

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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FORM 10-Q

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

For Quarter Ended September 30, 1999      Commission File Number 0-25192

CALLON PETROLEUM COMPANY  
(Exact name of Registrant as specified in its charter)

Delaware                                      64-0844345  
(State or other jurisdiction of              (I.R.S. Employer  
incorporation or organization)              Identification No.)

200 North Canal Street  
Natchez, Mississippi 39120  
(Address of principal executive offices)(Zip code)

(601) 442-1601  
(Registrant's telephone number,  
including area code)

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

Yes  No

As of November 9, 1999, there were 11,763,581 shares of the Registrant's Common Stock, par value \$0.01 per share, outstanding.

CALLON PETROLEUM COMPANY

INDEX

Page No.

Part I. Financial Information

Consolidated Balance Sheets as of September 30,  
1999 and December 31, 1998                                      3-4

Consolidated Statements of Operations for Each of the  
three and nine-months in the periods ended September 30, 1999  
and September 30, 1998    5

Consolidated Statements of Cash Flows for Each of the  
nine-months in the periods ended September 30, 1999 and  
September 30, 1998    6

Notes to Consolidated Financial Statements                                      7-8

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

	September 30, 1999	December 31, 1998
	-----	-----

(Unaudited)

ASSETS

-----		
Current assets:		
Cash and cash equivalents	\$ 7,935	\$ 6,300
Accounts receivable	8,415	6,024
Other current assets	2,205	1,924
	-----	-----
Total current assets	18,555	14,248
	-----	-----
Oil and gas properties, full cost accounting method:		
Evaluated properties	488,341	444,579
Less accumulated depreciation, depletion and amortization	(357,347)	(345,353)
	-----	-----
	130,994	99,226
Unevaluated properties excluded from amortization	42,167	42,679

Total oil and gas properties	173,161	141,905
Pipeline and other facilities	5,940	6,182
Other property and equipment, net	1,525	1,753
Deferred tax asset	15,446	16,348
Long-term gas balancing receivable	216	199
Other assets, net	2,088	1,017
Total assets	\$ 216,931	\$ 181,652

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

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

September 30, 1999	December 31, 1998
-----	-----
(Unaudited)	

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Accounts payable and accrued liabilities	\$ 7,295	\$ 11,257
Deferred revenue on sale of production		
payment interest - current portion	4,844	--
Undistributed oil and gas revenues	2,061	1,720
Accrued net profits payable	1,312	129
Total current liabilities	15,512	13,106

Accounts payable and accrued liabilities

to be refinanced	--	3,000
Long-term debt	107,250	78,250
Deferred revenue on sale of production		
payment interest	8,453	--
Accrued retirement benefits	2,161	2,323
Long-term gas balancing payable	536	489
Total liabilities	133,912	97,168

Stockholders' equity:

Preferred stock, \$0.01 par value, 2,500,000 shares authorized; 1,045,461 shares of Convertible Exchangeable Preferred Stock, Series A, issued and outstanding with a

liquidation preference of \$26,136,525 at September 30, 1999	10	13
Common stock, \$0.01 par value, 20,000,000 shares authorized; 8,557,906 and 8,178,406 outstanding at September 30, 1999 and at December 31, 1998, respectively	86	82
Treasury stock (98,578 shares at cost)	(1,177)	(915)
Capital in excess of par value	108,415	109,429
Retained earnings (deficit)	(24,315)	(24,125)
	-----	-----
Total stockholders' equity	83,019	84,484
	-----	-----
Total liabilities and stockholders' equity	\$ 216,931	\$ 181,652
	=====	=====

