UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended June 30, 2009 | **Commission File Number 001-14039**

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 ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☑ Non-accelerated filer ☐ Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2). Yes ☐ No ☑

As of August 5, 2009, there were 21,703,705 shares of the Registrant's Common Stock, par value $0.01 per share, outstanding.

CALLON PETROLEUM COMPANY

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Callon Petroleum Company
Consolidated Balance Sheets
(In thousands, except share data)

	June 30, 2009 (Unaudited)	December 31, 2008 (Note 1)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 735	$ 17,126
Accounts receivable	19,528	44,290
Fair market value of derivatives	7,064	21,780
Other current assets	1,971	1,103
Total current assets	29,298	84,299
Oil and gas properties, full-cost accounting method:		
Evaluated properties	1,587,007	1,581,698
Less accumulated depreciation, depletion and amortization	(1,473,139)	(1,455,275)
	113,868	126,423
Unevaluated properties excluded from amortization	26,147	32,829
Total oil and gas properties	140,015	159,252
Other property and equipment, net	2,392	2,536
Restricted investments	4,784	4,759
Investment in Medusa Spar LLC	11,926	12,577
Other assets, net	2,327	2,667
Total assets	$ 190,742	$ 266,090
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable and accrued liabilities	$ 11,379	$ 76,516
Asset retirement obligations	22,374	9,151
	33,753	85,667
Callon Entrada non-recourse credit facility (See Note 1)	82,841	—
Total current liabilities	116,594	85,667
9.75% Senior Notes	195,729	194,420
Callon Entrada non-recourse credit facility (See Note 1)	—	78,435
Senior secured credit facility	5,000	—
Total long-term debt	200,729	272,855
Asset retirement obligations	12,631	33,043
Callon Entrada non-recourse credit facility interest payable (See Note 1)	—	2,719
Other long-term liabilities	1,503	1,610
Total liabilities	331,457	395,894
Stockholders' equity (deficit):		
Preferred Stock, $.01 par value, 2,500,000 shares authorized;	—	—
Common Stock, $.01 par value, 30,000,000 shares authorized; 21,676,067 and 21,621,142 shares outstanding at June 30, 2009 and December 31, 2008, respectively	217	216
Capital in excess of par value	230,150	227,803
Other comprehensive income (loss)	(581)	14,157
Retained (deficit) earnings	(370,501)	(371,980)
Total stockholders' equity (deficit)	(140,715)	(129,804)
Total liabilities and stockholders' equity (deficit)	$ 190,742	$ 266,090

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

Callon Petroleum Company
Consolidated Statements of Operations
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Operating revenues:				
Oil sales	$ 18,971	$ 28,554	$34,923	$53,650
Gas sales	6,054	19,475	14,917	39,339
Total operating revenues	25,025	48,029	49,840	92,989
Operating expenses:				
Lease operating expenses	4,656	4,870	8,695	10,048
Depreciation, depletion and amortization	8,452	15,218	17,865	30,247
General and administrative	5,391	2,943	7,210	5,595
Accretion expense	795	952	1,833	1,984
Total operating expenses	19,294	23,983	35,603	47,874
Income from operations	5,731	24,046	14,237	45,115
Other (income) expenses:				
Interest expense	4,854	4,434	9,636	14,374
Callon Entrada non-recourse credit facility interest expense (See Note 1)	1,935	321	3,491	321
Other (income) expense	61	(379)	(34)	(851)
Loss on early extinguishment of debt	—	11,871	—	11,871
Total other (income) expenses	6,850	16,247	13,093	25,715
Income (loss) before income taxes	(1,119)	7,799	1,144	19,400
Income tax expense	24	2,730	—	6,812
Income (loss) before equity in earnings of Medusa Spar LLC	(1,143)	5,069	1,144	12,588
Equity in earnings of Medusa Spar LLC	218	84	335	197
Net income (loss) available to common shares	$ (925)	$ 5,153	$ 1,479	$12,785
Net income (loss) per common share:				
Basic	$ (0.04)	$ 0.25	$ 0.07	$ 0.61
Diluted	$ (0.04)	$ 0.23	$ 0.07	$ 0.58
Shares used in computing net income per common share:				
Basic	21,645	20,966	21,626	20,919
Diluted	21,645	22,074	21,626	21,859

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

Callon Petroleum Company
Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Six Months Ended	
	June 30, 2009	June 30, 2008
Cash flows from operating activities:		
Net income	$ 1,479	$ 12,785
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation, depletion and amortization	18,285	30,615
Accretion expense	1,833	1,984
Amortization of deferred financing costs	1,481	1,580
Callon Entrada non-recourse credit facility non-cash interest expense	1,687	—
Non-cash loss on early extinguishment of debt	—	5,598
Equity in earnings of Medusa Spar LLC	(335)	(197)
Deferred income tax expense	—	6,812
Non-cash charge related to compensation plans	1,184	1,546
Excess tax benefits from share-based payment arrangements	—	(1,435)
Changes in current assets and liabilities:		
Accounts receivable	6,441	(2,470)
Other current assets	(868)	3,226
Current liabilities	(28,993)	3,482
Change in gas balancing receivable	155	732
Change in gas balancing payable	(123)	359
Change in other long-term liabilities	16	(6)
Change in other assets, net	(189)	(702)
Cash provided by operating activities	2,053	63,909
Cash flows from investing activities:		
Capital expenditures	(24,430)	(78,441)
Proceeds from sale of mineral interests	—	167,493
Distribution from Medusa Spar LLC	986	108
Cash (used in) provided by investing activities	(23,444)	89,160
Cash flows from financing activities:		
Proceeds from senior secured credit facility	9,337	51,435
Payments on senior secured credit facility	(4,337)	(216,000)
Equity issued related to stock incentive plans	—	(1,133)
Excess tax benefits from share-based payment arrangements	—	1,435
Cash provided by (used in) financing activities	5,000	(164,263)
Net decrease in cash and cash equivalents	(16,391)	(11,194)
Cash and cash equivalents:		
Balance, beginning of period	17,126	53,250
Balance, end of period	$ 735	$ 42,056

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

CALLON PETROLEUM COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009

1. Callon Entrada Non-Recourse Credit Facility

A wholly-owned subsidiary of Callon Petroleum Company (the “Company” or “Callon”), Callon Entrada Company (“Callon Entrada”), entered into a credit agreement with CIECO Energy (Entrada) LLC, (“CIECO Entrada”) pursuant to which Callon Entrada was entitled to borrow up to $150 million, plus interest expense incurred of up to $12 million, to finance the development of the Entrada project prior to the abandonment in November 2008. The debt was to be repaid by production from the Entrada field. As a result of abandoning the project and the lease expiring June 1, 2009, Callon Entrada’s only source of payment is from the sale of equipment purchased but not used for the Entrada project. The agreement bears interest at six-month LIBOR (as in effect on the first day of each interest period) plus 375 basis points and is subject to customary representations, warranties, covenants and events of default. The interest rate increased by 400 basis points as of April 2, 2009 due to a notice of default received from CIECO Entrada which is discussed below. As of June 30, 2009, $78.4 million of principal and $4.4 million of interest were outstanding under this facility.

On April 2, 2009, Callon Entrada received a notice from CIECO Entrada advising Callon Entrada that certain alleged events of default occurred under the non-recourse credit agreement relating to failure to pay interest when due and the breach of various other covenants related to the decision to abandon the Entrada project. The notice of default received from CIECO Entrada invoked CIECO Entrada’s rights under the Callon Entrada non-recourse credit agreement to accelerate payment of the principal and interest due. The acceleration of payment causes the principal and interest balances under the Callon Entrada non-recourse credit agreement to be reclassified as of June 30, 2009 to current liabilities from long-term liabilities under U.S. generally accepted accounting principles (“GAAP”). Under GAAP the Company is currently required to consolidate the financial statements and results of operations of Callon Entrada. Callon Entrada’s non-recourse liability is reflected in a separate line item in the consolidated financial statements. The assets of Callon Entrada, including the stock, are pledged to CIECO Entrada and are shown in the consolidating condensed financial statements below. Based on the advice of counsel, the Company believes that Callon and its subsidiaries (other than Callon Entrada) did not guarantee and are not otherwise obligated to repay the principal, accrued interest or any other amount which may become due under the Callon Entrada credit facility. However, Callon has entered into a customary indemnification agreement pursuant to which it agrees to indemnify the lenders under the Callon Entrada credit facility against Callon Entrada’s misappropriation of funds, non-performance of certain covenants, excluding the events of default discussed above, and similar matters. In addition, Callon also guaranteed the obligations of Callon Entrada to fund its proportionate share of any operating costs related to the Entrada project that Callon Entrada may, from time to time, expressly approve under the Entrada joint operating agreement. Callon also has guaranteed Callon Entrada’s payment of all amounts to plug and abandon wells and related facilities for a breach of law, rule or regulation (including environmental laws) and for any losses of CIECO Entrada attributable to gross negligence of Callon Entrada. The well for which Callon Entrada is responsible for was plugged and abandoned in the fourth of quarter of 2008 and the Company believes that there are no additional costs related to abandoning that well.

Prior to abandonment of the Entrada project, CIECO Entrada failed to fund two loan requests totaling $40 million under the Callon Entrada non-recourse credit agreement. These loan requests were to cover Callon Entrada's share of the cost incurred to develop the Entrada field up to the suspension of the project. Such amounts were subsequently funded by the Company. The Company continues to discuss with CIECO its failure to fund the $40 million in loan requests. No assurances can be made regarding the outcome of discussions. The Company does not believe that we have waived any of our rights under the agreements with CIECO Entrada or its parent, CIECO Energy (U.S.) LLC ("CIECO").

As of June 30, 2009, the wind down of the Entrada project was substantially complete and substantially all of the costs had been paid. The lease expired June 1, 2009 and reverted to the Minerals Management Service. In addition, the sale of equipment purchased for the Entrada project, but not used, is in progress. As of June 2009, Callon Entrada has collected $1.8 million in sales proceeds from the sale of equipment, net to its interest, which was applied to unpaid interest expense as required under the Callon Entrada non-recourse credit facility. The Company believes that the amount of future operating costs of Callon Entrada, for which the Company would be responsible for, is not significant.

Below are consolidating condensed financial statements of Callon Petroleum Company presented to demonstrate that Callon Entrada does not have sufficient assets available to pay down the balance owed under the Callon Entrada non-recourse credit facility as a result of the abandonment and reversion of this lease of the Entrada project.

Callon Petroleum Company Consolidating Condensed Financial Information
as of and for the Six Months ended June 30, 2009

	Callon Entrada	Callon and Other Subsidiaries	Callon Consolidated
Balance Sheet (in thousands)			
Total current assets	$ 1,238	$ 28,060	$ 29,298
Total oil and gas properties	—	140,015	140,015
Other property and equipment	—	2,392	2,392
Other assets	—	19,037	19,037
Total assets	$ 1,238	$ 189,504	$ 190,742
Other current liabilities	$ 2,842	$ 30,911	$ 33,753
Callon Entrada non-recourse credit facility	82,841	—	82,841
Total current liabilities	85,683	30,911	116,594
Total long-term debt	—	200,729	200,729
Total other long-term liabilities	—	14,134	14,134
Total stockholder's equity (deficit)	(84,445)	(56,270)	(140,715)
Total liabilities and stockholders' equity (deficit)	$ 1,238	$ 189,504	$ 190,742

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Statement of Operations (in thousands)	Callon Entrada	Callon and Other Subsidiaries	Callon Consolidated
Total operating revenues	$ —	$ 49,840	$ 49,840
Total operating expenses	56	35,547	35,603
Income from operations	(56)	14,293	14,237
Interest expense	3,491	9,636	13,127
Other (income) expenses	(6)	(28)	(34)
Income (loss) before income taxes	(3,541)	4,685	1,144
Income tax expense	—	—	—
Income (loss) before equity in earnings of Medusa Spar LLC	(3,541)	4,685	1,144
Equity in earnings of Medusa Spar LLC	—	335	335
Net (loss) income	$ (3,541)	$ 5,020	$ 1,479

Statement of Cash Flows (in thousands)	Callon Entrada	Callon and Other Subsidiaries	Callon Consolidated
Net cash (used in) provided by operating activities	$ (5,057)	$ 7,110	$ 2,053
Net cash used in investing activities	—	(23,444)	(23,444)
Net cash provided by financing activities	—	5,000	5,000
Net decrease in cash and cash equivalents	(5,057)	(11,334)	(16,391)
Cash and cash equivalents at beginning of the period	5,218	11,908	17,126
Cash and cash equivalents at end of the period	$ 161	$ 574	$ 735

2. General

The financial information presented as of any date other than December 31, 2008 has been prepared from the books and records of the Company without audit. Financial information as of December 31, 2008 has been derived from the audited financial statements of the Company, but does not include all disclosures required by U.S. 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 periods 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, 2008 included in the Company's Annual Report on Form 10-K filed March 19, 2009. The results of operations for the three-month and six-month periods ended June 30, 2009 are not necessarily indicative of future financial results.

3. Net Income Per Share

Basic net income per share was computed by dividing net income by the weighted average number of shares of common stock outstanding during the period. Diluted net income per common share was determined on a weighted average basis using common shares issued and outstanding adjusted for the effect of stock options and restricted stock considered common stock equivalents computed using the treasury stock method.

