

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended March 31, 1997

Commission File Number 0-25192

CALLON PETROLEUM COMPANY

(Exact name of Registrant as specified in its charter)

Delaware

64-0844345

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

200 North Canal Street
Natchez, Mississippi 39120

(Address of principal executive offices)(Zip code)

(601) 442-1601

(Registrant's telephone number,
including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

As of April 25, 1997, there were 5,763,407 shares of the Registrant's Common Stock, par value \$0.01 per share, outstanding.

CALLON PETROLEUM COMPANY

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Part I. Financial Information

Consolidated Balance Sheets as of March 31,
1997 and December 31, 1996

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CALLON PETROLEUM COMPANY
CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

<TABLE>

<CAPTION>

	March 31, 1997	December 31, 1996
	-----	-----
	(Unaudited)	
<S>	<C>	<C>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 10,679	\$ 7,669
Accounts receivable	9,836	12,661
Other current assets	810	516
	-----	-----
Total current assets	21,325	20,846

Oil & gas properties, full cost accounting method:			
Evaluated properties	330,708	322,970	
Less accumulated depreciation, depletion and amortization		(270,455)	(266,716)
	60,253	56,254	
Unevaluated properties excluded from amortization		26,918	26,235
	87,171	82,489	
Pipeline facilities, net	6,541	6,618	
Other property and equipment, net		1,848	1,594
Deferred tax asset	3,679	5,412	
Long-term gas balancing receivable		806	660
Other assets, net	901	901	
Total assets	\$ 122,271	\$ 118,520	

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:			
Accounts payable and accrued liabilities	\$ 7,715	\$ 8,273	
Undistributed oil and gas revenues	2,705	2,260	
Accrued net profits interest payable	5,946	5,435	
Total current liabilities	16,366	15,968	
Long-term debt	24,250	24,250	
Other long-term liabilities	109	48	
Long-term gas balancing payable		621	390
Total liabilities	41,346	40,656	
Stockholders' equity:			
Preferred Stock, \$0.01 par value; 2,500,000 shares authorized; 1,315,500 shares of Convertible Exchangeable Preferred Stock, Series A, issued and outstanding with a liquidation preference of \$32,887,500		13	13
Common stock, \$0.01 par value; 20,000,000 shares authorized; 5,763,407 at March 31, 1997 and 5,758,667 shares outstanding at December 31, 1996		58	58
Capital in excess of par value	74,105	74,027	
Retained earnings	6,749	3,766	
Total stockholders' equity	80,925	77,864	
Total liabilities and stockholders' equity	\$ 122,271	\$ 118,520	

The accompanying notes are an integral part of these financial statements.

</TABLE>

CALLON PETROLEUM COMPANY CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(\$ in thousands, except per share data)

<TABLE>

<CAPTION>

Three Months Ended

	March 31, 1997	March 31, 1996		
			<S>	<C>
Revenues:				
Oil and gas sales	\$ 12,474	\$ 6,375		
Interest and other	307	105		
Total revenues	12,781	6,480		
Costs and expenses:				
Lease operating expenses	2,408	1,792		
Depreciation, depletion and amortization		3,816		2,385
General and administrative	1,031	907		
Interest	111	25		
Total costs and expenses	7,366	5,109		

Income from operations	5,415	1,371
Income tax expense	1,733	--
Net income	3,682	1,371
Preferred stock dividend	699	699
Net income available to common shares	\$ 2,983	\$ 672
Earnings per common share:		
Primary	\$.47	\$.12
Assuming full dilution	\$.39	\$.12
Shares used in computing earnings per common share:		
Primary	6,342	5,755
Assuming full dilution	9,332	5,755

The accompanying notes are an integral part of these financial statements.

</TABLE>

CALLON PETROLEUM COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(\$ in thousands)

<TABLE>

<CAPTION>

Three Months Ended

	March 31, 1997	March 31, 1996
Cash flows from operating activities:		
Net income	\$ 3,682	\$ 1,371
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	3,909	2,461
Amortization of deferred costs	94	35
Deferred income tax expense	1,733	--
	9,418	3,867
Changes in current assets & liabilities:		
Accounts receivable	2,825	(791)
Other current assets	(294)	194
Current liabilities	398	2,737
Change in gas balancing receivable	(146)	28
Change in gas balancing payable	231	(24)
Change in deferred income	61	(8)
Change in other assets, net	(94)	(70)
Cash provided by operating activities	12,399	5,933

Cash flows from investing activities:			
Capital expenditures	(8,813)	(1,744)	
Cash proceeds from sale of mineral interests		45	299
-----	-----		
Cash used in investing activities	(8,768)	(1,445)	
-----	-----		
Cash flows from financing activities:			
Common stock issued pursuant to employee benefit plan		78	--
Dividends on preferred stock	(699)	(699)	
-----	-----		
Cash used in financing activities	(621)	(699)	
-----	-----		
Net increase in cash and cash equivalents	3,010	3,789	
Cash and cash equivalents:			
Balance, beginning of period	7,669	4,265	
-----	-----		
Balance, end of period	\$ 10,679	\$ 8,054	
=====	=====		

The accompanying notes are an integral part of these financial statements.

