

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

FOR THE QUARTER ENDED MARCH 31, 2003      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      (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 X No

--- ---

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes No X

--- ---

As of May 7, 2003, there were 13,939,140 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)

<TABLE>

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	MARCH 31, 2003	DECEMBER 31, 2002	
	(UNAUDITED)		(NOTE 1)
<S>	<C>		<C>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 2,713	\$ 5,807	
Accounts receivable	13,924	10,875	
Other current assets	1,357	570	
Total current assets	17,994	17,252	
Oil and gas properties, full cost accounting method:			
Evaluated properties	798,200	762,918	
Less accumulated depreciation, depletion and amortization		(426,182)	(426,254)
	372,018	336,664	
Unevaluated properties excluded from amortization		32,187	40,997
Total oil and gas properties	404,205	377,661	
Pipeline and other facilities, net	828	853	
Other property and equipment, net	1,821	1,890	
Deferred tax asset	8,155	8,767	
Long-term gas balancing receivable		639	761
Restricted investments	6,992	--	
Other assets, net	3,099	3,429	
Total assets	\$ 443,733	\$ 410,613	

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:			
Accounts payable and accrued liabilities	\$ 12,821	\$ 12,498	
Undistributed oil and gas revenues	1,206	1,109	
Accrued net profits interest payable	2,240	1,707	
Asset retirement obligations-current	5,850	--	
Current maturities of long-term debt	1,343	1,320	
Total current liabilities	23,460	16,634	
Long-term debt-excluding current maturities	249,049	248,269	
Accounts payable and accrued liabilities to be refinanced	1,850	3,861	
Asset retirement obligations-long-term	25,200	--	
Other long-term liabilities	2,204	889	
Total liabilities	301,763	269,653	

Stockholders' equity:

Preferred Stock, \$.01 par value, 2,500,000 shares authorized; 600,861 shares of Convertible Exchangeable Preferred Stock, Series A, issued and outstanding with a liquidation preference of \$15,021,525	6	6
Common Stock, \$.01 par value, 20,000,000 shares authorized; 13,919,457 and 13,900,466 shares outstanding at March 31, 2003 and at December 31, 2002, respectively	139	139
Capital in excess of par value	158,451	158,370
Unearned compensation restricted stock	(713)	(826)
Accumulated other comprehensive income (loss)	(716)	(469)
Retained earnings (deficit)	(15,197)	(16,26)
	-----	-----
Total stockholders' equity	141,970	140,960
	-----	-----
Total liabilities and stockholders' equity	\$ 443,733	\$ 410,613
	=====	=====

</TABLE>

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

CALLON PETROLEUM COMPANY  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(UNAUDITED)  
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

<TABLE>

<CAPTION>

	THREE MONTHS ENDED MARCH 31,	
	2003	2002
	-----	-----
	<C>	<C>
Operating revenues:		
Oil and gas sales	\$ 21,268	\$ 11,054
	-----	-----
Total operating revenues	21,268	11,054
	-----	-----
Operating expenses:		
Lease operating expenses	2,832	2,564
Depreciation, depletion and amortization	7,402	5,588
Accretion expense	715	--
General and administrative	1,235	1,139
Loss on mark-to-market commodity derivative contracts		138
	-----	-----
Total operating expenses	12,322	9,679
	-----	-----
Income (loss) from operations	8,946	1,375
	-----	-----
Other (income) expenses:		
Interest	7,181	5,720
Other income	(83)	(570)
	-----	-----
Total other expenses	7,098	5,150
	-----	-----
Income (loss) before income taxes	1,848	(3,775)
Income tax expense (benefit)	647	(1,321)
	-----	-----
Income (loss) before cumulative effect of change in accounting principle	1,201	(2,454)
Cumulative effect of change in accounting principle, net of tax	181	--
	-----	-----
Net income (loss)	1,382	(2,454)
Preferred stock dividends	319	319
	-----	-----
Net income (loss) available to common shares	\$ 1,063	\$ (2,773)
	=====	=====

Net income (loss) per common share:

Basic		
Net income (loss) available to common before cumulative effect of change in accounting principle	\$ 0.07	\$ (0.21)
Cumulative effect of change in accounting principle, net of tax	0.01	--
	-----	-----
Net income (loss) available to common	\$ 0.08	\$ (0.21)
	=====	=====