A reconciliation of the basic and diluted net income per share computation is as follows (in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
(a) Net income (loss)	$ (925)	$ 5,153	$ 1,479	$12,785
(b) Weighted average shares outstanding	21,645	20,966	21,626	20,919
Dilutive impact of stock options	—	253	—	225
Dilutive impact of warrants	—	599	—	526
Dilutive impact of restricted stock	—	256	—	189
(c) Weighted average shares outstanding for diluted net income per share	21,645	22,074	21,626	21,859
Basic net income (loss) per share (a/b)	$ (0.04)	$ 0.25	$ 0.07	$ 0.61
Diluted net income (loss) per share (a/c)	$ (0.04)	$ 0.23	$ 0.07	$ 0.58
Shares excluded due to the exercise / grant price being greater than the average share price				
Stock options	1,003	—	1,003	—
Warrants	365	—	365	—
Restricted stock	634	—	634	—

4. Long-Term Debt

Long-term debt consisted of the following at:

	June 30, 2009	December 31, 2008
	(In thousands)	
Senior Secured Credit Facility (matures September 25, 2012)	$ 5,000	$ —
9.75% Senior Notes (due 2010), net of discount	195,729	194,420
Callon Entrada non-recourse credit agreement	—	78,435
Total long-term debt	$200,729	$ 272,855

Senior Secured Credit Facility. On September 25, 2008, the Company completed a $250 million second amended and restated senior secured credit agreement, which matures on September 25, 2012, with Union Bank N.A. (“Union Bank”) as administrative agent and issuing lender. On March 19, 2009, the Company entered into the first amendment of the Second Amended and Restated Credit Agreement ("the Amendment") which states that a default under the Callon Entrada non-recourse credit facility (described in Note 1) would not constitute a default under the Company's senior secured credit facility. The Amendment set the borrowing base at $48 million and implemented a Monthly Commitment Reduction (MCR) commencing on June 1, 2009 in the amount of $4.33 million per month. The borrowing base and MCR are both subject to re-determination August 1, 2009 and quarterly thereafter. As of August 1, 2009, the Company had received a preliminary notice from Union Bank that the redetermined borrowing base would be approximately $35.0 million with the MCR increasing to approximately $4.7 million. Borrowings under the credit agreement are secured by mortgages covering the Company's major fields excluding the Entrada field. As of June 30, 2009, there was $5 million outstanding under the agreement with a weighted average interest rate of 2.05% and $38.7 million, subject to MCR, available for future borrowings under the senior secured credit agreement.

On April 1, 2009, Diamond Offshore Drilling, Inc. ("Diamond") called on an outstanding letter of credit for CIECO's share of the settlement for the termination of the Ocean Victory drilling contract in the amount of $7.3 million. Callon paid its share, in the amount of $7.3 million, in March 2009. The remaining balance of the letter of credit was cancelled on April 2, 2009 by Diamond. The Company continues to discuss with CIECO its failure to fund the settlement for the termination of the drilling contract. The $7.3 million due from CIECO for their share of the settlement for the termination of the drilling contract is included in accounts receivable at June 30, 2009.

Fair Value of Debt. The fair value of the 9.75% senior notes due in December 2010 is determined at the end of each reporting period using inputs based upon quoted prices for such instruments in active markets. At June 30, 2009, the estimated fair value of the 9.75% senior notes was $100 million.

Early Extinguishment of Debt. On April 8, 2008, the Company completed the sale of a 50% working interest in the Entrada Field to CIECO Entrada for a purchase price of $175 million with a cash payment of $155 million at closing and the additional $20 million payable after the achievement of certain production milestones. Simultaneously with the closing of the CIECO transaction, the Company used the proceeds from the sale, cash on hand and a draw of $16 million from the senior secured credit agreement, to extinguish a $200 million senior secured revolving credit agreement, which was secured by a lien on the Entrada properties. Due to the early extinguishment of the $200 million senior revolving credit facility on April 8, 2008, Callon incurred expenses of $11.9 million consisting of $6.3 million in cash pre-payment penalties plus a non-cash charge of $5.6 million related to the amortization expense associated with the deferred financing costs related to the credit facility.

5. Derivatives

The Company periodically uses derivative financial instruments to manage oil and gas price risk on a limited amount of its future production and does not use these instruments for trading purposes. Settlements of oil and gas derivative contracts are generally based on the difference between the contract price or prices specified in the derivative instrument and a NYMEX price or other cash or futures index price. Such derivative contracts are accounted for under Statement of Financial Accounting Standards No. 133, “Accounting for Derivative Instruments and Hedging Activities,” (“SFAS 133”) as amended.

The Company’s derivative contracts that are accounted for as cash flow hedges under SFAS 133 are recorded at fair market value and the changes in fair value are recorded through other comprehensive income (loss), net of tax, in stockholders’ equity (deficit). The cash settlements on contracts for future production are recorded as an increase or decrease in oil and gas sales. The changes in fair value related to ineffective derivative contracts are recognized as derivative expense (income). The cash settlements on these contracts are also recorded within derivative expense (income).

Cash settlements on effective oil and gas cash flow hedges during the three-month and six-month periods ended June 30, 2009 resulted in an increase in oil and gas sales of $4.5 million and $12.4 million, respectively. For the three-month and six-month periods ended June 30, 2008 cash settlements on effective oil and gas cash flow hedges resulted in a decrease in oil and gas sales of $6.0 million and $7.8 million, respectively.

The Company’s derivative contracts are carried at fair value on our consolidated balance sheet under the caption “Fair Market Value of Derivatives”. The oil and gas derivative contracts are settled based upon reported prices on NYMEX. The estimated fair value of these contracts is based upon closing exchange prices on NYMEX and in the case of collars and floors, the time value of options. See Note 7, “Fair Value Measurements.”

Listed in the table below are the outstanding oil and gas derivative contracts as of June 30, 2009:

Collars

Product	Volumes per Month	Quantity Type	Average Floor Price	Average Ceiling Price	Period
Oil	30,000	Bbls	$110.00	$175.75	07/09-12/09
Natural Gas	100,000	MMbtu	$ 4.50	$ 6.30	10/09-12/09
Natural Gas	75,000	MMbtu	$ 5.00	$ 8.30	01/10-12/10

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6. Comprehensive Income (Loss)

A summary of the Company's comprehensive income (loss) is detailed below (in thousands, net of tax):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Net income (loss)	$ (925)	$ 5,153	$ 1,479	$ 12,785
Other comprehensive income (loss):				
Change in fair value of derivatives	(7,815)	(8,579)	(14,738)	(10,794)
Total comprehensive income (loss)	$ (8,740)	$ (3,426)	$(13,259)	$ 1,991

7. Fair Value Measurements

Statement of Financial Accounting Standards No. 157, ("SFAS 157"), "Fair Value Measurements" defines fair value, establishes a framework for measuring fair value and requires enhanced disclosures about fair value measurements. SFAS 157 establishes a fair value hierarchy which consists of three broad levels that prioritize the inputs to valuation techniques used to measure fair value.

- Level 1 valuations consist of unadjusted quoted prices in active markets for identical assets and liabilities and have the highest priority.
- Level 2 valuations rely on quoted market information for the calculation of fair market value.
- Level 3 valuations are internal estimates and have the lowest priority.

Per SFAS 157, the Company has classified its derivatives into these levels depending upon the data relied on to determine the fair values of the derivative instruments. The fair values of collars and natural gas basis swaps are estimated using internal discounted cash flow calculations based upon forward commodity price curves or quotes obtained from counterparties to the agreements and are designated as Level 3. The following table summarizes the valuation of our assets and liabilities measured at fair value on a recurring basis at June 30, 2009 (in thousands):

	Fair Value Measurements Using			
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Assets (Liabilities) At Fair Value
Derivative assets	$ —	$ —	$ 7,064	$ 7,064
Derivative liabilities	—	—	(22)	(22)
Total	$ —	$ —	$ 7,042	$ 7,042

The table below presents a reconciliation for assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the six-month period ended June 30, 2009. The fair values of Level 3 derivative instruments are estimated using proprietary valuation models that utilize both market observable and unobservable parameters. Level 3 instruments presented in the table consist of net derivatives valued using pricing models incorporating assumptions that, in management's judgment, reflect the assumptions a marketplace participant would have used at June 30, 2009 (in thousands):

	Derivatives
Balance at January 1, 2009	$ 21,780
Total gains or losses (realized or unrealized):	
Included in earnings	12,392
Included in other comprehensive (income) loss	(14,738)
Purchases, issuances and settlements	(12,392)
Balance at June 30, 2009	$ 7,042
Change in unrealized gains (losses) included in earnings relating to derivatives still held as of June 30, 2009	$ —

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8. Income Taxes

Below is an analysis of deferred income taxes as of June 30, 2009 and December 31, 2008.

	June 30, 2009	December 31, 2008
	(In thousands)	
Deferred tax asset:		
Federal net operating loss carryforwards	$ 107,072	$ 68,432
State net operating loss carryforwards	55,188	45,939
Statutory depletion carryforwards	4,575	4,561
Alternative minimum tax credit carryforward	375	375
Asset retirement obligations	10,577	13,102
Oil and gas properties	—	58,061
Other	30,426	2,241
Valuation allowance	(187,920)	(174,062)
Total deferred tax asset	20,293	18,649
Deferred tax liability:		
Oil and gas properties	6,833	—
Other	13,460	18,649
Total deferred tax liability	20,293	18,649
Net deferred tax asset	$ —	$ —

The Company follows the asset and liability method of accounting for deferred income taxes prescribed by Statement of Financial Accounting Standards No. 109 ("SFAS 109") "Accounting for Income Taxes". The statement provides for the recognition of a deferred tax asset for deductible temporary timing differences, capital and operating loss carryforwards, statutory depletion carryforward and tax credit carryforwards, net of a "valuation allowance". The valuation allowance is provided for that portion of the asset, for which it is deemed more likely than not, that it, will not be realized.

As discussed in Notes 5 of the Consolidated Financial Statements for the year ended December 31, 2008 included in the Company's Annual Report on Form 10-K filed March 19, 2009, the Company established a valuation allowance of $174 million as of December 31, 2008. The Company's tax net operating loss carryforwards increased during the period, due primarily to the abandonment of the Entrada lease which loss had previously been recognized for financial reporting purposes, unrealized hedging losses and other activity generated additional net deferred tax assets of $14 million during the six months ended June 30, 2009 requiring additional valuation allowance of the same amount.

9. Asset Retirement Obligations

The following table summarizes the activity for the Company's asset retirement obligations:

	Six Months Ended June 30, 2009
Asset retirement obligations at beginning of period	$ 42,194
Accretion expense	1,833
Liabilities incurred	—
Liabilities settled	(4,250)
Revisions to estimate	(4,772)
Asset retirement obligations at end of period	35,005
Less: current asset retirement obligations	(22,374)
Long-term asset retirement obligations	$ 12,631

Assets, primarily U.S. government securities, of approximately $4.8 million at June 30, 2009, are recorded as restricted investments. These assets are held in abandonment trusts dedicated to pay future abandonment costs for several of the Company's oil and gas properties.

10. Accounting Pronouncements

In December 2007, the FASB issued Statement of Financial Accounting Standard No. 141R as amended, "Business Combinations", ("SFAS 141R"). The objective of SFAS 141R is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. To accomplish that, SFAS 141R establishes principles and requirements for how the acquirer (a) recognizes and measurers in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree, (b) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and (c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141R is effective for business combinations with an acquisition date on or after the beginning of annual reporting period beginning on or after December 15, 2008. The Company adopted SFAS 141(R) on January 1, 2009 with no impact to its financial statements.

In December 2007, the FASB issued Statement of Financial Accounting Standard No. 160 as amended, "Noncontrolling Interest in Consolidated Financial Statement", (SFAS 160"). The objective of SFAS 160 is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 is effective for first year and interim periods within the fiscal year, beginning on or after December 15, 2008. The Company adopted SFAS 160 on January 1, 2009 with no impact to its financial statements.

Effective January 1, 2009, the Company adopted Statement of Financial Accounting Standard No. 161, “Disclosures about Derivative Instruments and Hedging Activities” — an amendment of SFAS Statement No. 133 (“SFAS 161”). SFAS 161 changes the disclosure requirements for derivative instruments and hedging activities. Under SFAS 161, entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity’s financial position, financial performance, and cash flows. SFAS No. 161 must be applied prospectively to all derivative instruments and non-derivative instruments that are designated and qualify as hedging instruments and related hedged items accounted for under SFAS No 133 for all financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Company adopted SFAS No. 161 on January 1, 2009 and has added certain additional disclosures to its financial statements.

In December 2008, the SEC unanimously approved amendments to revise its oil and gas reserves estimation and disclosure requirements. The amendments, among other things;

- allows the use of new technologies to determine proved reserves;
- permits the optional disclosure of probable and possible reserves;
- modifies the prices used to estimate reserves for SEC disclosure purposed to a 12 month average price instead of a period-end price; and
- requires that if a third party is primarily responsible for preparing or auditing the reserve estimates, the company make disclosures relating to the independence and qualifications of the third party, including filing as an exhibit any report received from the third party.

