

# CALLON PETROLEUM COMPANY

## Compensation Committee Charter (As adopted April 2004)

This Compensation Committee Charter (the “*Charter*”) sets forth the purpose and membership requirements of the Compensation Committee (the “*Committee*”) of the Board of Directors (the “*Board*”) and establishes the authority and responsibilities delegated to it by the Board.

1. **Purpose.** The purpose of the Committee is to (i) assist the Board in the discharge of its fiduciary responsibilities relating to the fair and competitive compensation of the Company’s Chief Executive Officer (“*CEO*”) and other executives and (ii) prepare an annual report on executive compensation for inclusion in the Company’s proxy statement for the annual meeting of stockholders.
2. **Committee Members.**
  - 2.1. **Composition and Appointment.** The Committee shall consist of three (3) or more members of the Board. The Board shall designate members of the Committee on the recommendation of the Nominating and Corporate Governance Committee. The members and Chairperson of the Committee shall be appointed by the Board. Membership on the Committee shall rotate at the Board’s discretion. The Board shall fill vacancies on the Committee and may remove a Committee member from the membership of the Committee at any time without cause. Members shall serve until their successors are appointed by the Board.
  - 2.2. **Independence.** Each member of the Committee must meet the independence requirements of the New York Stock Exchange (“*NYSE*”) and applicable federal securities laws, including the rules and regulations of the Securities and Exchange Commission (“*SEC*”).
  - 2.3. **Subcommittees.** The Committee shall have the authority to delegate authority and responsibilities to subcommittees; provided that no subcommittee shall consist of less than two members.
3. **Advisors.** The Committee shall have the authority to (i) retain, at the Company’s expense, an independent compensation consultant and other expert advisors (“*Advisors*”) as it deems necessary to fulfill its responsibilities and (ii) determine, on behalf of the Company, the compensation of such Advisors.
4. **Meetings.**
  - 4.1. **Frequency of Meetings.** The Committee shall meet at least once per fiscal quarter. The schedule for regular meetings of the Committee shall be established by the Committee. The Chairperson of the Committee may call a special meeting at any time as he or she deems advisable.

- 4.2. **Minutes.** Minutes of each meeting of the Committee shall be kept by the secretary to document the discharge by the Committee of its responsibilities. A copy thereof shall be incorporated with and into the next regularly scheduled meeting of the Board.
- 4.3. **Quorum.** A quorum shall consist of a majority of the Committee's members. The act of a majority of the Committee members present at a meeting at which a quorum is present shall be the act of the Committee. However, the package of compensation for the CEO must be approved by the two-thirds vote of the standing members of the Committee.
- 4.4. **Agenda.** The Chairperson of the Committee shall prepare an agenda for each meeting of the Committee, in consultation with Committee members and any appropriate member of the Company's management or staff, as necessary. As requested by the Chairperson, members of the Company's management and staff shall assist the Chairperson with the preparation of any background materials necessary for any Committee meeting.
- 4.5. **Presiding Officer.** The Chairperson of the Committee shall preside at all Committee meetings. If the Chairperson is absent at a meeting, a majority of the Committee members present at a meeting shall appoint a different presiding officer for that meeting.

## 5. **Executive Compensation.**

- 5.1. **Compensation Philosophy and Strategy.** The Committee shall review the compensation philosophy and strategy of the Company and its subsidiaries 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 long-term interests of the Company's stockholders.
- 5.2. **Comparison Analysis.** The Committee may 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 executive officers.
- 5.3. **Administration of Plans.** The Committee shall administer the Company's incentive compensation and stock option and other equity based plans (including specific provisions) in which the CEO and other executive officers may be participants and recommend to the Board amendments to such plans or adoption of new plans. In connection with administering such plans, the Committee shall have the authority to (i) approve option guidelines and the general size of overall grants, (ii) make grants, (iii) interpret the plans, (iv) determine the rules and regulations relating to the plans, (v) modify or cancel existing grants and substitute new grants (with the consent of grantees), (vi) designate employees eligible to participate in the plans, and (vii) impose such limitations, restrictions and conditions upon any award as the Committee deems appropriate and as permitted under the applicable plan.
- 5.4. **Executive Compensation.** The Committee shall annually review and establish the base salary, incentive compensation, deferred compensation, stock options, performance units

and other equity based awards for the CEO and make recommendations to the Board with respect to compensation of the Company's other executive officers.