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

<TABLE>

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1999	1998	1999	1998
	-----	-----	-----	-----
	<C>	<C>	<C>	<C>
<S>				
Revenues:				
Oil and gas sales	\$ 10,240	\$ 8,627	\$ 26,777	\$ 28,949
Interest and other	344	712	1,212	1,615
	-----	-----	-----	-----
Total revenues	10,584	9,339	27,989	30,564
	-----	-----	-----	-----
Costs and expenses:				
Lease operating expenses	1,803	1,935	5,289	6,024
Depreciation, depletion and amortization	4,284	4,303	12,236	14,769
General and administrative	999	1,402	3,439	4,134
Interest	1,900	279	4,371	1,262
	-----	-----	-----	-----
Total costs and expenses	8,986	7,919	25,335	26,189
	-----	-----	-----	-----
Income from operations	1,598	1,420	2,654	4,375
Income tax expense	543	487	902	1,488
	-----	-----	-----	-----
Net income	1,055	933	1,752	2,887
Preferred stock dividends	555	699	1,942	2,097
	-----	-----	-----	-----
Net income (loss) available to common shares	\$ 500	\$ 234	\$ (190)	\$ 790
	=====	=====	=====	=====
Net income (loss) per common share:				
Basic	\$ 0.06	\$ 0.03	\$ (0.02)	\$ 0.10
	=====	=====	=====	=====
Diluted	\$ 0.06	\$ 0.03	\$ (0.02)	\$ 0.10

	1999	1998	1997	1996
Shares used in computing net income (loss) per common share:				
Basic	8,459	8,042	8,465	8,026
Diluted	8,567	8,104	8,465	8,200

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

</TABLE>

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

Nine Months Ended

September 30, 1999      September 30, 1998

Cash flows from operating activities:

Net income	\$ 1,752	\$ 2,887
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation, depletion and amortization	12,612	15,147
Amortization of deferred costs	464	471
Amortization of deferred production payment revenue	(1,470)	--
Deferred income tax expense	902	1,488
Noncash compensation related to compensations plans	206	1,670
Changes in current assets and liabilities:		
Accounts receivable	(2,391)	4,900
Other current assets	(281)	86
Current liabilities	(199)	(1,743)
Changes in gas balancing receivable	(17)	9
Changes in gas balancing payable	47	(61)
Change in other long-term liabilities	(162)	--
Change in other assets, net	(1,535)	(82)
Cash provided (used) by operating activities	9,928	24,772

Cash flows from investing activities:

Capital expenditures	(30,870)	(45,882)
Cash proceeds from sale of mineral interests	--	10,471
Cash proceeds from sale of mineral interest burdened by a net profits interest	--	1,825
Cash provided (used) by investing activities	(30,870)	(33,586)

Cash flows from financing activities:

Change in accounts payable and accrued liabilities to be refinanced	(3,000)	--
Payment on debt	(35,500)	--
Increase in debt	64,500	7,000
Equity issued related to employee stock plans	121	163
Purchase of treasury shares	(262)	(43)
Common stock cancelled	(1,615)	(145)
Dividends on preferred stock	(1,667)	(2,097)
Cash provided (used) by financing activities	22,577	4,878

Net increase (decrease) in cash and cash equivalents	1,635	(3,936)
Cash and cash equivalents:		
Balance, beginning of period	6,300	15,597
Balance, end of period	\$ 7,935	\$ 11,661

The accompanying notes are an integral part of these financial statements

CALLON PETROLEUM COMPANY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 1999

1. Basis of Presentation

The financial information presented as of any date other than December 31, has been prepared from the books and records without audit. Financial information as of December 31, has been derived from the audited financial statements of the Company, but does not include all disclosures required by generally accepted accounting principles. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary for the fair presentation of the financial information for the period indicated, have been included. For further information regarding the Company's accounting policies, refer to the Consolidated Financial Statements and related notes for the year ended December 31, 1998 included in the Company's Annual Report on Form 10-K dated arch 29, 1999.

2. Per Share Amounts

In February 1997, the Financial Accounting Standards Board issued Statement No. 128 ("FAS 128"), Earnings Per Share, which generally simplified the manner in which earnings per share are determined. The Company adopted FAS 128 effective December 15, 1997.

Basic earnings or loss per common share were computed by dividing net income or loss by the weighted average number of shares of common stock outstanding during the quarter. Diluted earnings per common share for the three and nine-months periods of 1998 and the three months ended September 30, 1999 were determined on a weighted average basis using common shares issued and outstanding adjusted for the effect of stock options considered common stock equivalents computed using the treasury stock method and the effect of the convertible preferred stock (if dilutive). The earnings per share computations for the nine months ended September 30, 1999 excluded all stock options from the computation of diluted loss per share because they were antidilutive. The conversion of the preferred stock was not included in any calculation due to their antidilutive effect on diluted income or loss per share.