Diluted		
Net income (loss) available to common before cumulative effect of change in accounting principle	\$ 0.07	\$ (0.21)
Cumulative effect of change in accounting principle, net of tax	0.01	--
	-----	-----
Net income (loss) available to common	\$ 0.08	\$ (0.21)
	=====	=====

Shares used in computing net income (loss) per common share:

Basic	13,599	13,315
	=====	=====
Diluted	14,192	13,315
	=====	=====

</TABLE>

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

CALLON PETROLEUM COMPANY  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)  
(IN THOUSANDS)

<TABLE>

<CAPTION>

THREE MONTHS ENDED

MARCH 31, MARCH 31,  
2003 2002

<C> <C>

Cash flows from operating activities:

Net income (loss)	\$ 1,382	\$ (2,454)
Adjustments to reconcile net income (loss) to cash provided by operating activities:		
Depreciation, depletion and amortization	7,560	5,765
Accretion expense	715	--
Amortization of deferred costs	1,674	1,128
Amortization of deferred production payment revenue	--	(1,192)
Non-cash derivative income	--	(2,943)
Non-cash mark-to-market commodity derivative contracts		138 388
Deferred income tax expense	647	(1,321)
Cumulative effect of change in accounting principle		(181) --
Non-cash charge related to compensation plans		218 242
Changes in current assets and liabilities:		
Accounts receivable	(3,824)	714
Other current assets	(204)	(836)
Current liabilities	3,285	(4,260)
Change in gas balancing receivable		122 (2)
Change in gas balancing payable		(340) (138)
Change in other long-term liabilities		(4) (1)
Change in other assets, net	(216)	(188)
	-----	-----
Cash provided (used) by operating activities	10,972	(5,098)
	-----	-----

Cash flows from investing activities:

Capital expenditures	(11,474)	(26,748)
	-----	-----
Cash provided (used) by investing activities	(11,474)	(26,748)
	-----	-----

Cash flows from financing activities:

Change in accounts payable and accrued liabilities to be refinanced	(2,011)	--
Increase in debt	4,000	29,000
Payments on debt	(4,000)	--

Equity issued related to employee stock plans		62	16
Capital leases	(324)	(159)	
Cash dividends on preferred stock		(319)	(319)
	-----	-----	
Cash provided (used) by financing activities		(2,592)	28,538
	-----	-----	
Net increase (decrease) in cash and cash equivalents		(3,094)	(3,308)
Cash and cash equivalents:			
Balance, beginning of period		5,807	6,887
	-----	-----	
Balance, end of period		\$ 2,713	\$ 3,579
	=====	=====	

</TABLE>

The accompanying notes are an integral part of these financial statements.  
CALLON PETROLEUM COMPANY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2003

1. GENERAL

The financial information presented as of any date other than December 31, has been prepared from the books and records of Callon Petroleum Company (The "Company" or "Callon") 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 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, 2002 included in the Company's Annual Report on Form 10-K dated March 27, 2003. The results of operations for the three-month period ended March 31, 2003 are not necessarily indicative of future financial results.

LIQUIDITY AND CAPITAL RESOURCES

In 2002, the lenders under the Company's Credit Facility with First Union National Bank as administrative agent ("Credit Facility") agreed to increase availability under the revolving borrowing base from \$50 million to \$75 million. In addition, the holders of \$22.9 million of the \$36.0 million of the Company's 10.125% Senior Subordinated Notes ("Notes") consented to an extension of such Notes until July 31, 2004. The Company granted warrants, with a fair market value of approximately \$1.3 million, to purchase 274,980 shares of common stock of the Company for \$.01 per share and paid consent fees in the amount of \$2.3 million to the holders of the Notes that granted the extensions. The holders of the Notes that did not consent to the extension were paid on the maturity date of the Notes in September 2002. Subsequent to September 2002, the holders of the Notes exercised approximately 116,000 warrants that were granted as a result of the extension of the Notes.

