

Edgar Filing: CREDO PETROLEUM CORP - Form 10QSB

CREDO PETROLEUM CORP
Form 10QSB
June 14, 2004

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-QSB

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934.

For Quarter Ended April 30, 2004

Commission File Number 0-8877

CREDO PETROLEUM CORPORATION

Colorado 84-0772991
(State of Incorporation) (IRS Employer Identification)

1801 Broadway, Suite 900 80202
Denver, Colorado (Zip Code)
(Address of principal executive office)

303-297-2200
(Telephone Number)

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 the number of shares outstanding of each of the issuer's classes of common stock, net of treasury stock, as of May 31, 2004: Common stock, \$.10 par value - 6,036,849
Preferred stock, no par value - None issued

CREDO PETROLEUM CORPORATION

Index to Form 10-QSB

For Quarter Ended April 30, 2004

Edgar Filing: CREDO PETROLEUM CORP - Form 10QSB

PART I - FINANCIAL INFORMATION

Consolidated Balance Sheets As of April 30, 2004
(Unaudited) and October 31, 2003

Consolidated Statements of Earnings and Changes in
Retained Earnings (Unaudited) For the Six and
Three Month Periods Ended April 30, 2004 and 2003

Consolidated Statements of Cash Flows (Unaudited)
For the Six Month Periods Ended April 30, 2004 and 2003

Management's Discussion and Analysis of Financial
Condition and Results of Operations

PART II - OTHER INFORMATION

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

The Company's annual meeting of shareholders was held on March 11, 2005. The following matters, as described more fully in the company's Proxy Statement, were approved by the shareholders:

(1) The following Class I nominees for director were elected:

	For -----	Withhold -----
Oakley Hall	3,405,223	78,302
William F. Skewes	3,372,827	110,698

(2) Hein + Associates LLP was approved as the independent auditors of the Company for the fiscal year 2004. The shareholders voted 3,458,131 for and 21,553 against this appointment, with 3,841 abstentions.

There were 530,946 non-votes for each matter voted upon.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

- 31.1 Certification by Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification by Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification by Chief Executive Officer and Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act

Edgar Filing: CREDO PETROLEUM CORP - Form 10QSB

(18 U.S.C. Section 1350)

(b) Reports on Form 8-K

On March 12, 2004 CREDO Petroleum Corporation filed a current report on Form 8-K reporting under Item 9 pursuant to Item 12 that we had issued a press release announcing our financial results for the quarter ended January 31, 2004.

The accompanying unaudited consolidated financial statements have been prepared in accordance with U. S. generally accepted accounting principles for interim financial information and with the instructions for Form 10-QSB and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U. S. generally accepted accounting principles for complete financial statements. In the opinion of management, the consolidated financial statements contain all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the company's results for the periods presented. These consolidated financial statements should be read in conjunction with the company's Form 10-KSB for the fiscal year ended October 31, 2003.

CREDO PETROLEUM CORPORATION
Consolidated Balance Sheets

A S S E T S

	April 30, 2004	October 31, 2003
	-----	-----
	(Unaudited)	
CURRENT ASSETS:		
Cash and cash equivalents	\$ 908,000	\$ 1,885,000
Short term investments	6,476,000	4,778,000
Receivables:		
Trade	982,000	410,000
Accrued oil and gas sales	1,437,000	1,256,000
Other	175,000	234,000
	-----	-----
Total current assets	9,978,000	8,563,000
	-----	-----
OIL AND GAS PROPERTIES, net,		
at cost, using full cost method:		
Unevaluated	2,494,000	2,075,000
Evaluated	12,683,000	11,986,000
	-----	-----
Net oil and gas properties	15,177,000	14,061,000
	-----	-----
EXCLUSIVE LICENSE AGREEMENT, net of		
amortization of \$256,000 in 2004		
and \$221,000 in 2003	443,000	478,000
OTHER, net	1,004,000	470,000