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	1999	1998	1999	1998
(a) Net income (loss) available to common shares	\$ 500	\$ 234	\$ (190)	\$ 790
(b) Weighted average shares outstanding	8,459	8,042	8,465	8,026
(c) Dilutive impact of stock options	108	62	--	174
(d) Total diluted shares	8,567	8,104	8,465	8,200
Basic earnings (loss) per share a/b	\$ 0.06	\$ 0.03	\$ (0.02)	\$ 0.10
Diluted earnings (loss) per share a/d	\$ 0.06	\$ 0.03	\$ (0.02)	\$ 0.10

### 3. Hedging Contracts

The Company periodically uses derivative financial instruments to manage oil and gas price risks. Settlements of gains and losses on commodity price swap contracts are generally based upon the difference between the contract price or prices specified in the derivative instrument and a NYMEX price and are reported as a component of oil and gas revenues. Gains or losses attributable to the termination of a swap contract are deferred and recognized in revenue when the oil and gas is sold. Approximately \$1.6 million was recognized as additional oil and gas revenue in the first three quarters of 1998 and \$862,000 was recognized as a reduction of oil and gas revenues for the same period in 1999 related to contract settlements.

As of September 30, 1999, the Company had open collar contracts with third parties whereby minimum floor prices and maximum ceiling prices are contracted and applied to related contract volumes. These agreements in effect for 1999 are for average gas volumes of 200,000 Mcf per month through September 2000 at (on average) a ceiling price of \$2.82 and floor price of \$2.53. In addition, the Company had open oil collar contracts averaging 27,500 barrels per month at (on average) a ceiling price of \$16.15 and a floor price of \$13.82 from October 1999 through December 1999.

### 4. Preferred Stock

During the first quarter of 1999 certain preferred stockholders through private transactions, agreed to convert 210,350 shares of Preferred Stock into 502,632 shares of the Company's Common Stock. Any non-cash premium negotiated in excess of the conversion rate was recorded as additional preferred stock dividends and excluded from the Consolidated Statements of Cash Flows.

### 5. Senior Subordinated Notes

On July 14, 1999 the Company issued \$40 million of 10.25% Senior Subordinated Notes due 2004. Interest is payable quarterly beginning September 15, 1999. The net proceeds to the Company, after costs of the transaction, were used to repay the outstanding balance on the Credit Facility.

### 6. Deferred Revenue on Sale of Production Payment Interest

In June 1999, the Company acquired a working interest in the Mobile Block 864 Area in which the Company already owned an interest. Concurrent with this acquisition, the seller received a volumetric production payment, valued at approximately \$14.8 million, from production attributable to a portion of the Company's interest in the area over a 39 month period. The Company deferred the revenue associated with the sale of this production payment interest because a substantial obligation for future performance exists. Under the terms of the sale, the Company is obligated to deliver the production volumes free and clear of royalties, lease operating expenses, production taxes and all capital costs. The production payment was recorded at the present value of the volumetric production committed to the seller at market value and, beginning in June 1999, is amortized to oil and gas sales on the units-of-production method as associated hydrocarbons are delivered.

### 7. Subsequent Event

On November 3, 1999 the Company completed a public offering of 3,200,000 shares of common stock at a price to the public of \$11.875 per share. The Company granted the underwriters the right to purchase up to an additional 480,000 shares of common stock to cover over-allotments. Net proceeds are expected to be approximately \$35.3 million from this offering (\$40.7 million if the underwriters' over-allotment option is exercised in full) after deducting the underwriting discount and estimated offering expenses. The Company intends to use all of the net proceeds, together with its cash flows and borrowings under its Credit Facility to fund its remaining 1999 and 2000 capital expenditure budgets. Pending the use of funds to pay capital expenditures, the Company will use a portion of the net proceeds to repay borrowings under the Credit Facility and the remainder will be invested in short-term money market instruments.

## 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 regarding the Company's financial position, adequacy of resources, estimated reserve quantities, business strategies, plans, objectives and expectations for future operations and covenant compliance, are forward-looking statements. The Company 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 the Company's expectations ("Cautionary Statements") are disclosed below, in the section "Risk Factors" included in the Company's Form 10-K, elsewhere in this report and from time to time in other filings made by the Company with the Securities and Exchange Commission. All subsequent written and oral forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified by the Cautionary Statements.