Non-discretionary capital expenditures include completion of the Medusa deepwater discovery, currently scheduled to begin production in the third quarter of 2003. The Company anticipates that cash flow generated during 2003 and current availability under the Credit Facility will provide necessary capital to enable the Company to continue its operational activities until such time as production from the Medusa discovery begins. The Company anticipates that the Medusa reserves and production should provide additional borrowing capacity. This additional borrowing capacity as well as significant additional cash flow expected from the new production will provide funds for future discretionary capital expenditures.

The Habanero deepwater discovery is also being developed and is projected to begin initial production in the second half of 2003. Once producing, this deepwater discovery is projected to have a similar impact on borrowing capacity as Medusa. Habanero will be produced by

the existing delineation well and an additional well to be drilled in the summer of 2003. A sub sea completion will be routed into one of the operator's existing facilities.

The completion of the Company's deepwater discoveries will require the construction of expensive production facilities and pipelines, including the transportation, installation and hookup of production facilities and the use of sub sea completion techniques. The Company cannot estimate the timing of the construction and hookup of these facilities with certainty. The operators completing these discoveries will possibly face inclement weather and other unfavorable environmental conditions, delays in fabrication and delivery of necessary equipment, and other unforeseen circumstances that may delay completion of these properties. Long-term delays in the completion of these deepwater projects that prevent the commencement of production from such discoveries could have a material adverse effect on the Company's financial position and result of operations. Such a delay may require the Company to reduce future anticipated capital expenditures or seek additional sources of liquidity to finance capital expenditures, which may not be available.

Beginning in October 2002, we received a series of inquiries from the SEC regarding our Annual Report on Form 10-K for the year ended December 31, 2001 requesting supplemental information concerning our operations in the Gulf of Mexico. The comment letters requested information about the procedures we used to classify our deepwater reserves as proved and requested that our financials be restated to reflect the removal of the reserves attributable to our Boomslang discovery as proved for all prior periods during which such reserves were reported as proved. We have reviewed the SEC comments with our independent petroleum reserve engineers, Huddleston & Co., Inc. of Houston, Texas. Both Huddleston & Co. and Callon believe that such deepwater reserves are properly classified as proved. If the SEC requires us to retroactively classify Boomslang as an unproved property through December, 2002, we would be required to restate our financial position, results of operations, and supplemental oil and gas reserve data from 1998 through 2002. Discussions with the SEC are ongoing at this time.

## ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 143, Accounting for Asset Retirement Obligations, ("SFAS 143") effective for fiscal years beginning after June 15, 2002. As more fully discussed in Note 2 to the consolidated financial statements included in Callon's 2002 Annual Report, SFAS 143 essentially requires entities to record the fair value of a liability for legal obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. Callon adopted the statement on January 1, 2003 resulting in a cumulative effect of accounting change of \$181,000 net of tax. See Note 6.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure - an amendment of FASB Statement No. 123 ("SFAS 148"). This statement provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation, along with the requirement of disclosure in both annual and interim financial statements about the method of accounting for stock based compensation and effect on reported results. See Note 7

## 2. PER SHARE AMOUNTS

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 or loss per common share were determined on a weighted average basis using common shares issued and outstanding adjusted for the effect of common stock equivalents computed using the treasury stock method and the effect of the convertible preferred stock (if dilutive). The conversion of the

preferred stock was not included in the calculation for the quarter ended March 31, 2003 and 2002 due to the 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):

<TABLE>  
<CAPTION>

	THREE MONTHS ENDED	
	MARCH 31,	
	2003	2002
	<C>	<C>
(a) Net income (loss) available for common stock	\$ 1,063	\$ (2,773)
Preferred dividends assuming conversion of preferred stock (if dilutive)	\$ --	\$ --
(b) Income (loss) available for common stock assuming conversion of preferred stock (if dilutive)	\$ 1,063	\$ (2,773)
(c) Weighted average shares outstanding	13,599	13,315
Dilutive impact of stock options	5	--
Dilutive impact of warrants	423	--
Dilutive impact of restricted stock	165	--
Convertible preferred stock (if dilutive)	--	--
(d) Total diluted shares	14,192	13,315
Stock options and warrants excluded due to antidilutive impact	2,396	2,598
Basic income (loss) per share (a/c)	\$ 0.08	\$ (0.21)
Diluted income (loss) per share (b/d)	\$ 0.08	\$ (0.21)

</TABLE>

### 3. DERIVATIVES

The Company periodically uses derivative financial instruments to manage oil and gas price risk. Settlements of gains and losses on commodity price contracts are generally based upon the difference between the contract price or prices specified in the derivative instrument and a NYMEX price or other cash or futures index price.