</TABLE>

CALLON PETROLEUM COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 1997

1. Basis of Presentation

The financial information presented as of any date other than December 31, has been prepared from the books and records without audit. Financial information as of December 31, has been derived from the audited financial statements of the Company, but does not include all disclosures required by generally accepted accounting principles. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary for the fair presentation of the financial information for the period indicated, have been included. For further information regarding the Company's accounting policies, refer to the Consolidated Financial Statements and related notes for the year ended December 31, 1996 included in the Company's Annual Report on Form 10-K dated March 24, 1997.

2. Earnings Per Share

Fully diluted earnings per share for the quarter ended March 31, 1997 was calculated assuming the conversion of the Company's preferred stock into common stock. The preferred stock was not included in prior calculations due to their antidilutive effect on fully diluted earnings per share.

In February 1997, the Financial Accounting Standards Board issued Statement No. 128 ("FAS 128"), "Earnings Per Share", which simplifies the computation of earnings per share. FAS 128 is effective for financial statements issued for periods ending after December 15, 1997 and requires restatement for all prior period earnings per share data presented. Accordingly, basic earnings per share and diluted earnings per share calculated in accordance with FAS 128 were \$.50 and \$.39 per share, respectively, for the first quarter of 1997 and \$.12 and \$.12 per share, respectively, for the first quarter of 1996.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

The Company's revenues, profitability and future growth and the carrying value of its oil and gas properties are substantially dependent on prevailing prices of oil and gas. The Company's ability to maintain or increase its borrowing capacity and to obtain additional capital on attractive terms is also influenced by oil and gas prices. Prices for oil and gas are subject to large fluctuations in response to relatively minor changes in the supply of and demand for oil and gas, market uncertainty and a variety of additional factors beyond the control of the Company. These factors include weather conditions in the United States, the condition of the United States economy, the actions of the Organization of Petroleum Exporting Countries, governmental regulations, political stability in the Middle East and elsewhere, the foreign supply of oil and gas, the price of foreign imports and the availability of alternate fuel sources. Any substantial and extended decline in the price of oil or gas would have an adverse effect on the Company's carrying value of its proved reserves, borrowing capacity, revenues, profitability and cash flows from operations.

Volatile oil and gas prices make it difficult to estimate the value of producing properties for acquisition and often cause disruption in the market for oil and gas producing properties, as buyers and sellers have difficulty agreeing on such value. Price volatility also makes it difficult to budget for and project the return on acquisitions and development and exploitation projects.

The following discussion is intended to assist in an understanding of the Company's historical financial position and results of operations for the three-month periods ended March 31, 1997 and 1996. The Company's historical financial statements and notes thereto included elsewhere in this quarterly report contain detailed information that should be referred to in conjunction with the following discussion.

Liquidity and Capital Resources

Net cash provided by operating activities for the three months ending March 31, 1997 totaled \$12,399,000. An additional \$45,000 was generated from the sale of mineral interests. During the quarter, a total of \$8,813,000 was paid for capital expenditures and \$699,000 was paid as dividends to the preferred stockholders. The balance of the cash flow was retained for future operating expenses and potential drilling and acquisition opportunities.

At March 31, 1997, the Company had working capital of \$4,959,000 and a current ratio of 1.3 to 1.

For the balance of the year, the Company will continue evaluating producing property acquisitions and drilling opportunities. The Company has budgeted up to \$60 million in capital expenditures for 1997. The major portion of the

capital expenditure budget will be used to drill development and exploratory wells in an attempt to replace current production and increase total proved reserves for the Company. The capital budget will be financed with projected cash flow from operations and unused borrowings under the Company's Credit Facility.

Comparison of Results of Operations for the Three Months Ended March 31, 1997 and the Three Months Ended March 31, 1996.

Results of Operations

The following table sets forth certain unaudited operating information with respect to the Company's oil and gas operations.