## General

The Company's revenues, profitability and future growth and the carrying value of its oil and gas properties are substantially dependent on prevailing prices of oil and gas and its ability to find, develop and acquire additional oil and gas reserves that are economically recoverable. The Company's ability to maintain or increase its borrowing capacity and to obtain additional capital on attractive terms is also influenced by oil and gas prices. Prices for oil and gas are subject to large fluctuations in response to relatively minor changes in the supply of and demand for oil and gas, market uncertainty and a variety of additional factors beyond the control of the Company. These factors include weather conditions in the United States, the condition of the United States economy, the actions of the Organization of Petroleum Exporting Countries, governmental regulations, political stability in the Middle East and elsewhere, the foreign supply of oil and gas, the price of foreign imports and the availability of alternate fuel sources. Any substantial and extended decline in the price of oil or gas would have an adverse effect on the Company's carrying value of its proved reserves, borrowing capacity, revenues, profitability and cash flows from operations. The Company uses derivative financial instruments for price protection purposes on a limited amount of its future production and does not use them for trading purposes.

The following discussion is intended to assist in an understanding of the Company's historical financial position and results of operations. The Company's historical financial statements and notes thereto included elsewhere in this quarterly report contain detailed information that should be referred to in conjunction with the following discussion.

## Liquidity and Capital Resources

The Company's primary sources of capital are its cash flows from operations, borrowings from financial institutions and the sale of debt and equity securities. Net cash and cash equivalents during the nine months ending September 30, 1999 increased by \$1.6 million and net cash flows from operations before working capital changes totaled \$14.5 million. During the nine-month period long-term debt increased \$29 million. This net increase was the result of the issuance of \$40 million in Senior Subordinated Notes and net repayments on the Credit Facility of \$11 million. Decreases in cash flows for the nine-month period included a \$3.0 million reduction in accounts payable and accrued liabilities to be refinanced, \$1.6 million related to the surrender and cancellation of common stock in satisfaction of payroll taxes associated with performance shares previously issued pursuant to the Company's Stock Incentive Plans, and \$1.7 million paid to the preferred stockholders as dividends. Net capital expenditures for the period totaled \$30.9 million. These funds were expended in drilling and completion of six wells and the completion of three additional wells.

At September 30, 1999, the Company had working capital of \$ 3.0 million and a current ratio of 1.2 to 1.

On November 3, 1999 the Company completed a public offering of 3,200,000



shares of common stock at a price to the public of \$11.875 per share. The Company intends to use all of the net proceeds, together with its cash flows and borrowings under its Credit Facility to fund its remaining 1999 and 2000 capital expenditure budgets. See additional information contained in Note 7 to the consolidated financial statements of the Company included in this report.

On July 15, 1999, the Company announced its offering of \$40 million Senior Subordinated Notes due 2004 at a yield of 10.25 percent. A portion of the net proceeds from the offering was used to repay amounts borrowed under the Company's Credit Facility. The balance of the proceeds, together with cash flows and additional borrowings under its credit facility, will be used to fund the Company's remaining 1999 and a portion of its 2000 capital expenditure budget.

For the remainder of the year, the Company will continue evaluating property acquisitions and drilling opportunities. The Company has budgeted up to \$16.9 million in capital expenditures for the fourth quarter of 1999. The major portion of the capital expenditure budget will be used to drill development and exploratory wells to increase total proved reserves and increase production for the Company. The capital budget will be financed with available cash, projected cash flow from operations and unused capacity under the Company's Credit Facility.

#### Disclosure About Market Risks

The Company's revenues are derived from the sale of its crude oil and natural gas production. In recent months, the prices for oil and gas have increased; however, they remain extremely volatile and sometimes experience large fluctuations as a result of relatively small changes in supplies, weather conditions, economic conditions and government actions. From time to time, the Company enters into derivative financial instruments to hedge oil and gas price risks for the production volumes to which the hedge relates. The hedges reduce the Company's exposure on the hedged volumes to decreases in commodity prices and limit the benefit the Company might otherwise have received from any increases in commodity prices on the hedged volumes.