In 2003 and 2002, the Company purchased and sold various derivatives including put options and call options and elected not to designate these derivative financial instruments as accounting hedges and accordingly, accounted for these contracts under mark-to-market accounting. In the first quarter of 2003 and 2002, the Company recognized charges to expense of \$308,000 and \$388,000, respectively to record changes in fair value of these contracts. The fair value of these types of derivatives remaining at March 31, 2003 was an asset of \$63,000.

During 2002, the Company entered into no-cost natural gas collar contracts in effect for February 2003 through October 2003. Remaining open collar contracts at March 31, 2003 are for volumes of 350,000 Mcf per month for April through June and 250,000 Mcf per month from July through October, all with an average ceiling price of \$4.76 and a floor price of \$3.50. These contracts are accounted for as cash flow hedges under SFAS 133. The Company recognized a loss of \$1,842,350 in oil and gas sales related to the maturity of such collars in the first quarter of 2003. The fair value of remaining collar contracts at March 31, 2003, is recorded in the balance sheet as a liability of \$1,101,800, with an offset of \$716,170 (net of tax) recorded as total other comprehensive loss.

During 2003, the Company entered into additional no-cost natural gas collar contracts in effect for May 2003 through October 2003. These

agreements were for volumes of 200,000 Mcf per month with a ceiling price of \$5.80 and a floor price of \$5.00. The company elected not to designate these derivative financial instruments as accounting hedges and accordingly, accounted for these contracts under mark-to-market accounting. In the first quarter of 2003, the Company recognized income of approximately \$170,000 to record the change in the fair value of these contracts. The fair value of these collar contracts at March 31, 2003 was an asset of \$170,000.

In April 2001, the Company entered into derivative contracts for 2002 production with Enron North America Corp. These agreements are for average gas volumes of approximately 600,000 Mcf per month in 2002 with a weighted average ceiling price of \$6.09 and floor price of \$4.11. Enron North America Corp. filed for protection under the bankruptcy laws in late 2001. As a result of the credit risk associated with the derivatives with Enron North America Corp., hedge accounting was not available due to ineffectiveness as of September 30, 2001 and the contracts at December 31, 2001 were marked to the market. In the fourth quarter of 2001, the Company charged to expense (non-cash) \$9.2 million related to these Enron North America Corp. derivatives. The Company has no other contracts with Enron or its subsidiaries.

As these contracts matured, the Company recorded non-cash revenue each month, offsetting the amounts in other comprehensive income related to the derivatives. The Company recorded approximately \$2.9 million related to these Enron derivatives in the first quarter of 2002 as oil and gas revenue and amortized approximately \$1.9 million (net of tax) from other comprehensive income.

#### 4. LONG-TERM DEBT

Approximately \$1.9 million at March 31, 2003 related to long-term assets, primarily oil and gas properties, were financed subsequent to quarter-end with long-term debt and have been reclassified as long-term. Current availability from the Credit Facility at March 31, 2003 was \$10.0 million.

#### 5. COMPREHENSIVE INCOME

A recap of the Company's comprehensive income (loss) is detailed below (in thousands):

<TABLE>

<CAPTION>

	THREE MONTHS ENDED			
	MARCH 31, 2003		MARCH 31, 2002	
<S>	<C>	<C>	<C>	<C>
Net income (loss)		\$ 1,382		\$(2,454)
Other comprehensive income (loss):				
Change in unrealized derivatives' fair value	(247)		--	
Amortization of Enron derivatives	--		(1,913)	
	(247)		(1,913)	
Total comprehensive income (loss)		\$ 1,135		\$(4,367)

</TABLE>

#### 6. ASSET RETIREMENT OBLIGATIONS

As discussed in Note 1, the Company adopted SFAS 143 on January 1, 2003. The impact of adopting the statement resulted in a gain of \$181,000, which is reported as a cumulative effect of change in accounting principle.