The revised rules are effective January 1, 2010. The new requirements have no impact on the Company’s 2009 interim financial statements, but the requirements will be effective for the Company’s year-end 2009 financial statements and its 2009 Annual Report on Form 10-K for the year ended December 31, 2009.

In June 2008, FASB issued FASB Staff Position No. EITF 03-6-1, “Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities”. This FASB Staff Position (“FSP”) addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share under the two-class method described in FASB Statement No. 128, “Earning per Share”. The Company adopted this FSP on January 1, 2009 with no impact to its financial statements.

In May 2008, the FASB issued FASB Staff Position No. APB 14-1, Accounting for Convertible Debt Instruments that may not be settled in cash upon conversion (including partial cash settlement). This clarifies that convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) are not addressed by APB Opinion No. 14, Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants. Additionally, this FSP specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity’s nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. The Company adopted this FSP on January 1, 2009 with no impact to its financial statements.

In May 2009, the FASB issued Statement of Financial Accounting Standard No. 165, “Subsequent Events” (“SFAS 165”). The objective of SFAS 165 is to establish general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS 165 is effective for interim and annual financial periods ending after June 15, 2009. Accordingly, the Company adopted SFAS as of the quarter ended June 30, 2009 with limited impact to its financial statements. The Company has evaluated subsequent events through August 10, 2009

In April 2009, the FASB issued FASB Staff Position No. FAS 141 (R)-1, “Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies” (“FSP 141R”). FSP 141R amends and clarifies SFAS 141R to address application issues raised by preparers, auditors, and members of the legal profession on initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. FSP 141R is effective for assets and liabilities arising from contingencies in business combinations for which the acquisition date is on or after the beginning of the fires annual reporting period beginning on or after December 15, 2008. Accordingly, the Company adopted FSP 141R as of the quarter ended June 30, 2009 with no impact to the Company’s financial statements.

In April 2009, the FASB issued FASB Staff Position No. FAS 107-1 and APB 28-1, “Interim Disclosures about Fair Value of Financial Instruments”. This FASB Staff Position amends FASB Statement of Financial Accounting Standard No. 107, Disclosures about Fair Value of Financial Instruments, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This FASB Staff Position also amends APB Opinion No. 28, Interim Financial Reporting, to require those disclosures in summarized financial information at interim reporting periods. Accordingly, the Company adopted this FASB Staff Position as of the quarter ended June 30, 2009 with limited impact to the Company’s financial statements.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

This report includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements other than statements of historical facts included in this report, including statements regarding our financial position, adequacy of resources, estimated reserve quantities, business strategies, plans, objectives and expectations for future operations and covenant compliance, are forward-looking statements. We can give no assurances that the assumptions upon which such forward-looking statements are based will prove to have been correct. Important factors that could cause actual results to differ materially from our expectations ("Cautionary Statements") are disclosed in the section entitled "Risk Factors" included in our Annual Report on Form 10-K for our most recent fiscal year, elsewhere in this report and from time to time in other filings made by us with the Securities and Exchange Commission. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified by the Cautionary Statements.

General

The following discussion is intended to assist in an understanding of our financial condition and results of operations. Our consolidated financial statements and notes thereto contain detailed information that should be referred to in conjunction with the following discussion. See Item 8 "Financial Statements and Supplementary Data."

We have been engaged in the exploration, development, acquisition and production of oil and gas properties since 1950. In the past several years, our activities have been focused in the shelf and deepwater areas of the Gulf of Mexico. Production from wells in this area is characterized by high initial production rates and steep decline curves. Accordingly, we are required to make material expenditures to purchase proved oil and gas reserves and to explore for and discover reserves to replace those produced.

Disruptions in Capital Markets. The capital markets are experiencing significant disruptions, and many financial institutions have liquidity concerns, prompting government intervention to mitigate pressure on the credit markets. Our primary exposure to the current credit market crisis includes our senior secured credit facility, 9.75% senior notes due December 2010 and counterparty nonperformance risks.

Our senior secured credit facility was committed in the amount of $70 million as of December 31, 2008. Subsequent to December 31, 2008, our borrowing base redetermination was completed and reduced to $48 million due to lower commodity prices and reserves. In addition, a Monthly Commitment Reduction ("MCR") was implemented commencing June 1, 2009 in the amount of $4.33 million per month. As of August 1, 2009, we received a preliminary notice that our redetermined borrowing base would be approximately $35.0 million with the MCR increasing to approximately $4.7 million. If not extended, the senior secured credit facility matures in September 25, 2012. Should current credit market tightening be prolonged for several years, future extensions of our senior secured credit facility may contain terms that are less favorable than those of our current credit facility. The amounts which may be outstanding under our senior secured credit facility are limited by a borrowing base, which is established by our lenders and based on the value of our proved reserves using prices, costs and other assumptions determined by our lenders. Continued disruptions in the capital markets could cause our lenders to be more restrictive in calculating our borrowing base. See Note 4 to the Consolidated Financial Statements.

We have outstanding $200 million of 9.75% senior notes due in December 2010. We are actively evaluating several options for a restructuring of our balance sheet and are hopeful to achieve resolution before our 9.75% senior notes become a current liability in December 2009. No assurances can be made as to the results of these efforts. Continued disruptions in the capital markets could make it more difficult or expensive to refinance or restructure these notes when they come due.

Current market conditions also elevate the concern over counterparty risks related to our commodity derivative contracts and trade credit. At June 30, 2009, our open commodity derivative instruments were in a net receivable position with a fair value of $7.0 million. All of our commodity derivative instruments are with a major financial institution. Should the financial counterparty not perform, we may not realize the benefit of some of our derivative instruments under lower commodity prices and we could incur a loss.

We sell our production to a variety of purchasers. Some of these parties may experience liquidity problems. Credit enhancements have been obtained from some parties in the way of parental guarantees or letters of credit; however, we do not have all of our trade credit enhanced through guarantees or credit support.

Impairment of Oil and Gas Properties. If oil and gas prices decrease further or remain depressed for extended periods of time, we may be required to take additional writedowns of the carrying value of our oil and gas properties. We may be required to writedown the carrying value of our oil and gas properties when oil and gas prices are low or if we have substantial downward adjustments to our estimated net proved reserves, increases in our estimates of development costs or deterioration in our exploration results. Under the full-cost method which we use to account for our oil and gas properties, the net capitalized costs of our oil and gas properties may not exceed the present value, discounted at 10%, of future net cash flows from estimated net proved reserves, using period end oil and gas prices or prices as of the date of our auditor’s report, plus the lower of cost or fair market value of our unproved properties. If net capitalized costs of our oil and gas properties exceed this limit, we must charge the amount of the excess to earnings. This type of charge will not affect our cash flows, but will reduce the book value of our stockholders’ equity. We review the carrying value of our properties quarterly, based on prices in effect as of the end of each quarter or at the time of reporting our results. Once incurred, a writedown of oil and gas properties is not reversible at a later date, even if prices increase.

Reduced Prices for Oil and Gas Production. The United States and world economies are currently in a recession which could last through 2009 and perhaps longer. Both oil and gas prices have undergone significant decline during the second half of 2008 and into 2009 as a result of the reduced economic activity brought on by the recession. Continued lower commodity prices will reduce our cash flows from operations. To mitigate the impact of lower commodity prices on our cash flows, we have entered into crude oil and natural gas commodity derivative contracts for 2009. See Note 5 to our Consolidated Financial Statements. Depending on the length of the current recession, commodity prices may stay depressed or decline further, thereby causing a prolonged downturn, which would further reduce our cash flows from operations. This could cause us to alter our business plans including reducing or delaying our exploration and development program spending and other cost reduction initiatives.

Abandonment of the Entrada Project. In late November 2008, we and our joint working interest owner, CIECO Entrada, decided to abandon the Entrada project. Under the terms of our agreements with CIECO Entrada, Callon Entrada is responsible for its share of the costs to plug and abandon the Entrada project, which we estimate to be $46 million, $23 million net to Callon Entrada. As of June 30, 2009 the wind down of the Entrada project was substantially complete and most of the costs had been paid. In addition, prior to abandonment of the project, CIECO Entrada failed to fund two loan requests totaling $40 million under the Callon Entrada non-recourse credit agreement with CIECO Entrada. CIECO Entrada also failed to fund its working interest share of a settlement payment in the amount of $7.3 million to terminate a drilling contract for the Entrada project. Callon has paid its share of the settlement payment.

We continue to discuss with CIECO Entrada its failure to fund $40 million in loan requests and its share of a settlement payment to terminate a drilling contract. No assurances can be made regarding the outcome of these discussions. We do not believe that we have waived any of our rights under the agreements with CIECO Entrada or its parent, CIECO.

The Callon Entrada Non-Recourse Credit Facility. The Callon Entrada non-recourse credit facility is a direct obligation of Callon Entrada, an indirect, wholly-owned subsidiary of Callon Petroleum Company. The Callon Entrada non-recourse credit facility is secured by a lien on the assets of Callon Entrada which generally are comprised of the Entrada Field and related equipment. Neither Callon Petroleum Company nor any other subsidiary of Callon Petroleum Company guaranteed or otherwise agreed to pay the principal or interest payments due on the Callon Entrada non-recourse credit facility, so such facility is non-recourse to Callon Petroleum Company and its other subsidiaries.

On April 2, 2009, Callon Entrada received a notice from CIECO Entrada advising Callon Entrada that certain alleged events of default occurred under the Callon Entrada non-recourse credit agreement relating to failure to pay interest when due and the breach of various other covenants related to the decision to abandon the Entrada project. The lenders under our senior secured credit facility have amended the Second Amended and Restated Credit Agreement dated September 25, 2008 to state that a default under the Callon Entrada non-recourse credit facility is not a default under their facility. In addition, this amendment eliminates a possible cross default with regard to our 9.75% senior notes due in December 2010. Accordingly, we do not believe that a default under the Callon Entrada non-recourse credit agreement will have a material negative impact on our financial position, results of operations and cash flows. See Note 1 to the Consolidated Financial Statements.

Other Events

On March 16, 2009, we were notified by the New York Stock Exchange that we had fallen below one of the NYSE's continued listing standards. We received this notification pursuant to Rule 802.01B(I) of the NYSE Listed Company Manual because our average market capitalization has been less than $75 million over a 30-day trading period and our last reported stockholder's equity was less than $75 million.

We submitted a plan with the NYSE on April 30, 2009, which demonstrated our ability to achieve compliance with Rule 802.01B(I) within an 18 month cure period. On June 12, 2009, the NYSE accepted the plan and our common stock will continue to be listed on the NYSE during the cure period, subject to ongoing monitoring and our compliance with other NYSE continued listing requirements.

Liquidity and Capital Resources

Our primary sources of capital are cash flows from operations, borrowings from financial institutions and the sale of debt and equity securities. On June 30, 2009, we had cash and cash equivalents of $735,000 and $38.7 million of availability under our senior secured credit agreement. Cash provided by operating activities during the six-month period ended June 30, 2009 totaled $2.1 million, a 97% decrease when compared to the corresponding period in 2008. The decrease in liquidity is attributable to the reduction of accounts payable during the first half of 2009, lower commodity prices and lower production rates on an equivalent basis.

On September 25, 2008, we completed a $250 million second amended and restated senior secured credit agreement with Union Bank as issuing lender, which matures September 25, 2012. We received preliminary notice from Union Bank that the borrowing base and MCR, which are still under review as of August 1, 2009, are approximately $35.0 million and $4.7 million, respectively. Borrowings under the credit agreement are secured by mortgages covering our major fields excluding Entrada. As of June 30, 2009, there was $5.0 outstanding under the agreement with $38.7 million, subject to MCR, available for future borrowings. See Note 4 to the Consolidated Financial Statements.

On April 1, 2009, Diamond Offshore Drilling, Inc. ("Diamond") called on the outstanding letter of credit for CIECO Energy (US) Limited's ("CIECO") share of the settlement for the termination of the Ocean Victory drilling contract in the amount of $7.3 million. We paid our share, in the amount of $7.3 million, in March 2009. The remaining balance of the letter of credit was cancelled on April 2, 2009 by Diamond. We continue to discuss with CIECO its failure to fund the settlement for the termination of the drilling contract. The $7.3 million due from CIECO for their share of the settlement for the termination of the drilling contract is recorded as a receivable as of June 30, 2009.

Due to the uncertain economic and commodity price environment, we have designed a flexible capital spending program that will be responsive to conditions that develop during 2009. Our preliminary base capital program, including plugging and abandonment, for 2009 is $75 million, which is relatively flat with the 2008 budget of $71 million, excluding the Entrada project. The program includes $50 million for the acquisition of proved oil and gas properties with development and exploitation upside. However, depending on commodity prices and other economic conditions we experience in 2009, this base capital program may be adjusted up or down. See "Capital Expenditures" for more detail on our capital expenditure forecast for 2009.

We expect that the 2009 budget will be funded primarily from cash flows from operations, cash on hand, and borrowings under our senior secured credit facility and/or other financing. We would expect an increase in our senior secured credit facility borrowing base upon executing an acquisition. We will evaluate the level of capital spending throughout the year based on commodity prices, cash flows from operations and property acquisitions and divestitures.

Inflation has not had a material impact on us and is not expected to have a material impact on us in the immediate future.