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

The Company enters into these agreements from time to time to reduce the effects of volatile oil and gas prices and do not enter into hedge transactions for speculative purposes. See Note 3 to the Consolidated Financial Statements for a description of the Company's hedged position at September 30, 1999. Approximately \$862,000 related to hedging was recognized as a reduction of oil and gas revenue in the first nine months of 1999. There have been no significant changes in market risks faced by the Company since the end of 1998.

#### Year 2000 Compliance

There have not been any significant developments nor significant additional risks identified since the end of 1998. The Company continues to focus efforts on identifying and solving the many threats to its business posed by the Year 2000 issue. These risks are generally divided into three areas, (1) failure of our financial and administrative systems, (2) failure of the embedded systems which control our automated production facilities and (3) failure of our suppliers and purchasers to correct their Year 2000 problems.

The Company believes that its financial accounting software and the embedded systems affecting its automated production facilities are in compliance. The Company continues to correspond with our suppliers and purchasers to assess compliance. Since we are unable to independently verify that they are taking appropriate steps to remedy problems, no assurances can be made that the Company will not encounter adverse effects caused by Year 2000 problems.

Although the Company does not separately account for its internal costs

incurred for its Year 2000 compliance efforts, consisting mainly of payroll and related benefits for our information systems personnel, we are still projecting the compliance costs to be less than \$200,000.

## 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		Nine Months Ended	
	September 30,		September 30,	
	1999	1998	1999	1998
Production volumes:				
Oil (MBbls)	81	59	257	252
Gas (MMcf)	3,996	3,496	10,839	11,172
Total (MMcfe)	4,481	3,848	12,379	12,683
Average sales price: (a)				
Oil (MBbls)	\$ 12.27	\$ 11.60	\$ 12.06	\$ 12.72
Gas (MMcf)	2.31	2.27	2.18	2.30
Total (MMcfe)	2.29	2.24	2.16	2.28
Average costs (per Mcfe):				
Lease operating (excluding severance taxes)	\$ 0.34	\$ 0.47	\$ 0.36	\$ 0.42
Severance taxes	0.06	0.03	0.06	0.06
Depreciation, depletion and amortization	0.96	1.12	0.99	1.16
General and administrative (net of management fees)	0.22	0.36	0.28	0.33

(a) Includes hedging gains and losses

Comparison of Results of Operations for the Three Months Ended September 30, 1999 and the Three Months Ended September 30, 1998.

## Oil and Gas Production and Revenues

Total oil and gas revenues increased 19% from \$8.6 million in 1998 to \$10.2 million. Oil and gas production and prices were higher when compared to the same period in 1998.

Gas production during the third quarter of 1999 totaled 4.0 billion cubic feet and generated \$9.2 million in revenues compared to 3.5 billion cubic feet and \$7.9 million in revenues during the same period in 1998. The average sales price for the third quarter of 1999 averaged \$2.31 per thousand cubic feet compared to \$2.27 per thousand cubic feet at this time last year. When compared to the same quarter last year, the Company's gas production increased by 14% as a result of an acquisition, new discoveries, and the recompletion of an existing well. Production declines for other properties were expected and considered normal.

Oil production during the third quarter of 1999 totaled 81,000 barrels and generated \$1.0 million in revenues compared to 59,000 barrels and \$0.7 million in revenues for the same period in 1998. Third quarter average daily production increased 38% from 638 barrels per day in 1998 to 879 barrels per day in 1999. Average oil prices received in the third quarter of 1999 were \$12.27 compared to \$11.60 in 1998. When the third quarter of 1999 is compared to the same period in 1998, production increases are attributed to the Main Pass 26, Main Pass 36 and the Eugene Island 335 properties.

The following table summarizes oil and gas production from the Company's major producing properties for the comparable periods.