Approximately \$ 30.3 million was recorded as the present value of asset retirement obligation on January 1, 2003 with the adoption of SFAS 143 related to the Company's oil and gas properties. An asset of approximately \$ 6.9 million was recorded as restricted investments (primarily U.S. Government securities) which represent investments held



in abandonment trusts dedicated to pay future abandonment costs of oil and gas properties in which the Company had sold a net profits interest. Any excess of trust assets over future abandonment costs (\$1.7 million at March 31, 2003) is recorded as payables to the net profits interest owners. Changes to the present value of the asset retirement obligations due to the passage of time are recorded as accretion expense in the statement of operations. There were no other changes in the asset retirement obligations in the first quarter of 2003.

Pro forma net income and earnings per share are not presented for the three months ended March 31, 2002 because the pro forma application of SFAS 143 to the prior period would not result in pro forma net income and earnings per share materially different from the actual amounts reported for the period in the accompanying Consolidated Statements of Operations.

## 7. STOCK BASED COMPENSATION

The Company has various stock plans ("the Plans") under which employees and non-employee members of the Board of Directors of the Company and its subsidiaries have been or may be granted certain equity compensation. The Company has in place compensatory stock option plans whereby participants have been or may be granted rights to purchase shares of common stock of Callon. The Company accounts for stock based compensation in accordance with APB Opinion No. 25.

The Company's pro forma net income (loss) and net income (loss) per share of common stock for the three-month periods ended March 31, 2003 and 2002, had compensation costs been recorded using the fair value method in accordance with SFAS 123 - "Accounting for Stock-Based Compensation," as amended by SFAS 148 - "Accounting for Stock-Based Compensation-Transition and Disclosure - an amendment of FASB Statement No. 123," are presented below pursuant to the disclosure requirement of SFAS 148 (in millions except per share data):

<TABLE>  
<CAPTION>

	THREE MONTHS ENDED MARCH 31,	
	2003	2002
<S>	<C>	<C>
Net income (loss) available to common-as reported	\$ 1,063	\$ (2,773)
Add: Stock-based compensation expense included in net income as reported, net of tax	10	96
Deduct: Total stock-based compensation expense under fair value based method, net of tax	(70)	(272)
Net income (loss) available to common-pro forma	\$ 1,003	\$ (2,949)
Net income (loss) per share available to common:		
Basic-as reported	\$ 0.08	\$ (0.21)
Basic-pro forma	\$ 0.07	\$ (0.22)
Diluted-as reported	\$ 0.08	\$ (0.21)
Diluted-pro forma	\$ 0.07	\$ (0.22)

</TABLE>

## 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 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 entitled "Risk Factors" included in the Company's Annual Report on Form 10-K for the Company's most recent fiscal year, 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, 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 and its ability to develop existing proved undeveloped reserves. 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 but does not use derivative financial instruments for trading purposes.

The following discussion is intended to assist in an understanding of the Company's historical financial positions 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. At March 31, 2003, the Company had \$10.0 million of availability under the Credit Facility. Net cash and cash equivalents during the three months ended March 31, 2003 decreased by \$3.1 million and cash provided by operating activities totaled \$10.9 million. Net capital expenditures from the cash flow statement for the period totaled \$11.5 million.

In 2002, the lenders under the Company's Credit Facility agreed to increase availability under the revolving borrowing base from \$50 million to \$75 million. In addition, the holders of \$22.9 million of the \$36.0 million of the Company's 10.125% Senior Subordinated Notes ("Notes") consented to an extension of such Notes until July 31, 2004. The Company granted warrants with a fair market value of approximately \$1.3 million to purchase 274,980 shares of common stock of the Company for \$.01 per share and paid consent fees in the amount of \$2.3 million to the holders of the Notes that granted the extensions. The holders of the Notes that did not consent to the extension were paid on the maturity date of the Notes in September 2002. Subsequent to September 2002, the holders of the Notes exercised approximately 116,000 warrants that were granted as a result of the extension of the Notes.

Non-discretionary capital expenditures include completion of the Medusa deepwater discovery, currently scheduled to begin production in the third quarter of 2003. The Company anticipates that cash flow generated during 2003 and current availability under the Credit Facility will provide necessary capital to enable the Company to continue its operational activities until such time as production from the Medusa discovery begins. The Company anticipates that the Medusa reserves and production should provide additional available borrowing capacity. This additional borrowing capacity as well as significant additional cash flow expected from the new production will provide funds for future discretionary capital expenditures.