The Callon Entrada non-recourse credit facility, which has a balance of $82.4 million, is a direct obligation of Callon Entrada, an indirect, wholly-owned subsidiary of Callon Petroleum Company. The Callon Entrada non-recourse credit facility is secured by a lien on the stock of Callon Entrada and the assets of Callon Entrada which generally are comprised of the Entrada Field and related equipment. On June 1, 2009 the lease expired and reverted to the Minerals Management Service. At June 30, 2009, there was no value included on the balance sheet for the lease or related equipment. Neither Callon Petroleum Company nor any other subsidiary of Callon Petroleum Company guaranteed or otherwise agreed to pay the principal or interest payments due on the Callon Entrada non-recourse credit facility, so such facility is non-recourse to Callon Petroleum Company and its other subsidiaries.

On April 2, 2009, Callon Entrada received a notice of default from CIECO Entrada advising Callon Entrada that certain events of default occurred under the non-recourse credit agreement relating to failure to pay interest when due and the breach of various other covenants related to the decision to abandon the Entrada project. This notice of default invoked CIECO's Entrada rights under the Callon Entrada non-recourse credit agreement to accelerate payment of the principal and interest due. The acceleration of payment causes the principal and interest balances under the Callon Entrada non-recourse credit agreement to be reclassified as current liabilities from long-term liabilities under U.S. generally accepted accounting principles ("GAAP"). Under GAAP, we are currently required to consolidate the financial statements and results of operations of Callon Entrada which results in Callon Entrada's non-recourse liability being reflected in a separate line item in the consolidated financial statements. See Note 1 to the Consolidated Financial Statements for more information regarding the deficiency in assets of Callon Entrada with which to repay the non-recourse credit facility.

The Indenture governing our 9.75% Senior Notes due 2010 and our senior secured credit facility contain various covenants, including restrictions on additional indebtedness and payment of cash dividends. In addition, our senior secured credit agreement contains covenants for maintenance of certain financial ratios. We were in compliance with these covenants at June 30, 2009. See Note 7 of the Consolidated Financial Statements for the year ended December 31, 2008 included in our Annual Report on Form 10-K filed March 19, 2009 for a more detailed discussion of long-term debt.

The following table describes our outstanding contractual obligations (in thousands) as of June 30, 2009:

Contractual Obligations	Total	Less Than One Year	One-Three Years	Four-Five Years	After-Five Years
Senior Secured Credit Facility	$ 5,000	$ —	$ 5,000	$ —	$ —
9.75% Senior Notes	200,000	—	200,000	—	—
Throughput Commitments:					
Medusa Oil Pipeline	188	56	81	31	20
	$205,188	$ 56	$ 205,081	$ 31	$ 20

Capital Expenditures

Capital expenditures on an accrual basis were $7.7 million for the six-months ended June 30, 2009. Included in this amount was capitalized interest of approximately $1.7 million and capitalized general and administrative costs allocable directly to exploration and development projects of approximately $4.4 million. The remainder of the capital expended primarily includes the cost of seismic data, leases and plugging and abandonment costs.

Capital expenditures for the remainder of 2009 are projected to be $60.5 million and include:

- proved producing property acquisitions;
- development costs on our legacy properties;
- the cost of seismic data and leases; and
- capitalized interest and general and administrative costs.

In addition, we are projecting to spend $6.8 million for the remainder of 2009 for asset retirement obligations.

Off-Balance Sheet Arrangements

We have a 10% ownership interest in Medusa Spar LLC (“LLC”), which is a limited liability company that owns a 75% undivided ownership interest in the deepwater Spar production facilities on our Medusa Field in the Gulf of Mexico. We contributed a 15% undivided ownership interest in the production facility to the LLC in return for approximately $25 million in cash and a 10% ownership interest in the LLC. The LLC earns a tariff based upon production volume throughput from the Medusa area. We are obligated to process our share of production from the Medusa Field and any future discoveries in the area through the Spar production facilities. This arrangement allowed us to defer the cost of the Spar production facility over the life of the Medusa Field. The balance of Medusa Spar LLC is owned by Oceaneering International, Inc. and Murphy Oil Corporation. We are accounting for our 10% ownership interest in the LLC under the equity method.

Results of Operations

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

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Net production :				
Oil (MBbls)	263	286	526	575
Gas (MMcf)	1,433	1,668	2,880	3,759
Total production (MMcfe)	3,010	3,382	6,036	7,211
Average daily production (MMcfe)	33.1	37.2	33.3	39.6
Average sales price:				
Oil (Bbls) (a)	$ 72.22	$ 99.99	$ 66.39	$ 93.27
Gas (Mcf)	4.22	11.67	5.18	10.46
Total (Mcfe)	8.32	14.20	8.26	12.90
Oil and gas revenues:				
Oil revenue	$ 18,971	$ 28,554	$ 34,923	$ 53,650
Gas revenue	6,054	19,475	14,917	39,339
Total	$ 25,025	$ 48,029	$ 49,840	$ 92,989
Oil and gas production costs:				
Lease operating expenses	$ 4,656	$ 4,870	$ 8,695	$ 10,048
Additional per Mcfe data:				
Sales price	$ 8.32	$ 14.20	$ 8.26	$ 12.90
Lease operating expense	1.55	1.44	1.44	1.39
Operating margin	$ 6.77	$ 12.76	$ 6.82	$ 11.51
Depletion, depreciation and amortization	$ 2.81	$ 4.50	$ 2.96	$ 4.19
General and administrative (net of management fees)	$ 1.79	$ 0.87	$ 1.19	$ 0.78

(a) Below is a reconciliation of the average NYMEX price to the average realized sales price per barrel of oil:

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Average NYMEX oil price	$ 59.62	$ 123.98	$ 51.35	$ 110.94
Basis differential and quality adjustments	(3.30)	(4.06)	(3.68)	(3.95)
Transportation	(1.36)	(1.34)	(1.35)	(1.30)
Hedging	17.26	(18.59)	20.07	(12.42)
Average realized oil price	$ 72.22	$ 99.99	$ 66.39	$ 93.27

Comparison of Results of Operations for the Three Months Ended June 30, 2009 and the Three Months Ended June 30, 2008.

Oil and Gas Production and Revenues

Total oil and gas revenues were $25.0 million in the second quarter of 2009 compared to $48.0 million in the second quarter of 2008. Total production on an equivalent basis for the second quarter of 2009 decreased by 12% compared to the second quarter of 2008 and oil and gas prices on a Mcfe basis for the second quarter of 2009 decreased 41% compared to 2008.

Gas production during the second quarter of 2009 totaled 1.4 billion cubic feet (Bcf) and generated $6.1 million in revenues compared to 1.7 Bcf and $19.5 million in revenues during the same period in 2008. The average gas price after hedging impact for the second quarter of 2009 was $4.22 per thousand cubic feet of natural gas ("Mcf") compared to $11.67 per Mcf for the same period in 2008. Approximately 14% of the 15% decrease in 2009 production was due to a lower number of producing wells, with the remaining 1% resulting from normal and expected declines in production from our older properties. Four of our gas wells were shut-in during 2008 due to early water production and are now scheduled for plugging and abandonment. In addition, our High Island Block A-540 well was shut in during the second quarter of 2008, due to a plugged flowline, which management has determined uneconomic to repair.

Oil production during the second quarter of 2009 totaled 263,000 barrels and generated $19.0 million in revenues compared to 286,000 barrels and $28.6 million in revenues for the same period in 2008. The average oil price received after hedging impact in the second quarter of 2009 was $72.22 per barrel compared to $99.99 per barrel in the second quarter of 2008. The 8% decrease in 2009 production was attributable to normal and expected declines in production and our High Island Block A-540, described above.

Lease Operating Expenses

Lease operating expenses were $4.7 million for the three-month period ended June 30, 2009, a 4% decrease when compared to the same period in 2008. The decrease was primarily due to a lower number of producing wells. Four of our gas wells were shut-in during 2008 due to early water production and are now scheduled for plugging and abandonment. In addition, our High Island Block A-540 well was shut in during the second quarter of 2008, due to a plugged flowline, which management determined uneconomic to repair.

Depreciation, Depletion and Amortization

Depreciation, depletion and amortization for the three-month period ended June 30, 2009 and 2008 was $8.5 million and $15.2 million, respectively. The 44% decrease was due to lower production volumes as well as a lower depletion rate resulting from the full-cost ceiling writedown which was recorded in the fourth quarter of 2008.

Accretion Expense

Accretion expense was $795,000 and $952,000 for the three-month periods ended June 30, 2009 and 2008 and represents accretion of our asset retirement obligations. See Note 9 to the Consolidated Financial Statements.

General and Administrative

General and administrative expenses, net of amounts capitalized, were $5.4 million and $2.9 million for the three-month period ended June 30, 2009 and 2008, respectively. The 83% increase was primary due to the $2.2 million of nonrecurring expenses for staffing reductions and retirements which were incurred during the second quarter of 2009.

Interest Expense

Interest expense on Callon related debt obligations increased to $4.9 million during the three-month period ended June 30, 2009, compared to $4.4 million during the three-month period ended June 30, 2008. The increase is due to a larger outstanding loan balance for our senior secured credit facility. See Note 4 to the Consolidated Financial Statements for details.

Callon Entrada Non- Recourse Credit Facility Interest Expense

The Callon Entrada non-recourse credit facility incurred interest expense for the three-month periods ended June 30, 2009 and 2008 of $1.9 million and $321,000, respectively. The increase was due to a larger outstanding loan balance for the three-month period ended June 30, 2009 and an increase in the interest rate due to the notice of default received from CIECO on April 2, 2009. See Note 1 to the Consolidated Financial Statements for details.

Loss on Early Extinguishment of Debt

Due to the early extinguishment of the $200 million senior revolving credit facility on April 8, 2008, Callon incurred expenses of $11.9 million consisting of $6.3 million in cash pre-payment penalties plus a non-cash charge of $5.6 million in the second quarter of 2008 related to the amortization expense associated with the deferred financing costs related to the credit facility. See Note 4 to the Consolidated Financial Statements.

Income Taxes

Income tax expense was $24,000 and $2.7 million for the three-month periods ended June 30, 2009 and 2008, respectively. We established a valuation allowance of $174 million as of December 31, 2008. We revised the valuation allowance in the second quarter of 2009 as a result of current year ordinary income, the impact of which is included in our effective tax rate. See Note 8 to the Consolidated Financial Statements.

Comparison of Results of Operations for the Six Months Ended June 30, 2009 and the Six Months Ended June 30, 2008.

Oil and Gas Production and Revenues

Total oil and gas revenues were $49.8 million in the first six-months of 2009 compared to $93.0 million in the same period in 2008. Total production on an equivalent basis during the six-month period ended June 30, 2009 decreased by 17% compared to the six-month period ended June 30, 2008 and oil and gas prices on a Mcfe basis for the same period of 2009 decreased 36% compared to 2008.

Gas production during the first half of 2009 totaled 2.9 billion cubic feet (Bcf) and generated $14.9 million in revenues compared to 3.8 Bcf and $39.3 million in revenues during the same period in 2008. The average gas price after hedging impact for the six-month period ended June 30, 2009 was $5.18 per Mcf compared to $10.46 per Mcf for the same period in 2008. Approximately 21% of the 24% decrease in 2009 production was due to a lower number of producing wells, with the remaining 3% resulting from normal and expected declines in production from our older properties. Four of our gas wells were shut-in during 2008 due to early water production and are now scheduled for plugging and abandonment. In addition, our High Island Block A-540 well was shut in during the second quarter of 2008, due to a plugged flowline, which management has determined uneconomic to repair.

Oil production during the six-months ended June 30, 2009 totaled 526,000 barrels and generated $34.9 million in revenues compared to 575,000 barrels and $53.7 million in revenues for the same period in 2008. The average oil price received after hedging impact for the six-month period ended June 30, 2009 was $66.39 per barrel compared to $93.27 per barrel during the same period in 2008. The 9% decrease in 2009 production was attributable to normal and expected declines in production and our High Island Block A-540, described above.

Lease Operating Expenses

Lease operating expenses were $8.7 million for the six-month period ended June 30, 2009, a 13% decrease when compared to the same period in 2008. The decrease was primarily due to a lower number of producing wells. Four of our gas wells were shut-in during 2008 due to early water production and are now scheduled for plugging and abandonment. In addition, our High Island Block A-540 well was shut in during the second quarter of 2008, due to a plugged flowline, which management determined uneconomic to repair.

Depreciation, Depletion and Amortization

Depreciation, depletion and amortization for the six-month period ended June 30, 2009 and 2008 was $17.9 million and $30.2 million, respectively. The 41% decrease was due to lower production volumes as well as a lower depletion rate resulting from the full-cost ceiling writedown which was recorded in the fourth quarter of 2008.

Accretion Expense

Accretion expense was $1.8 million and $2.0 million for the six-month periods ended June 30, 2009 and 2008 and represents accretion of our asset retirement obligations. See Note 9 to the Consolidated Financial Statements.

General and Administrative

General and administrative expenses, net of amounts capitalized, were $7.2 million and $5.6 million for the six-month period ended June 30, 2009 and 2008, respectively. The 29% increase was primarily due to the $2.2 million of nonrecurring expenses for staffing reductions and retirements. The increase was slightly offset by the adjustment recorded in the first quarter for 75% of the incentive compensation pool which was not awarded, due to current industry conditions and its impact on our recent performance.