Oil Production (Barrels)	Gas Production (Mcf)
Three Months Ended	Three Months Ended

	September 30,		September 30,	
	1999	1998	1999	1998
Mobile Block 864 Area	--	--	1,465,000	1,237,000
Chandeleur Block 40	--	--	163,000	525,000
Main Pass 26	7,000	--	146,000	--
Main Pass 31	5,000	5,000	175,000	215,000
Main Pass 36	10,000	--	302,000	--
Main Pass 163 Area	--	--	477,000	617,000
Eugene Island 335	6,000	--	326,000	--
High Island A-494	--	--	553,000	--
North Dauphin Island Field	--	--	110,000	452,000
Escambia Mineral properties	38,000	36,000	63,000	59,000
Other properties	15,000	18,000	216,000	391,000
<b>Total</b>	<b>81,000</b>	<b>59,000</b>	<b>3,996,000</b>	<b>3,496,000</b>

#### Lease Operating Expenses

Lease operating expenses, including severance taxes, for the three-month period ending September 30, 1999 were \$1.8 million compared to \$1.9 million for the same period in 1998.

#### Depreciation, Depletion and Amortization

Depreciation, depletion and amortization for the three months ending September 30, 1999 and 1998 was \$4.3 million, or \$0.96 per Mcfe, and \$4.3 million, or \$1.12 per Mcfe, respectively. When compared the same quarter in 1998, higher production volumes and a lower average rate in 1999 resulted in the same total expense.

#### General and Administrative

General and administrative expense for the three months ended September 30, 1999 was \$1.0 million compared to \$1.4 million for the three months ended September 30, 1998. Expenses for 1998 included certain costs associated with bonuses under the incentive compensation plan and the non-cash costs associated with the vesting of performance shares. These expenses were not incurred in 1999. In addition, 1999 expenses reflected lower personnel costs as a result of staffing reductions effective in June 1999.

#### Interest Expense

Interest expense increased from \$279,000 during the three months ended September 30, 1998 to \$1.9 million during the three months ended September 30, 1999 reflecting the increase in the Company's long-term debt.

#### Comparison of Results of Operations for the Nine Months Ended September 30, 1999 and the Nine Months Ended September 30, 1998.

#### Oil and Gas Production and Revenues

For the nine months ended September 30, 1999, total oil and gas revenues decreased by \$ 2.1 million, or 8%, to \$26.8 million when compared to \$28.9 million for the same period in 1998.

Natural gas production and revenue for the nine-month period ending September 30, 1999 were 10.8 billion cubic feet and \$23.7 million, respectively, decreasing from 11.2 billion cubic feet and gas revenues of \$25.7 million in the first nine months of 1998. The average sales price for natural gas in the first nine months in 1999 was \$2.18 per Mcf, a \$0.12 per Mcf decrease over the same period in 1998. When compared to the same nine-month period last year, the Company's gas production increased as a result of an acquisition, new discoveries being brought online and the recompletion of an existing well. The offsetting production declines in the other properties were expected and considered normal.

For the nine months ending September 30, 1999, oil production and oil revenues increased to 257,000 barrels and \$3.1 million, respectively. For the comparable period in 1998, oil production was 252,000 barrels while revenues

totalled \$3.2 million. Oil prices during the first nine months of 1999 averaged \$12.06, compared to \$12.72 for the same period in 1998. Oil production was slightly higher and gas production was slightly lower than 1998. Both oil and gas prices declined from the 1998 levels.

The following table summarizes oil and gas production from the Company's major producing properties for the comparable periods.

	Oil Production (Barrels)		Gas Production (Mcf)	
	Nine Months Ended September 30,		Nine Months Ended September 30,	
	1999	1998	1999	1998
Mobile Block 864 Area	--	--	4,018,000	4,141,000
Chandeleur Block 40	--	--	672,000	1,985,000
Main Pass 26	41,000	--	723,000	--
Main Pass 31	32,000	33,000	1,083,000	863,000
Main Pass 36	10,000	--	302,000	--
Main Pass 163 Area	--	--	1,537,000	2,423,000
Eugene Island 335	20,000	--	832,000	--
High Island A-494	--	--	553,000	--
North Dauphin Island Field	--	--	373,000	855,000
Black Bay	--	57,000	--	--
Escambia Mineral properties	108,000	116,000	190,000	194,000
Other properties	46,000	46,000	556,000	711,000
Total	257,000	252,000	10,839,000	11,172,000

#### Lease Operating Expenses

Lease operating expenses, excluding severance taxes, for the first three quarters of 1999 decreased 15% to \$4.5 million from \$5.3 million for the 1998 comparable period. This decrease is primarily the result of expenses associated with Black Bay, which was sold in May 1998. Severance taxes were \$0.8 million during the first nine months of 1999 and \$0.7 million for the same period in 1998.