5.4.1. The Committee shall (i) review and approve corporate goals and objectives relevant to compensation of the CEO, (ii) evaluate the CEO's performance in light of those goals and objectives, and (iii) determine and approve the CEO's compensation level based on such evaluation.

5.4.2. The Committee shall annually review with the CEO the compensation of the Company's other executive officers and make recommendations to the Board with respect to compensation of the Company's other executives.

6. **Special Recommendations to the Board.** The Committee shall review and make recommendations to the Board regarding (i) any employment agreement, severance agreement, change in control agreement or provision, or separation agreement, or any amendment to the same, that is proposed to be entered into with the CEO or any other executive officer; (ii) any deferred compensation arrangement that is proposed to be entered into with the CEO or any other executive officer; and (iii) the benefits and prerequisites offered to the CEO or any other executive officer.

7. **Director Compensation Oversight.**

7.1. **Review of Director Compensation.** Senior management of the Company shall report to the Committee periodically on the Company's director compensation practices in relation to other companies of comparable size and the Company's competitors. Such review will also include a review of both direct and indirect forms of compensation to the Company's directors, including any charitable contributions by the Company to organizations in which a director is affiliated and consulting or other similar arrangements between the Company and a director. Changes in director compensation, if any, shall come upon the recommendation of the Committee, but with full discussion and concurrence by the Board.

7.2. **Compliance with Restrictions.** The Committee shall monitor the amount of compensation proposed to be paid to any director for compliance with the Company's equity compensation plans. In addition, the Committee shall monitor the effect that compensation proposed to be paid to a director will have on the director's ability to be considered "independent" under the requirements of the NYSE and applicable federal securities laws, including the rules and regulations of the SEC. The Committee shall advise the Board if any compensation proposed to be paid to a director would violate the Company's equity compensation plans or have an undesirable impact on the director's independence. In fulfilling its responsibilities hereunder, the Committee shall give due consideration to the different definitions of "independent" that apply to the Board and its different committees and any requirement that the Board or a Board committee contain a majority of, or be entirely composed of, "independent" directors.

7.3. **Employee Directors.** Any director that is an employee of the Company shall not receive additional compensation for his or her services as a director.

## 8. Reports and Assessments.

- 8.1. **Board Reports.** The Chairperson of the Committee shall, periodically, at his or her discretion, report to the Board on Committee actions and on the fulfillment of the Committee's responsibilities under this Charter. This report shall be incorporated with and into the next regularly scheduled meeting of the Board.
- 8.2. **Charter Assessment.** The Committee shall annually assess the adequacy of this Charter and advise the Board and the Nominating and Corporate Governance Committee of its assessment and of its recommendation for any changes to the Charter. The Committee shall, if requested by management, assist management with the preparation of a certification to be presented annually to the NYSE affirming that the Committee reviewed and reassessed the adequacy of this Charter.
- 8.3. **Committee Self-Assessment.** The Committee may annually make a self-assessment of its performance and shall report the results of such self-assessment to the Board and the Nominating and Corporate Governance Committee.
- 8.4. **Annual Report on Compensation.** The Committee shall annually advise the Board as to whether the Company's executive officer compensation arrangements are appropriate.
- 8.5. **Proxy Statement Report.** The Committee shall prepare an annual report on executive compensation as required by the rules and regulations of the SEC and submit it to the Board for inclusion in the Company's proxy statement prepared in connection with its annual meeting of stockholders.