Edgar Filing: CREDO PETROLEUM CORP - Form 10QSB

	-----	-----
	\$ 26,602,000	\$ 23,572,000
	=====	=====
L I A B I L I T I E S A N D S T O C K H O L D E R S ' E Q U I T Y		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$ 2,603,000	\$ 1,776,000
Income taxes payable	257,000	210,000
	-----	-----
Total current liabilities	2,860,000	1,986,000
	-----	-----
DEFERRED INCOME TAXES, net	3,979,000	3,358,000
EXCLUSIVE LICENSE OBLIGATION, less current obligations of \$53,000	355,000	355,000
ASSET RETIREMENT OBLIGATION	270,000	238,000
COMMITMENTS		
STOCKHOLDERS' EQUITY:		
Preferred stock, without par value, 5,000,000 shares authorized, none issued	-	-
Common stock, \$.10 par value, 20,000,000 shares authorized, 6,340,000 shares issued in 2004 and 2003	634,000	634,000
Capital in excess of par value	12,463,000	12,463,000
Retained earnings, net of \$6,277,000 related to 20% stock dividend in 2003	7,013,000	5,062,000
Other comprehensive income (loss)	(462,000)	180,000
Treasury stock, at cost, 322,000 shares in 2004 and 378,000 shares in 2003	(510,000)	(704,000)
	-----	-----
Total stockholders' equity	19,138,000	17,635,000
	-----	-----
	\$ 26,602,000	\$ 23,572,000
	=====	=====

See accompanying notes.

CREDO PETROLEUM CORPORATION
Consolidated Statements of Earnings And Changes in
Retained Earnings - Unaudited

Six Months Ended April 30 2004	Six Months Ended April 30 2003	Quarter Ended April 30 2004	Quarter Ended April 30 2003
-----	-----	-----	-----

Edgar Filing: CREDO PETROLEUM CORP - Form 10QSB

REVENUES:				
Oil and gas sales	\$ 4,706,000	\$ 3,034,000	\$ 2,101,000	\$ 1,445,000
Operating	292,000	251,000	155,000	125,000
Investment income and other	125,000	190,000	17,000	114,000
	<u>5,123,000</u>	<u>3,475,000</u>	<u>2,273,000</u>	<u>1,684,000</u>
COSTS AND EXPENSES:				
Oil and gas production	932,000	692,000	472,000	365,000
Depreciation, depletion and amortization	791,000	605,000	362,000	282,000
General and administrative	667,000	606,000	336,000	328,000
Interest	23,000	23,000	11,000	12,000
	<u>2,413,000</u>	<u>1,926,000</u>	<u>1,181,000</u>	<u>987,000</u>
INCOME BEFORE INCOME TAXES AND ACCOUNTING CHANGE				
	2,710,000	1,549,000	1,092,000	697,000
INCOME TAXES				
	(759,000)	(434,000)	(306,000)	(195,000)
INCOME BEFORE ACCOUNTING CHANGE				
	1,951,000	1,115,000	786,000	502,000
CUMULATIVE EFFECT ON PRIOR YEARS OF SFAS 143-ACCOUNTING FOR ASSET RETIREMENT OBLIGATIONS (NET OF TAXES OF \$28,000)				
	-	72,000	-	-
NET INCOME				
	1,951,000	1,187,000	786,000	502,000
RETAINED EARNINGS, BEGINNING OF PERIOD				
	5,062,000	8,209,000	6,227,000	8,894,000
20% STOCK DIVIDEND				
	-	(6,277,000)	-	(6,277,000)
RETAINED EARNINGS, END OF PERIOD				
	<u>\$ 7,013,000</u>	<u>\$ 3,119,000</u>	<u>\$ 7,013,000</u>	<u>\$ 3,119,000</u>
BASIC INCOME PER SHARE BEFORE ACCOUNTING CHANGE				
	\$.32	\$.19	\$.13	\$.08
CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE				
	-	.01	-	-
BASIC NET INCOME PER SHARE				
	\$.32	\$.20	\$.13	\$.08

Edgar Filing: CREDO PETROLEUM CORP - Form 10QSB

	=====	=====	=====	=====
DILUTED INCOME PER SHARE				
BEFORE ACCOUNTING CHANGE	\$.32	\$.19	\$.13	\$.08
CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE	-	.01	-	-
	-----	-----	-----	-----
DILUTED NET INCOME PER SHARE	\$.32	\$.20	\$.13	\$.08
	=====	=====	=====	=====

See accompanying notes.