Interest Expense

Interest expense due to Callon related debt obligations decreased to $9.6 million during the six-month period ended June 30, 2009, compared to $14.4 million during the six-month period ended June 30, 2008. The 33% decrease was due to the retirement in April 2008 of the $200 million senior revolving credit facility associated with the Entrada acquisition. See Note 4 to the Consolidated Financial Statements for details.

Callon Entrada Non- Recourse Credit Facility Interest Expense

Callon Entrada non-recourse credit facility incurred interest expense for the six-month periods ended June 30, 2009 and 2008 of $3.5 million and $321,000, respectively. The increase was due to a larger outstanding loan balance for the six-month period ended June 30, 2009 and an increase in the interest rate due to the notice of default received from CIECO on April 2, 2009. See Note 1 to the Consolidated Financial Statements for details.

Loss on Early Extinguishment of Debt

Due to the early extinguishment of the $200 million senior revolving credit facility on April 8, 2008, Callon incurred expenses of $11.9 million consisting of $6.3 million in cash pre-payment penalties plus a non-cash charge of $5.6 million in the second quarter of 2008 related to the amortization expense associated with the deferred financing costs related to the credit facility. See Note 4 to the Consolidated Financial Statements.

Income Taxes

Income tax expense was zero and $6.8 million for the six-month periods ended June 30, 2009 and 2008, respectively. We established a valuation allowance of $174 million as of December 31, 2008. We revised the valuation allowance in the second half of 2009 as a result of current year ordinary income, the impact of which is included in our effective tax rate. See Note 8 to the Consolidated Financial Statements.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Commodity Price Risk

The Company's revenues are derived from the sale of its crude oil and natural gas production. The prices for oil and gas remain extremely volatile and sometimes experience large fluctuations as a result of relatively small changes in supply, weather conditions, economic conditions and government actions. From time to time, the Company enters into derivative financial instruments to manage oil and gas price risk.

The Company may utilize fixed price "swaps," which reduce the Company's exposure to decreases in commodity prices and limit the benefit the Company might otherwise have received from any increases in commodity prices.

The Company may utilize price "collars" to reduce the risk of changes in oil and gas prices. Under these arrangements, no payments are due by either party as long as the market price is above the floor price and below the ceiling price set in the collar. If the price falls below the floor, the counter-party to the collar pays the difference to the Company, and if the price rises above the ceiling, the counter-party receives the difference from the Company.

Callon may purchase "puts" which reduce the Company's exposure to decreases in oil and gas prices while allowing realization of the full benefit from any increases in oil and gas prices. If the price falls below the floor, the counter-party pays the difference to the Company.

The Company enters into these various agreements from time to time to reduce the effects of volatile oil and gas prices and does not enter into derivative transactions for speculative purposes. However, certain of the Company's derivative positions may not be designated as hedges for accounting purposes.

See Note 5 to the Consolidated Financial Statements for a description of the Company's outstanding derivative contracts at June 30, 2009.

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. The Company's principal executive and principal financial officers have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) were effective as of June 30, 2009.

There were no changes in the Company's internal control over financial reporting that occurred during the Company's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

CALLON PETROLEUM COMPANY

PART II. OTHER INFORMATION

Item 1A. RISK FACTORS

There have been no material changes from the Risk Factors disclosed in Item 1. of our Annual Report on Form 10-K for the year ended December 31, 2008.

Item 6. EXHIBITS

Exhibits

3. Articles of Incorporation and By-Laws

   3.1 Certificate of Incorporation of the Company, as amended (incorporated by reference from Exhibit 3.1 of the Company's Annual Report on Form 10-K for the year ended December 31, 2003 filed March 15, 2004, File No. 001-14039)

   3.2 Bylaws of the Company (incorporated by reference from Exhibit 3.2 of the Company's Registration Statement on Form S-4, filed August 4, 1994, Reg. No. 33-82408)

4. Instruments defining the rights of security holders, including indentures

   4.1 Specimen Common Stock Certificate (incorporated by reference from Exhibit 4.1 of the Company's Registration Statement on Form S-4, filed August 4, 1994, Reg. No. 33-82408)

   4.2 Rights Agreement between Callon Petroleum Company and American Stock Transfer & Trust Company, Rights Agent, dated March 30, 2000 (incorporated by reference from Exhibit 99.1 of the Company's Registration Statement on Form 8-A, filed April 6, 2000, File No. 001- 14039)

   4.3 Form of Warrant entitling certain holders of the Company's 10.125% Senior Subordinated Notes due 2002 to purchase common stock from the Company (incorporated by reference to Exhibit 4.13 of the Company's Form 10-Q for the period ended June 30, 2002, File No. 001-14039)

   4.4 Form of Warrants dated December 8, 2003 and December 29, 2003 entitling lenders under the Company's $185 million amended and restated Senior Unsecured Credit Agreement, dated December 23, 2003, to purchase common stock from the Company (incorporated by reference to Exhibit 4.14 of the Company's Annual Report on Form 10-

K for the year ended December 31, 2003, File No. 001-14039)

4.5 Indenture for the Company's 9.75% Senior Notes due 2010, dated March 15, 2004, between Callon Petroleum Company and American Stock Transfer & Trust Company (incorporated by reference to Exhibit 4.16 of the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2004, File No. 001-14039)

4.6 Supplemental Indenture dated April 4, 2008 (incorporated by reference to Exhibit 10.1 of the Company's Report on Form 8-K filed on April 9, 2008)

10. Material Contracts

10.1 Callon Petroleum Company Nonqualified Stock Option Award Agreement, dated June 1, 2009, between Callon Petroleum Company and Steven B. Hinchman

10.2 Callon Petroleum Company Performance Share Award Agreement, dated June 1, 2009, between Callon Petroleum Company and Steven B. Hinchman

31. Certifications

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32. Section 1350 Certifications

32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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: August 10, 2009

By: /s/ B.F. Weatherly
B.F. Weatherly, Executive Vice-President
and Chief Financial Officer

Exhibit Index

Exhibit Number **Title of Document**

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Exhibit 10.1

CALLON PETROLEUM COMPANY
NONQUALIFIED STOCK OPTION AWARD AGREEMENT

THIS NONQUALIFIED STOCK OPTION AWARD AGREEMENT (this "**Agreement**") is entered into this 1st day of June, 2009, between Callon Petroleum Company, a Delaware corporation (the "**Company**") and Steven B. Hinchman ("**Grantee**"), an employee of the Company. The Compensation Committee of the Company (the "**Committee**") has this day authorized the grant of the option set forth below to Grantee.

NOW, THEREFORE, in consideration of the mutual covenants herein contained, the parties do hereby agree as follows:

1. **Grant of Option**. Subject to all of the terms, conditions and provisions of this Agreement, the Company hereby grants to Grantee a nonqualified stock option (the "**Option**") pursuant to which Grantee shall have the right and option to purchase from the Company all or any part of an aggregate of 500,000 shares of the common stock of the Company, $.01 par value per share (the "**Common Stock**"), which shares shall consist of authorized but unissued shares or issued shares reacquired by the Company. The Option is intended to comply with the provisions governing nonqualified stock options under the final Treasury Regulations issued on April 17, 2007, in order to exempt the Option from application of Section 409A of the Internal Revenue Code of 1986, as amended (the "**Code**").

2. **Option Price**. The option or purchase price payable by Grantee to the Company in exercise of the Option shall be $2.755 per share, being the average opening and closing price of the Common Stock of the Company on this date (the "**Grant Date**"). Upon exercise of the Option, the Grantee shall pay to the Company, in full, the option price for the shares of Common Stock issuable pursuant to such exercise with cash or Common Stock (valued at fair market value on the date of such exercise). For purposes of exercise of the Option, fair market value shall mean the closing price of the Common Stock of the Company on the date of exercise.

3. **Vesting**. Subject to paragraphs (4), (5), (6), (7), (8), (9), and (10) hereof, Grantee shall be eligible to exercise that portion of the Option becoming vested pursuant to the vesting schedule set forth below:

(a) 166,666 of the gross option shares on such date that the Company's Common Stock closes above $5.00 per share on the NYSE for a period of twenty (20) consecutive trading days;

(b) 166,667 of the gross option shares on such date that the Company's Common Stock closes above $10.00 per share on the NYSE for a period of twenty (20) consecutive trading days; and

(c) 166,667 of the gross option shares on such date that the Company's Common Stock closes above $15.00 per share on the NYSE for a period of twenty (20) consecutive trading days.

4. **Change in Control**. Notwithstanding paragraph (3) hereof, upon a Change in Control, all unvested portions of the Option shall automatically vest. For purposes hereof, a "**Change in Control**" shall have occurred if any of the following occur:

(a) Change in Ownership. A change in ownership of the Company occurs on the date that any "Person" (as defined in below), other than (1) the Company or any of its subsidiaries, (2) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any of its Affiliates, (3) an underwriter temporarily holding stock pursuant to an offering of such stock, or (4) a corporation owned, directly or indirectly, by the shareholders of the Company in substantially the same proportions as their ownership of the Company's stock, acquires ownership of the Company's stock that, together with stock held by such Person, constitutes more than fifty percent (50%) of the total fair market value or total voting power of the Company's stock. However, if any Person is considered to own already more than fifty percent (50%) of the total fair market value or total voting power of the Company's stock, the acquisition of additional stock by the same Person is not considered to be a Change of Control; or

(b) Change in Effective Control. Even though the Company may not have undergone a change in ownership under paragraph (a) above, a change in the effective control of the Company occurs on the date during any twelve (12) month period when a majority of members of the Board of Directors (the "**Board**") is replaced by directors whose appointment or election is not endorsed by a majority of the Board before the date of the appointment or election; provided, however, that any such director shall not be considered to be endorsed by the Board if his or her initial assumption of office occurs as a result of an actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or

(c) Change in Ownership of Substantial Portion of Assets. A change in the ownership of a substantial portion of the Company's assets occurs on the date that a Person acquires (or has acquired during the twelve (12) month period ending on the date of the most recent acquisition by such Person) assets of the Company, that have a total gross fair market value equal to at least eighty percent (80%) of the total gross fair market value of all of the Company's assets immediately before such acquisition or acquisitions. However, there is no Change in Control when there is such a transfer to an entity that is controlled by the shareholders of the Company immediately after the transfer, through a transfer to (i) a shareholder of the Company (immediately before the asset transfer) in exchange for or with respect to the Company's stock; (ii) an entity, at least fifty percent (50%) of the total value or voting power of the stock of which is owned, directly or indirectly, by the Company; (iii) a Person that owns directly or indirectly, at least fifty percent (50%) of the total value or voting power of the Company's outstanding stock; or (iv) an entity, at least fifty percent (50%) of the total value or voting power of the stock of which is owned by a Person that owns, directly or indirectly, at least fifty percent (50%) of the total value or voting power of the Company's outstanding stock.

For purposes of this paragraph (4),

(i) "**Person**" shall have the meaning given in Section 7701(a)(1) of the Code. Person shall include more than one Person acting as a group as defined by the final Treasury Regulations issued under Section 409A of the Code.

(ii) "**Affiliate**" shall have the meaning set forth in Rule 12b-2 promulgated under Section 12 of the Securities Exchange Act of 1934, as amended.

The provisions of this paragraph (4) shall be interpreted in accordance with the requirements of the final Treasury Regulations issued under Section 409A of the Code, it being the intent of the parties that this paragraph (4) shall be in compliance with the requirements of said Section of the Code and said Regulations.

5. **Termination of Employment upon Death**. Notwithstanding paragraph (3) hereof, in the event Grantee's employment with the Company is terminated due to the death of Grantee, the Option granted pursuant to this Agreement shall be deemed to be one hundred percent (100%) vested on the date of death and may be exercised by Grantee's estate, or by a person who acquires the right to exercise such Option by bequest or inheritance or by reason of the death of Grantee, provided that such option exercise occurs within the earlier of (i) the remaining term of the Option under paragraph (12), and (ii) one (1) year after Grantee's death.

6. **Termination of Employment upon Disability or Retirement**. Notwithstanding paragraph (3) hereof, in the event Grantee's employment with the Company is terminated due to the Disability or Retirement of Grantee, all unvested portions of the Option granted pursuant to this Agreement shall automatically vest and become freely exercisable. For purposes hereof, "**Disability**" of Grantee shall be the physical or mental inability of Grantee to carry out the normal and usual duties of his employment on a full-time basis for an entire period of six (6) continuous months together with the reasonable likelihood as determined by the Board (excluding Grantee) of the Company that Grantee, upon the advice of a qualified physician, will be unable to carry out the normal and usual duties of his employment. For purposes hereof,

“**Retirement**” shall be the voluntary termination of employment from the Company on any date after Grantee attains the normal retirement age of seventy (70) years.