	Three Months Ended March 31,	
	1997	1996
Production:		
Oil (MBbls)	129	143
Gas (MMcf)	3,391	1,468
Total (MMcfe)	4,162	2,325
Average sales price:		
Oil (per Bbl)	\$ 21.11	\$ 18.38
Gas (per Mcf)	2.88	2.55
Total (per Mcfe)	3.00	2.74
Average costs (per Mcfe):		
Lease operating (excluding severance taxes)	\$.47	\$.57
Severance taxes	.11	.20
Depreciation, depletion and amortization	.92	1.03
General and administrative (net of management fees)	.25	.39

The following table summarizes oil and gas production for the comparable periods.

	Oil Production (Barrels)		Gas Production (Mcf)	
	Three Months Ended March 31,	Three Months Ended March 31,	Three Months Ended March 31,	Three Months Ended March 31,
	1997	1996	1997	1996
Chandeleur Block 40	--	--	1,172,000	337,000
Main Pass 163	--	--	1,231,000	--
Main Pass 164/165	--	--	131,000	--
North Dauphin Island Field	--	--	458,000	800,000
Black Bay	47,000	48,000	--	--
Escambia Mineral properties	50,000	41,000	84,000	60,000
Other properties	32,000	54,000	315,000	271,000
Total	129,000	143,000	3,391,000	1,468,000

Oil and Gas Production and Revenues

Total oil and gas revenues increased 96% from \$6.4 million in 1996 to \$12.5

million in 1997. This \$6.1 million increase is largely attributed to the three wells drilled and completed in the Shallow Miocene area during the fourth quarter of 1996.

Oil production during the first quarter of 1997 totaled 129,000 barrels and generated \$2.7 million compared to 143,000 barrels and \$2.6 million in the same period in 1996. The first quarter average daily production decreased from 1,569 per day in 1996 to 1,428 per day in 1997. Average oil prices received in 1997 were \$21.11 compared to \$18.38 in 1996. Oil production volumes for 1996 included approximately 16,000 barrels attributable to properties which have now been sold. Other properties experienced a natural decline in production and was primarily offset by increased production from the Escambia Minerals properties. The loss of revenues as a result of reduced total production was more than offset by a favorable increase in the sales price received.

Gas production volumes during the first quarter of 1997 totaled 3.4 billion cubic feet and generated \$9.8 million in revenues compared to 1.5 billion cubic feet and \$3.8 million in revenues during the same period in 1996. The average sales price for the first quarter of 1997 averaged \$2.88 per thousand cubic feet compared to \$2.55 per thousand cubic feet at this time last year. The increased production volume and the price increase combined to produce a 160% increase in gas revenues.

Lease Operating Expenses

Lease operating expenses, including severance taxes, for the three-month period ending March 31, 1997 were \$2.4 million, an increase from the \$1.8 million as of March 31, 1996. Although lease operating expenses, excluding severance taxes increased in total, the amount on a per Mcf equivalent basis actually declined from \$.57 to \$.47 as a result of higher production volumes without proportionate increases in field operating costs in the Shallow Miocene properties. A severance tax decrease was attributed to a shift in production from state to federal waters and the loss of production from those properties which were sold subsequent to the first quarter in 1996.

Depreciation, Depletion and Amortization

Depreciation, depletion and amortization for the three months ending March 31, 1997 and 1996 was \$3.8 million and \$2.4 million, respectively. This increase reflects the higher total production level when compared to the first quarter of 1996. For the three month period ending March 31, 1997, the per Mcf equivalent amount was \$.92 and compares to \$1.03 for the same period in 1996.

General and Administrative

General and administrative expense as of March 31, 1997 was \$1.0 million compared to \$0.9 million as of March 31, 1996. On a per Mcf basis, general and administrative expenses declined from \$.39 in the first quarter of 1996 to \$.25 in the current quarter.

Interest Expense

Interest expense for the current period increased as a result of increased long-term debt when compared to the first quarter debt level in 1996. For the period ending March 31, 1996, interest expense was \$25,000 and compares to \$111,000 for the first quarter of 1997, net of interest capitalized as unevaluated property costs.

Income Taxes

Income taxes were provided at 32% of net income. The statutory rate of 34% was adjusted for the permanent tax benefit of allowable percentage depletion in excess of remaining leasehold basis.

CALLON PETROLEUM COMPANY

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

a. Exhibits

None

b. Reports on Form 8-K

None

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CALLON PETROLEUM COMPANY

Date: May 9, 1997

By /s/ John S. Weatherly

John S. Weatherly, Senior Vice
President, Chief Financial Officer
and Treasurer

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THIS FINANCIAL DATA SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS OF CALLON PETROLEUM COMPANY FOR THE PERIOD ENDING MARCH 31, 1997 WHICH ARE PRESENTED IN ITS QUARTERLY REPORT ON FORM 10-Q AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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