CREDO PETROLEUM CORPORATION
Consolidated Statements of Cash Flows - Unaudited

	Six Months Ended April 30,	
	2004	2003
	-----	-----
OPERATING ACTIVITIES:		
Net income	\$ 1,951,000	\$ 1,187,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	791,000	605,000
Deferred income taxes	621,000	506,000
Cumulative effect of change in accounting principle	-	(72,000)
Other	-	-
Changes in operating assets and liabilities:		
Proceeds from short term investments	421,000	1,046,000
Purchase of short term investments	(2,119,000)	(718,000)
Trade receivables	(572,000)	8,000
Accrued oil and gas sales	(181,000)	(314,000)
Other	(17,000)	151,000
Accounts payable and accrued costs and expenses	326,000	506,000
Income tax payable	47,000	(6,000)
	-----	-----
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,268,000	2,899,000
	-----	-----
INVESTING ACTIVITIES:		
Additions to oil and gas properties, net	(1,945,000)	(2,569,000)
Proceeds from sale of oil and gas properties	149,000	-
Changes in other long-term assets	(643,000)	9,000
	-----	-----
NET CASH USED IN INVESTING ACTIVITIES	(2,439,000)	(2,560,000)
	-----	-----
FINANCING ACTIVITIES:		
Proceeds from exercise of stock options		

Edgar Filing: CREDO PETROLEUM CORP - Form 10QSB

(58,500 options in 2004)	233,000	-
Purchase of treasury stock		
(2,000 shares in 2004 and 100 shares in 2003)	(39,000)	(1,000)
	-----	-----
NET CASH PROVIDED BY (USED IN)		
FINANCING ACTIVITIES	194,000	(1,000)
	-----	-----
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(977,000)	338,000
CASH AND CASH EQUIVALENTS:		
Beginning of Period	1,885,000	1,324,000
	-----	-----
End of Period	\$ 908,000	\$ 1,662,000
	=====	=====
Supplemental Cash Flow Information:		
Cash paid for income taxes	\$ 98,000	\$ -
	=====	=====

See accompanying notes.

CREDO PETROLEUM CORPORATION
Management's Discussion and Analysis of Financial
Condition and Results of Operations
April 30, 2004

LIQUIDITY AND CAPITAL RESOURCES

At April 30, 2004, working capital was \$7,118,000, compared with \$6,577,000 at October 31, 2003. Net cash provided by operating activities for the first six months of 2004 and 2003 was \$1,268,000 and \$2,899,000, respectively and comprises primarily net income, depreciation, depletion and amortization ("DD&A"), deferred income taxes, reduced by net (increases)/decreases in short-term investments, and increases in accrued oil and gas sales in each of the two periods. For 2004, such amounts are \$1,951,000, \$791,000, \$621,000, \$(1,698,000), and \$(181,000), respectively. For 2003, such amounts are \$1,187,000, \$605,000, \$506,000, \$328,000, and \$314,000, respectively. For the six months ended April 30, 2004 and 2003, cash used in investing activities was \$2,439,000 and \$2,560,000, respectively. Investing activities primarily included oil and gas exploration and development expenditures, including Calliope, totaling \$1,945,000 and \$2,569,000, respectively. Additional expenditures for oilfield casing and tubing were incurred in March 2004, and are classified as other long-term assets. The company purchased these tubulars to insure availability for the current drilling program.

The average return on CREDO's investments during the first six months was 2% in 2004 and 4% in 2003. At April 30, approximately 66% of the investments were directly invested in mutual funds and brokerage accounts managed by professional money managers. Remaining investments are in managed partnerships that use various strategies to minimize their correlation to stock market movements. Most of the investments are highly liquid, and

Edgar Filing: CREDO PETROLEUM CORP - Form 10QSB

the company believes they represent a responsible approach to cash management. In the company's opinion, the greatest investment risk is the potential for negative market impact from unexpected, major adverse news, such as the September 11th terrorist attacks.

Existing working capital and anticipated cash flow are expected to be sufficient to fund 2004 operations. Because earnings are anticipated to be reinvested in operations, cash dividends are not expected to be paid in the foreseeable future. Commitments for future capital expenditures were not material at April 30, 2004. The company has no defined benefit plans and no obligations for post retirement employee benefits.

PRODUCT PRICES AND PRODUCTION

Although product prices are key to the company's ability to operate profitably and to budget capital expenditures, they are beyond the company's control and are difficult to predict. Since 1991, the company has periodically hedged natural gas prices by forward selling a portion of its estimated production in the NYMEX futures market. This is generally done when (i) the price relationship (the "basis") between the futures markets and the cash markets where the company sells its gas is stable within historical ranges, and (ii) in the company's opinion, the current price is adequate to insure reasonable returns at a time when downside price risks appear to be substantial. The company closes its hedges by purchasing offsetting "long" positions in the futures market at then prevailing prices. Accordingly, the gain or loss on the hedge position will depend on futures prices at the time offsetting "long" positions are purchased. Hedging gains and losses are included in revenues from oil and gas sales. The company believes its most significant hedging risk is that expected correlations in price movements as discussed above do not occur, and thus, that gains or losses in one market are not fully offset by opposite moves in the other market.