#### Depreciation, Depletion and Amortization

Depreciation, depletion and amortization for the first nine months of 1999 was \$12.2 million, or \$0.99 per Mcf equivalent. For the same period in 1998, the total was \$14.8 million and \$1.16 per Mcf equivalent. Since the total production volume on a Mcfe basis remain almost constant, the reduced rate per Mcfe is responsible for the decrease in the total expense when compared to 1998.

#### General and Administrative

During the first nine months of 1999, general and administrative expenses decreased by 17% to \$3.4 million when compared to \$4.1 million for the nine-month period in 1998. While expenses associated with bonuses under the incentive compensation plan and the vesting of performance shares were incurred during the first nine months of 1998, there were no similar 1999 expenses incurred. In addition, 1999 expenses reflected lower costs associated with personnel reductions which were effective in June 1999.

#### Interest Expense

Interest expense during the first three quarters of 1999 was \$4.4 million compared to \$1.3 million for the first three quarters of 1998 as a result of the increase in the Company's long-term debt.

CALLON PETROLEUM COMPANY

PART II. OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders.

None

Item 6. Exhibits and Reports on Form 8-K

(a.) Exhibits

2. Plan of acquisition, reorganization, arrangement, liquidation or succession\*
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 Registration Statement on Form S-4, filed August 4, 1994, Reg. No. 33-82408)
  - 3.2 Certificate of Merger of Callon Consolidated Partners, L. P. with and into the Company dated September 16, 1994 (incorporated by reference from Exhibit 3.2 of the Company's Report on Form 10-K for the period ended December 31, 1994)
  - 3.3 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 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 Specimen Preferred Stock Certificate (incorporated by reference from Exhibit 4.2 of the Company's Registration Statement on Form S-1, Reg. No. 33-96700)
  - 4.3 Designation for Convertible Exchangeable Preferred Stock, Series A (incorporated by reference from Exhibit 4.3 of the Company's Registration Statement on Form S-1/A, filed November 13, 1995, Reg. No. 33-96700)
  - 4.4 Indenture for Convertible Debentures (incorporated by reference from Exhibit 4.4 of the Company's Registration

Statement on Form S-1/A, filed November 13, 1995, Reg. No. 33-96700)

- 4.5 Certificate of Correction on Designation of Series A Preferred Stock (incorporated by reference from Exhibit 4.4 of the Company's Registration Statement on Form S-1/A, filed November 22, 1996, Reg. No. 333-15501)
- 4.6 Form of Note Indenture for the Company's 10% Senior Subordinated Notes due 2001 (incorporated by reference from Exhibit 4.6 of the Company's Registration Statement on Form S-1/A, filed November 22, 1996, Reg. No. 333-15501)
- 4.7 Form of Note Indenture for the Company's 10.25 Senior Subordinated Notes due 2004 (incorporated by reference from Exhibit 4.10 of the Company's Registration Statement on Form S-2, filed June 14, 1999, Reg. No. 333-80579)

#### 10. Material contracts

- 10.1 Purchase and Sale Agreement between Callon Petroleum Operating Company and Murphy Exploration Company, dated May 26, 1999 (incorporated by reference from Exhibit 10.11 on Form S-2, filed on June 14, 1999, Reg. No. 333-80579)
- 10.2 Registration Rights Agreement dated September 16, 1994 between the Company and NOCO Enterprises, L. P. (incorporated by reference from Exhibit 10.2 of the Company's Registration Statement on Form 8-B, filed October 3, 1994)
- 10.3 Registration Rights Agreement dated September 16, 1994 between the Company and Callon Stockholders (incorporated by reference from Exhibit 10.3 of the Company's Registration Statement on Form 8-B, filed October 3, 1994)
- 10.4 Callon Petroleum Company 1994 Stock Incentive Plan (incorporated by reference from Exhibit 10.5 of the Company's Registration Statement on Form 8-B, filed October 3, 1994)
- 10.5 Credit Agreement dated October 14, 1994 by and between the Company, Callon Petroleum Operating Company and Internationale Nederlanden (U.S.) Capital Corporation (incorporated by reference from Exhibit 99.1 of the Company's Report on Form 10-Q for the quarter ended September 30, 1994)
- 10.6 Third Amendment dated February 22, 1996, to Credit Agreement by and among the Company, Callon Petroleum Operating Company and Internationale Nederlanden (U.S.) Capital Corporation (incorporated by reference from Exhibit 10.9 of the Company's Report on Form 10-K for the fiscal year ended December 31, 1995)
- 10.7 Consulting Agreement between the Company and John S. Callon dated June 19, 1996 (incorporated by reference from Exhibit 10.10 of the Company's Registration Statement on Form S-1, filed November 5, 1996, Reg. No. 333-15501)
- 10.8 Employment Agreement effective September 1, 1996 between the Company and Fred L. Callon (incorporated by reference from Exhibit 10.4 of the Company's Registration Statement on Form S-1/A, filed November 14, 1996, Reg. No. 333-15501)

