.273 shares		202,620

Edgar Filing: CALLON PETROLEUM CO - Form 11-K

*ING	VP Index Plus Large-Cap Portfolio 18,106.767 shares	117,586
*ING	Fidelity VIP Growth Portfolio 135,870.419 shares	654,817
*ING	Fidelity VIP II Contrafund 37,106.608 shares	344,416
*ING	T. Rowe Price Growth Equity Portfolio 13,939.088 shares	90,272

Table of Contents

CALLON PETROLEUM COMPANY
 EMPLOYEE SAVINGS AND PROTECTION PLAN
 Employee Identification Number 94-0744280
 Plan Number: 002
 Schedule H, line 4(i)
 Schedule of Assets (Held at End of Year)
 December 31, 2008

(a)	(b) Identity of Issue, Borrower, Lessor or Similar Party	(c) Description of Investment, Including Maturity Date, Rate of Interest, Collateral, Par or Maturity Value	(d) Cost	(e) Current Value
*ING		Baron Growth Fund 16,946.030 shares	\$	208,554
*ING		Fidelity Advisor Mid-Cap Fund 7,909.297 shares		58,883
*ING		Franklin Balance Sheet Investment Fund 3,201.558 shares		42,291
*ING		Franklin Small-Mid-Cap Growth Fund 49,415.356 shares		249,348
*ING		American Century Small-Cap Value Portfolio 4,942.062 shares		58,233
*ING		VP Index Plus Small-Cap Portfolio 2,747.343 shares		30,765
*ING		Lord Abbett Mid-Cap Value Fund 8,014.958 shares		86,072
*ING		Jennison Equity Opportunity Fund 39,056.549 shares		353,682
*ING		VP International Value Portfolio 30,909.963 shares		347,009
*ING		Oppenheimer Global Portfolio 13,795.187 shares		145,568
*ING		Templeton Growth Fund 8,289.588 shares		89,852

*ING	Solution 2015 Portfolio 50,404.489 shares	455,172
*ING	Solution 2025 Portfolio 65,011.582 shares	551,651
*ING	Solution 2035 Portfolio 17,354.486 shares	145,131

Table of Contents

CALLON PETROLEUM COMPANY
 EMPLOYEE SAVINGS AND PROTECTION PLAN
 Employee Identification Number 94-0744280
 Plan Number: 002
 Schedule H, line 4(i)
 Schedule of Assets (Held at End of Year)
 December 31, 2008

(a)	(b) Identity of Issue, Borrower, Lessor or Similar Party	(c) Description of Investment, Including Maturity Date, Rate of Interest, Collateral, Par or Maturity Value	(d) Cost	(e) Current Value
	*ING	Solution 2045 Portfolio 275.013 shares		\$ 2,271
	*ING	Solution Income Portfolio 11,091.302 shares		107,337
		Total pooled accounts		13,411,580
	*Participant Loans	4.75 percent interest rate, maturity of up to 5 years, with residential loans maturing in 30 years		826,099
	*Callon Petroleum Company	Employer securities 192,520.446 shares		500,553
				\$ 14,738,232

* Denotes party-in-interest

(d) Cost information is omitted due to transactions being participant or beneficiary directed under an individual account plan.

Table of Contents

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: 06/29/09

By: /s/ Fred L. Callon

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

Table of Contents

EXHIBIT INDEX

Exhibit Index	Description
<u>23.1</u>	Consent of HORNE LLP, independent registered public accounting firm

15