The company recognizes all derivatives on the balance sheet at fair value at the end of each period. Changes in the fair value of a cash flow hedge are recorded in Other Comprehensive Income on the Consolidated Balance Sheets and then are reclassified into the Consolidated Statement of Earnings as the underlying hedged item affects earnings. Amounts reclassified into earnings related to natural gas hedges are included in oil and gas sales.

The company realized hedging losses of \$57,000 and \$437,000 for the six months ended April 30, 2004 and 2003, respectively. The company realized hedging losses of \$137,000 and \$548,000 for the comparable quarters ended April 30, 2004 and 2003. At April 30, 2004 the company has recorded in other comprehensive income net deferred losses of approximately \$642,000 (\$462,000 net of tax) related to natural gas hedging transactions.

At second quarter-end, the company had open hedge positions totaling 600 MMcfg covering the months of May through October 2004 at an average NYMEX price of \$4.81 per Mcf. Also at second quarter-end, the May hedge was closed and a deferred loss of \$112,000 was realized. The remaining hedges are ratably allocated to June through October 2004, and are expected to cover

Edgar Filing: CREDO PETROLEUM CORP - Form 10QSB

less than 65% of the company's estimated total production for those five months. Average gas prices in the company's market areas are expected to be 15% to 17% below NYMEX prices due to basis differentials and transportation costs.

During 2004 the company entered into a bank hedging line of credit facility with a maximum threshold amount of \$2,000,000. At April 30, 2004, 30% of the company's open natural gas hedge positions were covered by this agreement. The company also hedged the basis differential between the NYMEX and Panhandle Eastern Pipeline Co. prices on 200 MMcfg for the months of May 2004 through October 2004.

The following table sets forth the components of Comprehensive Income for each of the periods presented:

	Six Months Ended April 30,		Three Months Ended April 30,	
	2004	2003	2004	2003
	-----	-----	-----	-----
Net Income	\$ 1,951,000	\$ 1,187,000	\$ 786,000	\$ 502,000
Other comprehensive income (loss), net of tax:				
Change in fair value of futures contracts used for natural gas hedging	(642,000)	(37,000)	(279,000)	113,000
	-----	-----	-----	-----
Comprehensive income	\$ 1,309,000	\$ 1,150,000	\$ 507,000	\$ 615,000
	=====	=====	=====	=====

Oil and gas sales volume and price comparisons for the indicated periods are set forth below. Price realizations include the sales price and hedging gains and losses.

Product	Six Months Ended April 30, 2004		Six Months Ended April 30, 2003		Percent Volume	Percent Price
	Volume	Price	Volume	Price	Change	Change
-----	-----	-----	-----	-----	-----	-----
Gas (Mcf)	861,000	\$ 4.69(1)	630,700	\$ 4.04(3)	+ 36%	+ 16%
Oil (bbls)	21,200	\$31.58	17,300	\$28.27	+ 23%	+ 12%

Product	Three Months Ended April 30, 2004		Three Months Ended April 30, 2003		Percent Volume	Percent Price
	Volume	Price	Volume	Price	Change	Change
-----	-----	-----	-----	-----	-----	-----
Gas (Mcf)	403,000	\$ 4.30(2)	317,700	\$ 3.77(4)	+ 27%	+ 14%
Oil (bbls)	11,200	\$32.77	8,100	\$30.55	+ 38%	+ 7%

Edgar Filing: CREDO PETROLEUM CORP - Form 10QSB

- (1) Includes \$0.07 Mcf hedging loss.
- (2) Includes \$0.34 Mcf hedging loss.
- (3) Includes \$0.69 Mcf hedging loss.
- (4) Includes \$1.72 Mcf hedging loss.

OPERATIONS

The company's business focuses on two core projects--natural gas drilling along the shelf of the Northern Anadarko Basin of Oklahoma and application of its patented Calliope Gas Recovery System. The company believes that, in combination, these two projects provide an excellent (and possibly unique) balance for achieving its goal of adding long-lived gas reserves and production at reasonable costs and risks.

Anadarko Shelf Drilling Program. The company drills primarily for natural gas on its 40,000 gross acre inventory located along the northern shelf of the Anadarko Basin of Oklahoma. During fiscal 2004, the company has drilled eight wells in this area with an 88% success rate. Three previously reported wells have been completed for production. One additional well is awaiting completion and pipeline connection. All of the completions occurred after second quarter-end. Seven new wells are currently on the summer drilling schedule.