The Habanero deepwater discovery is also being developed and is projected to begin initial production in the second half of 2003. Once producing, this

deepwater discovery is projected to have a similar impact on borrowing capacity as Medusa. Habanero will be produced by the existing delineation well and an additional well to be drilled in the summer of 2003. A sub sea completion will be routed into one of the operator's existing facilities.

The completion of the Company's deepwater discoveries will require the construction of expensive production facilities and pipelines, including the transportation, installation and hookup of production facilities and the use of sub sea completion techniques. The Company cannot estimate the timing of the construction and hookup of these facilities with certainty. The operators completing these discoveries will possibly face inclement weather and other unfavorable environmental conditions, delays in fabrication and delivery of necessary equipment, and other unforeseen circumstances that may delay completion of these properties. Long-term delays in the completion of these deepwater projects that prevent the commencement of production from such discoveries could have a material adverse effect on the Company's financial position and result of operations. Such a delay may require the Company to reduce future anticipated capital expenditures or seek additional sources of liquidity to finance capital expenditures, which may not be available.

Beginning in October 2002, we received a series of inquiries from the SEC regarding our Annual Report on Form 10-K for the year ended December 31, 2001 requesting supplemental information concerning our operations in the Gulf of Mexico. The comment letters requested information about the procedures we used to classify our deepwater reserves as proved and requested that our financials be restated to reflect the removal of the reserves attributable to our Boomslang discovery as proved for all prior periods during which such reserves were reported as

proved. We have reviewed the SEC comments with our independent petroleum reserve engineers, Huddleston & Co., Inc. of Houston, Texas. Both Huddleston & Co. and Callon believe that such deepwater reserves are properly classified as proved. If the SEC requires us to retroactively classify Boomslang as an unproved property through December, 2002, we would be required to restate our financial position, results of operations, and supplemental oil and gas reserve data from 1998 through 2002. Discussions with the SEC are ongoing at this time.

The following table describes our outstanding contractual obligations (in thousands) as of March 31, 2003:

<TABLE>

<CAPTION>

CONTRACTUAL OBLIGATIONS	LESS THAN ONE YEAR						ONE-THREE YEARS		FOUR-FIVE YEARS		AFTER-FIVE YEARS	
	TOTAL											
Credit Facility	\$ 65,000	\$ --	\$ 65,000	\$ --	\$ --							
Senior Notes	95,000	--	95,000	--	--							
10.125% Senior Subordinated Debt	22,915	--	22,915	--	--							
10.25% Senior Subordinated Debt	40,000	--	40,000	--	--							
11% Senior Subordinated Debt	33,000	--	33,000	--	--							
Capital lease (future minimum payments)	5,908	1,965	2,362	723	858							
	<u>\$261,823</u>	<u>\$ 1,965</u>	<u>\$258,277</u>	<u>\$723</u>	<u>\$858</u>							

</TABLE>

#### CAPITAL EXPENDITURES

Capital expenditures for exploration and development costs related to oil and gas properties totaled approximately \$11.5 million in the first three months of 2003. The Company incurred approximately \$4.0 million in the Gulf of Mexico Deepwater Area primarily for development costs at the Company's Habanero discovery. Interest of approximately \$1.4 million and general and administrative costs allocable directly to exploration and development projects of approximately \$2.3 million were capitalized for the first three months of 2003. The Gulf of Mexico Shelf Area expenditures account for the remainder of the total capital expended and was primarily associated with the Ship Shoal 28/35 development.

For the remainder of the year, the Company will continue evaluating property

acquisitions and drilling opportunities. The Company has forecasted up to \$42 million in capital expenditures, including capitalized interest and capitalized general and administrative expenses, for the remainder of 2003. The major portion of the capital expenditure budget will be used for development of the Company's Medusa and Habanero discoveries.