10.9 Employment Agreement effective September 1, 1996 between the Company and Dennis W. Christian (incorporated by reference from Exhibit 10.7 of the Company's Registration Statement on Form S-1/A, filed November 14, 1996, Reg. No. 333-15501)

10.10 Employment Agreement effective September 1, 1996 between the Company and John S. Weatherly (incorporated by reference from Exhibit 10.8 of the Company's Registration Statement on Form S-1/A, filed November 14, 1996, Reg. No. 333-15501)

10.11 Callon Petroleum Company's Amended 1996 Stock Incentive Plan (incorporated by reference from Exhibit 4.4 of the Post-Effective Amendment No. 1 to the Company's Registration Statement on Form S-8, filed February 5, 1999, Reg. No. 333-29537)

11. Statement re computation of per share earnings

11.1 Computation of Per Share Earnings

15. Letter re unaudited interim financial information\*

18. Letter re change in accounting principles\*

19. Report furnished to security holders\*

22. Published report regarding matters submitted to vote of security holders\*

23. Consents of experts and counsel\*

24. Power of attorney\*

27. Financial Data Schedule

99. Additional exhibits\*

(b.) Reports on Form 8-K

No reports on Form 8-K were filed during the quarter for which this report is filed.

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\*Inapplicable to this filing

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: November 11, 1999                      By: /s/ John S. Weatherly

-----  
John S. Weatherly, Senior Vice  
President and Chief Financial Officer  
(on behalf of the registrant and as  
the principal financial officer)

Exhibit 11.1

CALLON PETROLEUM COMPANY  
COMPUTATION OF PER SHARE EARNINGS  
(In thousands, except per share data)



	Three Months Ended September 30,		Nine Months Ended September 30,	
	1999	1998	1999	1998
Net income	\$ 1,055	\$ 933	\$ 1,752	\$ 2,887
Preferred stock dividends	555	699	1,942	2,097
Net income (loss) available to common shares	\$ 500	\$ 234	\$ (190)	\$ 790
Net income (loss) per common share:				
Basic	\$ 0.06	\$ 0.03	\$ (0.02)	\$ 0.10
Diluted	\$ 0.06	\$ 0.03	\$ (0.02)	\$ 0.10
Shares used in computing net income (loss) per common share:				
Basic	8,459	8,042	8,465	8,026
Dilutive impact of stock options	108	62	--	174
Diluted	8,567	8,104	8,465	8,200

Note: Basic earnings or loss per common share were computed by dividing net income or loss by the weighted average number of shares of common stock outstanding during the quarter. Diluted earnings per common share for the three and nine-month periods of 1998 and the three months ended September 30, 1999 were determined on a weighted average basis using common shares issued and outstanding adjusted for the effect of stock options considered common stock equivalents computed using the treasury stock method and the effect of the convertible preferred stock (if dilutive). The earnings per share computations for the nine months ended September 30, 1999 excluded all stock options from the computation of diluted loss per share because they were antidilutive. The conversion of the preferred stock was not included in any calculation due to their antidilutive effect on diluted income or loss per share.

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THIS FINANCIAL DATA SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED FINANCIAL STATEMENTS OF CALLON PETROLEUM COMPANY FOR THE PERIOD ENDING SEPTEMBER 30, 1999 WHICH ARE PRESENTED IN ITS QUARTERLY REPORT ON FORM 10-Q AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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