7. **Termination of Employment for Good Reason**. Notwithstanding paragraph (3) hereof, in the event Grantee’s employment with the Company is terminated for Good Reason, all unvested portions of the Option shall automatically vest and shall be exercisable until the earlier of (a) the remaining term of the Option under paragraph (12), and (b) one (1) year following the effective date of termination. For purposes hereof, “**Good Reason**” shall mean: (i) Grantee is assigned any responsibilities or duties materially inconsistent with his position, duties, responsibilities and status with the Company as in effect at the date of this Agreement or subsequent thereto; or his title or offices as in effect at the date of this Agreement or as Grantee may be appointed or elected by the Chief Executive Officer or Board in the future are changed; or Grantee is required to report to or be directed by any person other than the Chief Executive Officer and the Board; (ii) there is a reduction in the salary of Grantee (as such salary shall have been increased from time to time) payable to Grantee; (iii) failure by the Company or any successor to the Company or its assets to continue to provide to Grantee any material benefit, bonus, profit sharing, incentive, remuneration or compensation plan, stock ownership or purchase plan, stock option plan, life insurance, disability plan, pension plan or retirement plan in which Grantee was entitled to participate in as at the date of this Agreement or subsequent thereto, or the taking by the Company of any action that materially and adversely affects Grantee’s participation in or materially reduces his rights or benefits under or pursuant to any such plan or the failure by the Company to increase or improve such rights or benefits on a basis consistent with practices in effect prior to the date of this Agreement or with practices implemented subsequent to the date of this Agreement with respect to the executive employees of the Company generally, whichever is more favorable to Grantee, but excluding such action that is required by law; (iv) without Grantee’s consent, the Company requires Grantee to relocate to any city or community other than one within a fifty (50) mile radius of Natchez, Mississippi or Houston, Texas, except for required travel on the Company’s business to an extent substantially consistent with Grantees’ business obligations under this Agreement; (v) a failure by the Company to comply with any material provision of this Agreement which has not been cured within ten (10) days after notice of such noncompliance has been given by Grantee to the Company; (vi) there is a Change in Control; or (vii) any purported termination of Grantee’s employment with the Company which is not effected pursuant to a Notice of Termination satisfying the requirements of paragraph (11) hereof (and for purposes of this Agreement, no such purported termination shall be effective).

8. **Termination of Employment for Cause**. Notwithstanding paragraph (3) hereof, if Grantee’s employment is terminated for “Cause,” upon written Notice of Termination for Cause given by the Company to Grantee, the Option granted hereunder shall terminate and Grantee shall no longer have the right and option to purchase from the Company any vested or unvested portion of the Option. As used herein, “**Cause**” shall mean any of the following events: (i) willful misconduct

or intentional and continual neglect of duties which in the business judgment of the Board (excluding Grantee) has materially adversely affected the Company; provided, however, that Grantee shall have first received written notice from such Board advising Grantee of the acts or omissions that constitute the misconduct or neglect of duties, and such misconduct or neglect of duties continues after Grantee shall have had a reasonable opportunity to correct the same; (ii) the commission by Grantee of an act of fraud or embezzlement; (iii) the commission by Grantee of any other action with the intent to injure the Company; (iv) theft or conviction of a felony or any crime involving dishonesty or moral turpitude; (v) Grantee having misappropriated the property of the Company; (vi) Grantee having willfully violated any law or regulation relating to the business of the Company which results in material injury to the Company; or (vii) willful and continual failure or refusal to substantially perform employment duties (other than any such failure resulting from Grantee's incapacity due to physical or mental illness); provided, however, that Grantee shall have first received written notice from the Board advising Grantee of the acts or omissions that constitute the failure or refusal to substantially perform duties, and such failure or refusal continues after Grantee shall have had a reasonable opportunity to correct the same. Termination for Cause shall require the vote of a majority of the members of the Company's Board of Directors.

For purposes of this paragraph, no act, or failure to act, on Grantee's part shall be considered "**willful**" unless done, or omitted to be done, by him not in good faith and without reasonable belief that his action or omission was in the best interest of the Company. Notwithstanding the foregoing, Grantee shall not be deemed to have been terminated for cause without (i) reasonable notice to Grantee setting forth the reasons for the Company's intention to terminate for cause, (ii) an opportunity for Grantee, together with his counsel, to be heard before the Board, and (iii) delivery to Grantee of a Notice of Termination as defined in paragraph (11) hereof from the Board finding that in the good faith opinion of the Board, Grantee was guilty of conduct set forth above in clause (i), (ii), (iii), (iv), (v), (vi), or (vii) of the preceding paragraph, and specifying the particulars thereof in detail.

9. **Termination of Employment for Other Reasons.** Notwithstanding paragraph (3) hereof, if the Grantee's employment with the Company is terminated other than pursuant to paragraphs (5), (6), (7) or (8), all vested portions of the Option shall be exercisable until the earlier of (a) the expiration of the remaining term of the Option under paragraph (12), and (b) thirty (30) days of the date of termination. All unvested portions of the Option shall terminate at the date of termination.

10. **Termination of Employment**. Notwithstanding paragraph (3) hereof, if Grantee's employment with the Company is terminated other than pursuant to paragraphs (5), (6), or (7) hereof, all unvested portions of the Option granted hereunder shall be cancelled, shall not vest and shall be returned to the Company.

11. **Notice of Termination**. Any termination of Grantee's employment by the Company

or by Grantee (other than termination pursuant to paragraph (5) above) shall be communicated by written Notice of Termination to the other party hereto. For purposes of this Agreement, a "**Notice of Termination**" shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Grantee's employment under the provision so indicated.

12. **Exercise Period/Term**. Except as set forth in paragraphs (4), (5), (6), and (7), the Option shall become first exercisable according to the terms of paragraph (3) hereof. The Option may be exercised only if the Common Stock or other securities issuable upon such exercise are duly registered under the Securities Act of 1933 and applicable state securities laws, or unless the issuance is exempt from such registrations. Any portion of the Option that remains unexercised after the tenth (10^{th}) anniversary of the grant shall expire.

13. **Manner of Exercise**. Subject to such administrative regulations as the Board may from time to time adopt, the Option may be exercised by the delivery of written notice to the Board setting forth the number of shares of Common Stock with respect to which the Option is to be exercised, the date of exercise thereof (the "**Exercise Date**"), which shall be at least three (3) days after giving such notice unless an earlier time shall have been mutually agreed upon. On the Exercise Date, Grantee shall deliver to the Company consideration with a value equal to the total option price of the shares to be purchased, payable as follows: (a) cash, check, bank draft, or money order payable to the order of the Company; (b) Common Stock owned by Grantee on the Exercise Date, valued at its fair market value on the Exercise Date, and which Grantee has not acquired from the Company within six (6) months prior to the Exercise Date; and/or (c) in any other form of valid consideration that is acceptable to the Board in its sole discretion.

Upon payment of all amounts due from Grantee, the Company shall cause certificates for the optioned shares then being purchased to be delivered to Grantee at its principal business office within ten (10) business days after the Exercise Date.

If Grantee fails to pay for any of the optioned shares specified in such notice or fails to accept delivery thereof, then the Option, and right to purchase such optioned shares may be forfeited at the election, and in the sole discretion, of the Company.

14. **Who May Exercise**. Subject to the terms and conditions set forth in paragraphs (5) and (6) above, the Option may be exercised only by Grantee, or by Grantee's guardian or personal or legal representative, during the lifetime of the Grantee.

15. **No Fractional Shares**. The Option may be exercised only with respect to full shares, and no fractional share of stock shall be issued.

16. **Adjustment of Number of Optioned Shares and Related Matters**.

(a) In the event of any change in the outstanding Common Stock by reason of a stock dividend or distribution, recapitalization, merger, consolidation, split-up, combination, exchange of shares or the like, the Board in its sole discretion may appropriately adjust the number of shares of Common Stock subject to the Option, and any and all other matters deemed appropriate by the Board, including the option price and the types of securities subject to the Option.

(b) The existence of this Agreement shall not affect in any way the right or power of the Company or its stockholders to make or authorize any or all adjustments, recapitalizations, reorganizations or other changes in the Company's capital structure or its business, or any merger or consolidation of the Company, or any issue of bonds, debentures, preferred or prior preference stock ahead of or affecting the Common Stock or the rights thereof, or the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise.

(c) If, while the Option is outstanding, the Company shall effect a subdivision or consolidation of shares or other increase or reduction in the number of shares of the Common Stock outstanding without receiving compensation therefor in money, services or property, then, subject to the provisions, if any, in this Agreement (a) in the event of an increase in the number of such shares outstanding, the number of shares of Common Stock then subject to the Option hereunder shall be proportionately increased; and (b) in the event of a decrease in the number of such shares outstanding the number of shares then available for the Option hereunder shall be proportionately decreased.

(d) After a merger of one or more corporations into the Company, or after a consolidation of the Company and one or more corporations in which the Company shall be the surviving corporation, Grantee shall, at no additional cost, be entitled upon exercise of the Option to receive (subject to any required action by stockholders) in lieu of the number of shares as to which the Option shall then be so exercisable, the number and class of shares of stock, other securities or consideration to which Grantee would have been entitled to receive pursuant to the terms of the agreement of merger or consolidation if, immediately prior to such merger or consolidation, Grantee had been the holder of record of a number of shares of the Company equal to the number of shares as to which the Option had been exercisable.

(e) If the Company has a Change in Control (as defined above) under circumstances where the Company is not the surviving corporation, while the Option remains outstanding and unexercised, then the Board may direct that any of the following shall occur:

(i) If the successor entity is willing to assume the obligation to deliver shares of stock or other securities after the effective date of the Change in Control, Grantee shall be entitled to receive, upon the exercise of the Option and payment of the option price, in lieu of shares of Common Stock, such shares of stock or other securities as Grantee would have been entitled to receive had the Option been exercised immediately prior to the Change in Control, and the terms of the Option shall apply as nearly as practicable to the shares of stock or other securities purchasable upon exercise of the Option following such Change in Control;

(ii) The Board may waive any limitations set forth in or imposed pursuant to this Agreement with respect to the Option such that the Option shall become exercisable prior to the record or effective date of such Change in Control; and/or

(iii) The Board may cancel the Option as of the effective date of any such Change in Control provided that prior notice of such cancellation shall be given to Grantee at least thirty (30) days prior to the effective date of such Change in Control, and Grantee shall have the right to exercise the Option in full during a period of not less than thirty (30) days prior to the effective date of such Change in Control.

(f) Except as herein provided, the issuance by the Company of Common Stock or any other shares of capital stock or securities convertible into shares of capital stock, for cash, property, labor done or other consideration, shall not affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock then subject to the Option.

17. **No Employment Commitment**. Grantee acknowledges that neither the grant of the Option nor the execution of this Agreement by the Company shall be interpreted or construed as imposing upon the Company an obligation to retain his services for any stated period of time, which employment shall continue to be at the pleasure of the Company at such compensation as it shall determine, unless otherwise provided in a written employment agreement.

18. **Non-Transferability**. The Option granted hereunder is not transferable or assignable by Grantee except by will or the laws of descent and distribution.

19. **Grantee's Agreement**. Grantee expressly and specifically agrees that:

(a) With respect to the calendar year in which any portion of the Option is exercised, Grantee shall include in his gross income for federal income tax purposes the amount, if any, by which the fair market value (as determined by the Board, in its sole discretion) of the stock issuable on the Exercise Date exceeds the option price; and

(b) The grant of the Option is special incentive compensation which shall not be taken into account as "wages" or "salary" in determining the amount of payment or benefit to Grantee under any pension, thrift, stock or deferred compensation plan of the Company; and

(c) On behalf of Grantee's beneficiary, such grant shall not affect the amount of any life insurance coverage available to such beneficiary under any life insurance plan covering employees of the Company.

20. **Rights as Shareholder**. Grantee will have no rights as a shareholder with respect to any shares covered by the Option until the issuance of a certificate or certificates to Grantee for the optioned shares. Grantee, by his execution of this Agreement, agrees to execute any documents requested by the Company in connection with the issuance of a certificate or certificates for the optioned shares. Except as otherwise provided in paragraph (16) hereof, no adjustment shall be made for dividends or other rights for which the record date is prior to the issuance of such certificate or certificates.

21. **Grantee's Representations**. Notwithstanding any of the provisions hereof, Grantee hereby agrees that he will not exercise the Option granted hereby, and that the Company will not be obligated to issue any shares to Grantee hereunder, if the exercise thereof or the issuance of such shares shall constitute a violation by Grantee or the Company of any provision of any law or regulation of any governmental authority. Any determination in this connection by the Company shall be final, binding, and conclusive. The obligations of the Company and the rights of Grantee are subject to all applicable laws, rules, and regulations.

22. **Grantee's Acknowledgments**. Grantee hereby accepts the Option subject to all the terms and provisions hereof. Grantee hereby agrees to accept as binding, conclusive, and final all decisions or interpretations of the Committee or the Board, as appropriate, upon any questions arising under this Agreement.

23. **Law Governing**. This Agreement shall be governed by, construed, and enforced in accordance with the laws of the State of Delaware (excluding any conflict of laws rule or principle of Delaware law that might refer the governance, construction, or interpretation of this agreement to the laws of another state).

24. **Legal Construction**. In the event that any one or more of the terms, provisions, or agreements that are contained in this Agreement shall be held by any arbitrator to be invalid, illegal, or unenforceable in any respect for any reason, the invalid, illegal, or unenforceable term, provision, or agreement shall not affect any other term, provision, or agreement that is contained in this Agreement and this Agreement shall be construed in all respects as if the invalid, illegal, or unenforceable term, provision, or agreement had never been contained herein.