#### 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.

<TABLE>

<CAPTION>

	THREE MONTHS ENDED MARCH 31,	
	2003(a)	2002(a)(b)
<S>	<C>	<C>
Production volumes:		
Oil (MBbls)	45	54
Gas (MMcf)	3,427	3,029
Total production (MMcfe)	3,697	3,353
Average daily production (MMcfe)	41.1	37.3
Average sales price: (a)		
Oil (Bbls)	\$ 31.32	\$ 18.65
Gas (Mcf)	5.79	2.34
Total (Mcf)	5.75	2.42
Average costs (per Mcfe):		
Lease operating	\$ 0.77	\$ 0.73
Depletion	2.00	1.64
General and administrative (net of management fees)		0.33
		0.34

</TABLE>

(a) Includes hedging gains and losses.

(b) Includes volumes of 574 MMcf for the three-month period ended March 31, 2002 at an average price of \$2.08 per Mcf associated with a volumetric production payment.

#### COMPARISON OF RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2003 AND THE THREE MONTHS ENDED MARCH 31, 2002.

##### Oil and Gas Production and Revenues

Total oil and gas revenues increased 92% from \$11.1 million in the first quarter of 2002 to \$21.3 million in the first quarter of 2003. Both oil and gas prices were substantially higher when compared to the same period in 2002 which accounted for the primary increase in revenue. Oil and gas revenues for the first quarter of 2002 included \$2.9 million related to the Enron derivatives as discussed in Note 3 to the consolidated financial statements.

Total production for the first quarter of 2003 increased by 10% versus the first quarter of 2002.

Gas production during the first quarter of 2003 totaled 3.4 Bcf and generated \$19.8 million in revenues compared to 3.0 Bcf and \$6.9 million in revenues during the same period in 2002. The average sales price for the first quarter of 2003 averaged \$5.79 per Mcf compared to \$2.34 per Mcf at this time last year. The increase in production in the first quarter of 2003 compared to the first quarter of 2002 was due primarily to the acceleration program at the Mobile 952/953/955 area offset by decreases due to older properties normal and expected declines in production.

Oil production during the first quarter of 2003 totaled 45,000 barrels and generated \$1.4 million in revenues compared to 54,000 barrels and \$1.0 million in revenues for the same period in 2002. Average oil prices received in the first quarter of 2003 were \$31.32 compared to \$18.65 in 2002.

##### Lease Operating Expenses

Lease operating expenses, for the three-month period ending March 31, 2003 increased to \$2.9 million compared to \$2.6 million for the same period in 2002

due primarily to increased activity in the Mobile 952/953/955 and Mobile 864 areas.

#### Depreciation, Depletion and Amortization

Depreciation, depletion and amortization for the three months ending March 31, 2003 and 2002 were \$7.4 million and \$5.6 million, respectively. The 32% increase was due primarily to the downward reserve revisions at Boomslang at the end of 2002. This decrease in estimated proved reserves, over which depletable costs are amortized, increased the per unit depletion rate. Production increases in the quarter also contributed to the higher costs in this category.

#### Accretion Expense

Accretion expense represents the change in the liability due to the passage of time for asset retirement obligations as recorded from the adoption of SFAS 143 at January 1, 2003 through the end of the current quarter.

#### General and Administrative

General and administrative expense, net of amounts capitalized, remained constant at \$1.2 million and \$1.1 million for the three month periods ended March 31, 2003 and March 31, 2002, respectively.

#### Interest Expense

Interest expense increased to \$7.2 million during the three months ended March 31, 2003 from \$5.7 million during the three months ended March 31, 2002. An increase in the Company's long-term debt contributed to the greater interest expense as well as higher interest rates associated with the additional debt incurred in 2002 and a decrease in capitalized interest due to a decrease in unevaluated properties.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET 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 supplies, weather conditions, economic conditions and government actions. From time to time, the Company enters into derivative financial instruments (forward sales or swaps) 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 from time to time has acquired puts which reduce the Company's exposure to decreases in commodity prices while allowing realization of the full benefit from any increases in commodity prices.

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 the 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 from 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 hedge transactions for speculative purposes. However, certain of the Company's positions may not be designated as hedges for accounting purposes.

See Note 3 to the Consolidated Financial Statements for a description of the Company's hedged position at March 31, 2003. There have been no significant changes in market risks faced by the Company since the end of 2002.

### ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures. Based on their evaluation as of a date within 90 days of the filing date of this Quarterly Report on Form 10-Q, the Company's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934 (the "Exchange Act")) are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission.