The Rosalee #1-9 was recently drilled on the company's 17,000 gross acre Sand Creek Prospect located in Ellis and Harper Counties, Oklahoma. It is the 21st well drilled on the prospect, and established production about one mile west of the Bobby John #1-10. The 7,825-foot well encountered 10 feet of porous Morrow sand and is currently producing from a natural completion on an 18\64-inch choke at a daily rate of 1.15 MMcfg (million cubic feet of gas per day). A north offset has been permitted. CREDO is the operator and owns a 26% working interest.

About one mile to the west, the company drilled a north offset to a new oil discovery flowing in excess of 100 barrels of oil per day from the Oswego limestone formation. The well resulted in a dry hole. The company has a very small working interest in the discovery well.

Approximately seven miles to the north, the Eva #1-34 was recently completed on the company's 6,000 gross acre Two Springs Prospect in Harper County. It is the seventh well drilled on the prospect and extended Morrow sand production about one-half mile north of the Gillenwaters #1-34. The 7,200-foot well encountered seven feet of porous Morrow sand with excellent pressure. Prior to fracture stimulation, it is producing from a natural completion on a 24\64-inch choke at a daily rate in excess of 700 Mcfg (thousand cubic feet of gas). CREDO is the operator and owns a 34% working interest.

Approximately eight miles to the north, the Owens #1-21 has been completed as a new oil discovery on the company's 2,560 gross acre Buffalo Creek Prospect in Harper County. The 6,900-foot well encountered 14 feet of porous Oswego limestone and is currently producing on pump at the daily rate in excess of 100 barrels of oil and 100 Mcfg. This well is also awaiting

Edgar Filing: CREDO PETROLEUM CORP - Form 10QSB

stimulation. CREDO is the operator and owns a 31% working interest. Two additional wells are being permitted for drilling and more wells are expected.

About 11 miles east of the Rosalee, the company has drilled the first well on its 1,920 gross acre Horseshoe Prospect in Harper County. The 7,200-foot well encountered six feet of porous Morrow sand. Drilling data and electric logs indicate that it will be productive and it is awaiting completion and pipeline connection. CREDO is the operator and owns a 49% working interest.

Seven additional wells are currently on the summer drilling schedule. A rank wildcat will test the company's new 1,920 gross acre Glacier Prospect in Harper County, Oklahoma. The prospect is located about five miles east of the Sand Creek Prospect. CREDO will operate five of the scheduled wells and is currently waiting on rig availability which is anticipated in July.

Calliope Gas Recovery Technology. The company owns the exclusive right to a patented technology known as the Calliope Gas Recovery System. Calliope can achieve substantially lower flowing bottom hole pressure than conventional production methods because it does not rely on reservoir pressure to lift liquids. In many gas wells, lower bottom hole pressure translates into recovery of substantial additional gas reserves.

This year, the company has installed its Calliope Gas Recovery System on two wells located in Oklahoma. Four systems are scheduled for installation.

The two completed installations are prototypes to test Calliope on wells with known reservoir damage caused by the "parting shots" of previous operators. These prototypes represent very rigorous challenges for Calliope which could further expand its application envelope. The company is performing a group of reservoir treatments designed to mitigate the reservoir damage. Such procedures are generally not practical in low pressure reservoirs because the treatment fluids load-up the well and are often impossible to recover. Calliope can normally remove the fluids, thus substantially increasing the probability of successfully treating low pressure reservoirs. CREDO owns an 80% working interest in the wells and is the operator.

The company is preparing to install Calliope systems on four additional wells. These wells are all located in Oklahoma and range in depth from 7,800 to 12,000 feet. They had cumulative production ranging up to 16.1 Bcfg (billion cubic feet of gas). All of the wells were dead at the time of purchase. These Calliope installations are expected at the rate of about one per month barring any delays caused by a backlog for field services.

Calliope has proven to be reliable and flexible over a wide range of applications on wells the company owns and operates. It has also proven to be consistently successful. This has resulted in an impressive track record for the new technology. Accordingly, the company has recently begun implementing strategies to substantially increase the number of wells on which Calliope will be installed.