25. **Covenants and Agreements as Independent Agreements**. Each of the covenants and agreements that are set forth in this Agreement shall be construed as a covenant and agreement independent of any other provision of this Agreement. The existence of any claim or cause of action of Grantee against the Company, whether predicated on this Agreement or otherwise, shall not constitute a defense to the enforcement by the Company of the covenants and agreements that are set forth in this Agreement.

26. **Entire Agreement**. This Agreement supersedes any and all other prior understandings and agreements, either oral or in writing, between the parties with respect to the subject matter hereof and constitute the sole and only agreements between the parties with respect to the said subject matter. All prior negotiations and agreements between the parties with respect to the subject matter hereof are merged into this Agreement. Each party to this Agreement acknowledges that no representations, inducements, promises, or agreements, orally or otherwise, have been made by any party or by anyone acting on behalf of any party, which are not embodied in this Agreement and that any agreement, statement or promise that is not contained in this Agreement shall not be valid or binding or of any force or effect.

27. **Parties Bound**. The terms, provisions, and agreements that are contained in this Agreement shall apply to, be binding upon, and inure to the benefit of the parties and their respective heirs, executors, administrators, legal representatives, and permitted successors and assigns, subject to the limitation on assignment expressly set forth herein.

28. **Modification**. No change or modification of this Agreement shall be valid or binding upon the parties unless the change or modification is in writing and signed by the parties.

29. **Headings**. The headings that are used in this Agreement are used for reference and convenience purposes only and do not constitute substantive matters to be considered in construing the terms and provisions of this Agreement.

30. **Gender and Number**. Words of any gender used in this Agreement shall be held and construed to include any other gender, and words in the singular number shall be held to include the plural, and vice versa, unless the context requires otherwise.

31. **Notice**. Any notice or other communication required or given hereunder shall be in writing and shall be deemed to have been effectively given only if delivered personally or sent by certified or registered mail, postage prepaid, to the Company at its principal office and to Grantee at his address as listed on the Company's records or to such other address as the parties shall designate in writing.

32. **Tax Requirements**. The Company makes no commitment or guarantee that any federal, state or local, tax treatment, United States or foreign, will apply or be available to Grantee. Grantee is hereby advised to consult immediately with his own tax advisor regarding the tax consequences of this Agreement, including, without limitation, any possible tax consequences of this Agreement in connection with Section 409A of the Code. The Company shall have the power and the right to deduct or withhold, or require Grantee to remit to the Company, an amount sufficient to satisfy any federal, state, and local taxes, domestic or foreign, required by law or regulations to be withheld with respect to any taxable event arising in connection with the Option. With respect to tax withholding required upon the exercise of the Option, or upon any other taxable event arising as a result of the Option, Grantee may elect, subject to the approval of the Company in its discretion, to satisfy the withholding requirement, in whole or in part, by having the Company withhold the number of shares having a fair market value on the date the tax is to be determined equal to the minimum withholding taxes which could be imposed on the transaction, as determined by the Company. All such elections shall be made in writing, signed by Grantee, and shall be subject to any restrictions or limitations that the Company, in its discretion, deems appropriate. The Company, in its discretion, may require that any payments due under this paragraph (32) be made prior to the delivery of any certificate representing shares of Common Stock. The Company may, in its sole discretion, withhold any taxes due in connection with the Option from any other cash remuneration otherwise paid by the Company to Grantee.

IN WITNESS WHEREOF, this Agreement is executed and entered into effective on the day and year first above expressed.

ATTEST:

By: /s/ Robert A. Mayfield
Robert A. Mayfield
Corporate Secretary

CALLON PETROLEUM COMPANY

By: /s/ Fred L. Callon
Fred L. Callon
Chief Executive Officer

GRANTEE

/s/ Steven B. Hinchman
Steven B. Hinchman

Exhibit 10.2

CALLON PETROLEUM COMPANY
PERFORMANCE SHARE AWARD AGREEMENT

THIS AGREEMENT is entered into this 1st day of June, 2009, between Callon Petroleum Company, a Delaware corporation (the "**Company**") and Steven B. Hinchman ("**Grantee**"), an employee of the Company. The Compensation Committee (the "**Committee**") of the Company has authorized the grant of shares of common stock of the Company, par value $0.01 per share ("**Shares**"), set forth below to Grantee.

NOW, THEREFORE, in consideration of the mutual covenants herein contained, the parties do hereby agree as follows:

1. **Grant**. Subject to all of the terms, conditions and provisions of this Agreement, the Company hereby grants 100,000 Shares (the "**Time Shares**") and 100,000 Shares (the "**Performance Shares**") of common stock. Shares issued shall consist of authorized but unissued shares or issued shares of common stock reacquired by the Company. The Company will issue only such number of shares of the Company net of the number of shares sufficient to satisfy tax withholding requirements valued at the average of the opening and closing NYSE market price on the date of vesting unless Grantee elects to pay such withholdings in cash on terms acceptable to the Company.

2. **Time Shares Vesting**. Subject to paragraphs (4), (5), (6), and (7) hereof, the Time Shares shall vest 100% and become freely tradable on the fourth anniversary following the award date, provided that Grantee maintains continuous employment through such anniversary date. If the Company terminates Grantee's employment without Cause prior to such fourth anniversary date, the Time Shares will vest in proportion to such elapsed time from the award date to the termination date.

3. **Performance Shares Adjustment.** The Performance Shares shall be subject to an adjustment in accordance with the procedures and calculations as explained in Exhibit A attached to and deemed a part of this Agreement (the "**Adjusted Performance Shares**").

4. **Change in Control**. Notwithstanding paragraph (2) and (3) hereof, upon involuntary termination of employment (other than for "Cause", as defined herein) within twenty-four (24) months immediately following a Change in Control, all unvested portions of the Time Shares shall automatically vest and the Performance Shares shall be adjusted in accordance with the peer company comparison from the date of this award to the date of termination. For purposes hereof, a "**Change in Control**" shall have occurred if any of the following occur:

(a) Change in Ownership. A change in ownership of the Company occurs on the date that any "Person" (as defined in below), other than (1) the Company or any of its subsidiaries, (2) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any of its Affiliates, (3) an underwriter temporarily holding stock pursuant to an offering of such stock, or (4) a corporation owned, directly or indirectly, by the shareholders of the Company in substantially the same proportions as their ownership of the Company's stock, acquires ownership of the Company's stock that, together with stock held by such Person, constitutes more than fifty percent (50%) of the total fair market value or total voting power of the Company's stock. However, if any Person is considered to own already more than fifty percent (50%) of the total fair market value or total voting power of the Company's stock, the acquisition of additional stock by the same Person is not considered to be a Change of Control; or

(b) Change in Effective Control. Even though the Company may not have undergone a change in ownership under paragraph (a) above, a change in the effective control of the Company occurs on the date during any twelve (12) month period when a majority of members of the Board of Directors (the "**Board**") is replaced by directors whose appointment or election is not endorsed by a majority of the Board before the date of the appointment or election; provided, however, that any such director shall not be considered to be endorsed by the Board if his or her initial assumption of office occurs as a result of an actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or

(c) Change in Ownership of Substantial Portion of Assets. A change in the ownership of a substantial portion of the Company's assets occurs on the date that a Person acquires (or has acquired during the twelve (12) month period ending on the date of the most recent acquisition by such Person) assets of the Company, that have a total gross fair market value equal to at least eighty percent (80%) of the total gross fair market value of all of the Company's assets immediately before such acquisition or acquisitions. However, there is no Change in Control when there is such a transfer to an entity that is controlled by the shareholders of the Company immediately after the transfer, through a transfer to (i) a shareholder of the Company (immediately before the asset transfer) in exchange for or with respect to the Company's stock; (ii) an entity, at least fifty percent (50%) of the total value or voting power of the stock of which is owned, directly or indirectly, by the Company; (iii) a Person that owns directly or indirectly, at least fifty percent (50%) of the total value or voting power of the Company's outstanding stock; or (iv) an entity, at least fifty percent (50%) of the total value or voting power of the stock of which is owned by a Person that owns, directly or indirectly, at least fifty percent (50%) of the total value or voting power of the Company's outstanding stock.

For purposes of this paragraph (4),

(i) “**Person**” shall have the meaning given in Section 7701(a)(1) of the Internal Revenue Code of 1986, as amended (the “**Code**”). Person shall include more than one Person acting as a group as defined by the final Treasury Regulations issued under Section 409A of the Code.

(ii) “**Affiliate**” shall have the meaning set forth in Rule 12b-2 promulgated under Section 12 of the Securities Exchange Act of 1934, as amended.

The provisions of this paragraph (4) shall be interpreted in accordance with the requirements of the final Treasury Regulations issued under Section 409A of the Code, it being the intent of the parties that this paragraph (4) shall be in compliance with the requirements of said Section of the Code and said Regulations.

5. **Termination of Employment upon Death**. Notwithstanding paragraph (2) hereof, in the event Grantee’s employment with the Company is terminated due to the death of Grantee, all unvested portions of the Time Shares and the Performance Shares shall automatically vest and become freely tradable by Grantee’s estate or by a person who acquires the rights to the Time Shares and the Performance Shares by bequest or inheritance.

6. **Termination of Employment upon Disability or Retirement**. Notwithstanding paragraph (2) hereof, in the event Grantee’s employment with the Company is terminated due to the Disability or Retirement of Grantee, all unvested portions of the Time Shares and the Performance Shares shall automatically vest and become freely tradable. For purposes hereof, “**Disability**” of Grantee shall be the physical or mental inability of Grantee to carry out the normal and usual duties of his employment on a full-time basis for an entire period of six (6) continuous months together with the reasonable likelihood as determined by the Board (excluding Grantee) of the Company that Grantee, upon the advice of a qualified physician, will be unable to carry out the normal and usual duties of his employment. For purposes hereof, “**Retirement**” shall be the voluntary termination of employment from the Company on any date after Grantee attains the normal retirement age of seventy (70) years.

7. **Termination of Employment for Cause**. Notwithstanding paragraph (2) hereof, if Grantee’s employment is terminated for Cause, upon written Notice of Termination for Cause given by the Company to Grantee, all unvested portions of the Time Shares and the Performance Shares granted hereunder shall be cancelled, shall not vest and shall be returned to the Company. As used herein, “**Cause**” shall mean any of the following events: (i) misconduct or neglect of duties which in the business judgment of the Board (excluding Grantee) has adversely affected the Company; (ii) the commission by Grantee of an act of fraud or embezzlement; (iii) the commission by Grantee of

any other action with the intent to injure the Company; (iv) theft or conviction of a felony or any crime involving dishonesty or moral turpitude; (v) Grantee having misappropriated the property of the Company; (vi) Grantee having violated any law or regulation relating to the business of the Company which results in injury to the Company; or (vii) failure or refusal to perform employment duties (other than any such failure resulting from Grantee's incapacity due to physical or mental illness).

Termination for Cause shall require the vote of a majority of the members of the Committee, excluding Grantee.

8. **Involuntary Termination without Cause.** Notwithstanding paragraph (3) hereof, upon involuntary termination of employment without Cause, all unvested portions of the Performance Shares shall be adjusted in accordance with the peer company comparison from the date of this award to the date of termination.

9. **Termination of Employment**. For purposes of paragraphs (4), (5), (6), and (8) hereof, such termination of employment shall constitute a "separation from service" (as such term is defined in final Treasury Regulations issued under Section 409A of the Code and any other guidance issued thereunder). Notwithstanding paragraph (2) hereof, if Grantee's employment with the Company is terminated other than pursuant to paragraphs (4), (5), (6), and (8) hereof, all unvested portions of the Shares granted hereunder shall be cancelled, shall not vest and shall be returned to the Company.

10. **Notice of Termination**. Any termination of Grantee's employment by the Company or by Grantee (other than termination pursuant to paragraph (5) above) shall be communicated by written Notice of Termination to the other party hereto. For purposes of this Agreement, a "**Notice of Termination**" shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon and shall set forth the facts and circumstances to provide a basis for termination of Grantee's employment under the provision so indicated.

11. **No Employment Commitment**. Grantee acknowledges that neither the grant of Time Shares, Performance Shares and if applicable, Adjusted Performance Shares nor the execution of this Agreement by the Company shall be interpreted or construed as imposing upon the Company an obligation to retain his services for any stated period of time, which employment shall continue to be at the pleasure of the Company at such compensation as it shall determine, unless otherwise provided in a written employment agreement.

12. **Non-Transferability, Voting Rights and Dividends**. The unvested portion of the Time Shares, Performance Shares and if applicable, Adjusted Performance Shares granted hereunder may not be sold, assigned, transferred, pledged, or otherwise encumbered. The unvested portion of the Time Shares, Performance Shares and if applicable, Adjusted Performance Shares shall not have

any rights as a stockholder, including the right to dividends, with respect thereto unless and until certificates for shares of common stock are issued to him or her.