(b) Changes in Internal Controls. There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

CALLON PETROLEUM COMPANY

PART II. OTHER INFORMATION

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 fiscal year ended December 31, 1994, File No. 000-25192)
  - 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 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 Specimen Preferred Stock Certificate (incorporated by reference from Exhibit 4.2 of the Company's Registration Statement on Form S-1, filed November 13, 1995, 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, 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, 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, filed November 22, 1996, Reg. No. 333-15501)
  - 4.6 Indenture for the Company's 10.125% Senior Subordinated Notes due 2002 dated as of July 31, 1997 (incorporated by reference from Exhibit 4.1

of the Company's Registration Statement on Form S-4, filed September 25, 1997, Reg. No. 333-36395)

- 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)
  - 4.8 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)
  - 4.9 Subordinated Indenture for the Company dated October 26, 2000 (incorporated by reference from Exhibit 4.1 of the Company's Current Report on Form 8-K dated October 24, 2000, File No.001-14039)
  - 4.10 Supplemental Indenture for the Company's 11% Senior Subordinated Notes due 2005 (incorporated by reference from Exhibit 4.2 of the Company's Current Report on Form 8-K dated October 24, 2000, File No. 001-14039)
  - 4.11 Warrant dated as of June 29, 2001 entitling Duke Capital Partners, LLC to purchase common stock from the Company. (incorporated by reference to Exhibit 4.11 of the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2001, File No. 001-14039)
  - 4.12 First Supplemental Indenture, dated June 26, 2002, to Indenture between Callon Petroleum Company and American Stock Transfer & Trust Company dated July 31, 1997. (incorporated by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K dated June 26, 2002, File No. 001-14039)
  - 4.13 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)
  - 4.14 Second Supplemental Indenture, dated September 16, 2002, to Indenture between Callon Petroleum Company and American Stock Transfer & Trust Company dated July 31, 1997. (incorporated by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K dated September 16, 2002, File No. 001-14039)
10. Material contracts\*
  11. Statement re 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\*

99. Additional exhibits

99.1 Certification of Chief Executive Officer  
pursuant to 18 U.S.C. Section 1350, as adopted  
pursuant to Section 906 of the Sarbanes-Oxley  
Act of 2002

99.2 Certification of Chief Financial Officer  
pursuant to 18 U.S.C. Section 1350, as adopted  
pursuant to Section 906 of the Sarbanes-Oxley  
Act of 2002

(b) Reports on Form 8-K

None

\*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: May 15, 2003 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)

#### 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 quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly 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-14 and 15d-14) for the registrant and we have:

(a) Designed such disclosure controls and procedures 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 quarterly report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

(c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed,



based on our most recent evaluation, 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 in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 15, 2003

By: /s/ Fred L. Callon

-----  
Fred L. Callon, President and Chief  
Executive Officer (Principal Executive  
Officer)

#### CERTIFICATIONS

I, John S. Weatherly, certify that:

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

2. Based on my knowledge, this quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly 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-14 and 15d-14) for the registrant and we have:

(a) Designed such disclosure controls and procedures 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 quarterly report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

(c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, 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 in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 15, 2003

By: /s/ John S. Weatherly

-----  
John S. Weatherly, Senior Vice President  
and Chief Financial Officer  
(Principal Financial Officer)

EXHIBIT INDEX

<TABLE>

<CAPTION>

EXHIBIT NUMBER	TITLE OF DOCUMENT
----------------	-------------------

-----  
<S>

<C>

99.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
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99.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
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</TABLE>

EXHIBIT 99.1

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Callon Petroleum Company (the "COMPANY") on Form 10-Q for the quarterly period ended March 31, 2003, as filed with the Securities and Exchange Commission on the date hereof (the "REPORT"), I, Fred L. Callon, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section. 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: May 15, 2003

/s/ Fred L. Callon

-----  
Fred L. Callon, Chief Executive Officer

EXHIBIT 99.2

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Callon Petroleum Company (the "COMPANY") on Form 10-Q for the quarterly period ended March 31, 2003, as filed with the Securities and Exchange Commission on the date hereof (the "REPORT"), I, John S. Weatherly, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section. 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: May 15, 2003

/s/ John S. Weatherly

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John S. Weatherly, Chief Financial Officer