13. **Grantee's Agreement.** Grantee expressly and specifically agrees that:

(a) With respect to the calendar year in which the Time Shares, Performance Shares and if applicable, Adjusted Performance Shares vest, Grantee shall include in his gross income for federal income tax the fair market value equal to the average of the opening and closing price NYSE market price of the common stock on the date of vesting;

(b) Unless otherwise specifically provided in a written employment agreement, the grant of Time Shares, Performance Shares and if applicable, Adjusted Performance Shares is special incentive compensation which shall not be taken into account as "wages" or "salary" in determining the amount of payment or benefit to Grantee under any 401(k), pension plan, thrift, stock or deferred compensation plan of the Company, as the case may be; and

(c) On behalf of Grantee's beneficiary, such grant shall not affect the amount of any life insurance coverage available to such beneficiary under any life insurance plan covering employees of the Company or any subsidiary.

14. **Delivery of Shares**. The delivery of Shares which vest under the terms of this Agreement shall be made upon the earlier of: (a) sixty (60) days following the date on which the right to such Shares vests under paragraph (2) hereof, or (iii) the date of Grantee's termination of employment under paragraphs (4), (5), (6), or (8) hereof.

15. **Six Month Delay**. To the extent (i) any delivery of Shares to which Grantee becomes entitled under this Agreement in connection with Grantee's termination of employment with the Company constitute deferred compensation subject to Section 409A of the Code, and (ii) Grantee is deemed at the time of such termination of employment to be a "specified employee" under Section 409A of the Code, then such delivery shall not be made or commence until the earliest of (A) the expiration of the six (6) month period measured from the date of Grantee's "separation from service" (as such term is defined in final Treasury Regulations issued under Section 409A of the Code and any other guidance issued thereunder) with the Company; or (B) the date of Grantee's death following such separation from service. Upon the expiration of the applicable deferral period, any delivery which would have otherwise been made during that period in the absence of this paragraph (15) shall be delivered to Grantee or Grantee's beneficiary. Grantee has reviewed with Grantee's own tax advisors the tax consequences of this Agreement and the transactions contemplated hereby. Grantee is relying solely on his or her tax advisors and not on any statements or representations of the Company or any of its agents and understands that Grantee (and not the Company) shall be responsible for Grantee's own tax

liability that may arise as a result of this Agreement or the transactions contemplated hereby, except as otherwise specifically provided in this Agreement.

16. **Adjustment of Number of Shares and Related Matters**.

(a) In the event of any change in the outstanding common stock by reason of a stock dividend or distribution, recapitalization, merger, consolidation, split-up, combination, exchange of shares or the like, the Board in its sole discretion may appropriately adjust the number of shares of common stock subject to this Agreement, and any and all other matters deemed appropriate by the Board, including the types of securities subject to this Agreement.

(b) The existence of this Agreement shall not affect in any way the right or power of the Company or its stockholders to make or authorize any or all adjustments, recapitalizations, reorganizations or other changes in the Company's capital structure or its business, or any merger or consolidation of the Company, or any issue of bonds, debentures, preferred or prior preference stock ahead of or affecting the common stock or the rights thereof, or the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise.

(c) After a merger of one or more corporations into the Company, or after a consolidation of the Company and one or more corporations in which the Company shall be the surviving corporation, unless otherwise provided by the Board, the number of shares of common stock, other securities or consideration to be received with respect to unvested Shares shall continue to be subject to this Agreement, including vesting provisions thereof.

(d) If the Company has a Change in Control (as defined above) under circumstances where the Company is not the surviving corporation, while unvested Shares remain outstanding, then the Board may waive any limitations set forth in or imposed pursuant to this Agreement with respect to the Shares such that the vesting of such Shares shall occur upon such Change in Control.

17. **Rights as Shareholder**. Grantee will have no rights as a shareholder with respect to any shares covered by this Agreement until the issuance of a certificate or certificates to Grantee for the Shares. Grantee, by his execution of this Agreement, agrees to execute any documents requested by the Company in connection with the issuance of a certificate or certificates for the Shares. Except as otherwise provided in paragraph (16) hereof, no adjustment shall be made for dividends or other rights for which the record date is prior to the issuance of such certificate or certificates.

18. **Grantee's Representations**. Notwithstanding any of the provisions hereof, Grantee hereby agrees that the Company will not be obligated to issue any Shares to Grantee hereunder, if the issuance of such Shares shall constitute a violation by Grantee or the Company of any provision

of any law or regulation of any governmental authority. Any determination in this connection by the Company shall be final, binding, and conclusive. The obligations of the Company and the rights of Grantee are subject to all applicable laws, rules, and regulations.

19. **Grantee's Acknowledgments**. Grantee hereby accepts this Agreement subject to all the terms and provisions hereof. Grantee hereby agrees to accept as binding, conclusive, and final all decisions or interpretations of the Committee or the Board, as appropriate, upon any questions arising under this Agreement.

20. **Law Governing**. This Agreement shall be governed by, construed, and enforced in accordance with the laws of the State of Delaware (excluding any conflict of laws rule or principle of Delaware law that might refer the governance, construction, or interpretation of this agreement to the laws of another state).

21. **Legal Construction**. In the event that any one or more of the terms, provisions, or agreements that are contained in this Agreement shall be held by any arbitrator to be invalid, illegal, or unenforceable in any respect for any reason, the invalid, illegal, or unenforceable term, provision, or agreement shall not affect any other term, provision, or agreement that is contained in this Agreement and this Agreement shall be construed in all respects as if the invalid, illegal, or unenforceable term, provision, or agreement had never been contained herein.

22. **Covenants and Agreements as Independent Agreements**. Each of the covenants and agreements that are set forth in this Agreement shall be construed as a covenant and agreement independent of any other provision of this Agreement. The existence of any claim or cause of action of Grantee against the Company, whether predicated on this Agreement or otherwise, shall not constitute a defense to the enforcement by the Company of the covenants and agreements that are set forth in this Agreement.

23. **Entire Agreement**. This Agreement supersedes any and all other prior understandings and agreements, either oral or in writing, between the parties with respect to the subject matter hereof and constitute the sole and only agreements between the parties with respect to the said subject matter. All prior negotiations and agreements between the parties with respect to the subject matter hereof are merged into this Agreement. Each party to this Agreement acknowledges that no representations, inducements, promises, or agreements, orally or otherwise, have been made by any party or by anyone acting on behalf of any party, which are not embodied in this Agreement and that any agreement, statement or promise that is not contained in this Agreement shall not be valid or binding or of any force or effect.

24. **Parties Bound**. The terms, provisions, and agreements that are contained in this Agreement shall apply to, be binding upon, and inure to the benefit of the parties and their respective

heirs, executors, administrators, legal representatives, and permitted successors and assigns, subject to the limitation on assignment expressly set forth herein.

25. **Modification**. No change or modification of this Agreement shall be valid or binding upon the parties unless the change or modification is in writing and signed by the parties.

26. **Headings**. The headings that are used in this Agreement are used for reference and convenience purposes only and do not constitute substantive matters to be considered in construing the terms and provisions of this Agreement.

27. **Gender and Number**. Words of any gender used in this Agreement shall be held and construed to include any other gender, and words in the singular number shall be held to include the plural, and vice versa, unless the context requires otherwise.

28. **Notice**. Any notice or other communication required or given hereunder shall be in writing and shall be deemed to have been effectively given only if delivered personally or sent by certified or registered mail, postage prepaid, to the Company at its principal office and to Grantee at his address as listed on the Company's records or to such other address as the parties shall designate in writing.

29. **Tax Requirements**. The Company makes no commitment or guarantee that any federal, state or local, tax treatment, United States or foreign, will apply or be available to Grantee. Grantee is hereby advised to consult immediately with his own tax advisor regarding the tax consequences of this Agreement, including, without limitation, any possible tax consequences of this Agreement in connection with Section 409A of the Code. The Company shall have the power and the right to deduct or withhold, or require Grantee to remit to the Company, an amount sufficient to satisfy any federal, state, and local taxes, domestic or foreign, required by law or regulations to be withheld with respect to any taxable event arising in connection with the Shares. With respect to tax withholding required upon the vesting of the Shares, or upon any other taxable event arising as a result of the Shares, Grantee may elect, subject to the approval of the Company in its discretion, to satisfy the withholding requirement, in whole or in part, by having the Company withhold the number of Shares having a fair market value on the date the tax is to be determined equal to the minimum withholding taxes which could be imposed on the transaction, as determined by the Company. All such elections shall be made in writing, signed by Grantee, and shall be subject to any restrictions or limitations that the Company, in its discretion, deems appropriate. The Company, in its discretion, may require that any payments due under this paragraph (29) be made prior to the delivery of any certificate representing shares of common stock. The Company may, in its sole discretion, withhold any taxes due in connection with the Shares from any other cash remuneration otherwise paid by the Company to Grantee.

[Signature page follows]

IN WITNESS WHEREOF, this Agreement is executed and entered into effective on the day and year first above expressed.

ATTEST:

By: /s/ Robert A. Mayfield
Robert A. Mayfield
Corporate Secretary

CALLON PETROLEUM COMPANY

By: /s/ Fred L. Callon
Fred L. Callon
Chief Executive Officer

Agreed to and Accepted
GRANTEE

By: /s/ Steven B. Hinchman
Steven B. Hinchman

Exhibit A
Calculation of
Performance Shares Adjustment

Subject to (2) and (3) below, on June 1, 2012, Callon's "Total Shareholder Return" will be calculated and compared to the same calculated total shareholder return of the selected group of peer companies listed below. The number of Performance Shares awarded will be retroactively adjusted in accordance with payout percentage based on Callon's relative ranking with the peer companies as shown in the table below.

For purposes of this calculation, Callon's total shareholder return and that of the peer companies will be adjusted if necessary for stock splits and the percent increase or decrease will be calculated as follows:

$$\frac{(EP + CD) - BP}{BP} = \%\text{ increase or decrease}$$

Ending price (EP) — equals the average daily closing price on the NYSE during the month of April 2012.

Beginning price (BP) — equals the NYSE closing price on June 1, 2009.

Cash Dividends (CD) — equals the cash dividends paid from June 1, 2009 thru December 31, 2011.

The resulting percentage for Callon and the peer companies will then be ranked. Based on the relative ranking, the number of Performance Shares awarded will be adjusted in accordance with the following table:

Rank	Adjustment
1 or 2	150%
3 or 4	125%
5, 6 or 7	100%
8 or 9	50%
10 or 11	0%

Peer Companies

ATP Oil and Gas Corp.
Energy XXI
Brigham Exploration Co.

Mariner Energy Inc.
Newfield Exploration Co.
Petroquest Energy Inc.
Plains Exploration & Production Co.
Stone Energy Co.
Swift Energy Co.
W & T Offshore Inc.

Vesting provisions applicable to Adjusted Performance Shares:

(1) Subject to (2) and (3) below, Adjusted Performance Shares shall vest 100% and become freely tradable on the third anniversary following the award date.

(2) Upon an involuntary termination of employment (other than for Cause), including an involuntary termination of employment (other than for Cause) within twenty-four (24) months immediately following a Change in Control, or upon Death or termination of employment due to Disability of Grantee, the performance period will end on the effective date of the event and the adjustment described above will be calculated. The Adjusted Performance Shares shall vest 100% and become freely tradable on that date.

(3) Upon Retirement on any date after Grantee attains the normal retirement age of 70 years, the performance period will end on the effective date of the event and the adjustment described above will be calculated. The Adjusted Performance Shares shall vest 100% and become freely tradable on that date.

(4) For purposes of paragraphs (2) and (3) hereof, such termination of employment shall constitute a “separation from service” (as such term is defined in final Treasury Regulations issued under Section 409A of the Code and any other guidance issued thereunder). Notwithstanding paragraph (1) hereof, if Grantee’s employment with the Company is terminated other than pursuant to paragraphs (2) or (3) hereof, all unvested portions of the Adjusted Performance Shares granted hereunder shall be cancelled, shall not vest and shall be returned to the Company.

Note: In the event one or more of the listed peer companies is involved in a merger/acquisition, the named peer company(s) will be adjusted either by replacing said peer company(s) with a suitable replacement or in the event no suitable replacement is determined, said peer company(s) will drop to the bottom of the ranking.

EXHIBIT 31.1

CERTIFICATIONS

I, Fred L. Callon, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Callon Petroleum Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 10, 2009

By: /s/ Fred L. Callon
Fred L. Callon, President and Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

CERTIFICATIONS

I, B.F. Weatherly, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Callon Petroleum Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 10, 2009

By: /s/ B.F. Weatherly

B.F. Weatherly, Executive Vice-President and
Chief Financial Officer (Principal Financial Officer)

EXHIBIT 32.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350**

In connection with the Quarterly Report of Callon Petroleum Company (the "***Company***") on Form 10-Q for the quarterly period ended June 30 2009, as filed with the Securities and Exchange Commission on the date hereof (the "***Report***"), I, Fred L. Callon, Chief Executive Officer and Principal Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 10, 2009

/s/ Fred L. Callon
Fred L. Callon, Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350

In connection with the Quarterly Report of Callon Petroleum Company (the "***Company***") on Form 10-Q for the quarterly period ended June 30, 2009, as filed with the Securities and Exchange Commission on the date hereof (the "***Report***"), I, B.F. Weatherly, Chief Financial Officer and Principal Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 10, 2009

/s/ B.F. Weatherly
B.F. Weatherly, Chief Financial Officer
(Principal Financial Officer)