Edgar Filing: CREDO PETROLEUM CORP - Form 10QSB

STOCK SPLIT AND DIVIDEND

On March 24, 2004, the company declared a three-for-two stock split to shareholders of record on April 5, 2004. Accordingly, 2,006,000 additional shares were issued on April 20, 2004. Common stock has been increased by the par value of the shares issued with a corresponding decrease in capital in excess of par value.

On March 19, 2003, the company declared a 20% stock dividend to shareholders of record on April 2, 2003. On April 23, 2003, the company issued 656,000 shares of common stock in conjunction with this dividend. Accordingly, the fair value (based on the quoted market price as adjusted) of the additional shares issued of \$6,277,000 was charged to retained earnings and credited to common stock and capital in excess of par value.

In both transactions, cash payments were made to shareholders in lieu of fractional shares. The basic and diluted weighted average number of shares outstanding and net income per share information for all prior reporting periods have been restated to reflect the effects of the stock split in 2004 and the stock dividend in 2003.

CHANGE IN ACCOUNTING PRINCIPLE

In June 2001, the Financial Accounting Standards Board issued SFAS No. 143, "Accounting for Asset Retirement Obligations" that requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred and a corresponding increase in the carrying amount of the related long-lived asset. The company adopted SFAS No. 143 on November 1, 2002 and recorded an asset and related liability of \$179,000 (using a 5% discount rate) and a cumulative effect on change in accounting principle on prior years of \$72,000 (net of taxes of \$28,000). For the six month periods ended April 30, 2004 and 2003, the company recognized \$6,000 and \$4,000, respectively, of accretion expense on the liability.

STOCK-BASED COMPENSATION

In December 2002, the Financial Accounting Standards Board issued SFAS No. 148, "Accounting for Stock-Based Compensation -- Transition and Disclosure, an amendment of SFAS No. 123." Among other provisions, the statement amends the disclosure requirements of SFAS No. 123, "Accounting for Stock-Based Compensation." Under current accounting rules the company elected to account for its stock-based employee compensation under the intrinsic value method established by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees."

If compensation expense had been determined in accordance with the provisions of SFAS No. 123, the company's net income and per share amounts would have been reported as follows:

Six Months Ended

Three Months Ended

Edgar Filing: CREDO PETROLEUM CORP - Form 10QSB

	April 30,		April 30,	
	2004	2003	2004	2003
	-----	-----	-----	-----
Net Income as reported	\$ 1,951,000	\$ 1,187,000	\$ 786,000	\$ 502,000
Pro forma stock compensation expense, net of tax	(141,000)	(24,000)	(70,000)	(12,000)
	-----	-----	-----	-----
Pro forma net income	\$ 1,810,000	\$ 1,163,000	\$ 716,000	\$ 490,000
	=====	=====	=====	=====
Basic net income per share:				
As reported	\$ 0.32	\$ 0.20	\$ 0.13	\$ 0.08
	=====	=====	=====	=====
Pro forma	\$.30	\$ 0.19	\$ 0.12	\$ 0.08
	=====	=====	=====	=====
Diluted net income per share:				
As reported	\$ 0.32	\$ 0.20	\$ 0.13	\$ 0.08
	=====	=====	=====	=====
Pro forma	\$ 0.29	\$ 0.19	\$ 0.11	\$ 0.08
	=====	=====	=====	=====

INCOME TAXES

The company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes (SFAS 109), which requires the asset and liability method of accounting for deferred income taxes. Deferred tax assets and liabilities are determined based on the temporary differences between the financial statement and tax basis of assets and liabilities. Deferred tax assets or liabilities at the end of each period are determined using the tax rate in effect at that time.

The total future deferred income tax liability under SFAS 109 is extremely complicated for any energy company to estimate due in part to the long-lived nature of depleting oil and gas reserves and variables such as product prices. Accordingly, the liability is subject to continual recalculation, revision of the numerous estimates required, and may change significantly in the event of such things as major acquisitions, divestitures, product price changes, changes in reserve estimates, changes in reserve lives, and changes in tax rates or tax laws.

RESULTS OF OPERATIONS

Six Months Ended April 30, 2004 Compared to Six Months Ended April 30, 2003

For the six months ended April 30, 2004, net income rose 64% to \$1,951,000 compared to \$1,187,000 last year. Higher net income resulted primarily from a 35% increase in production volumes and a 15% increase in product prices.

Total revenues rose 47% to \$5,123,000 compared to \$3,475,000

Edgar Filing: CREDO PETROLEUM CORP - Form 10QSB

last year. Oil and gas sales rose 55% to \$4,706,000 compared to \$3,034,000 last year. Total natural gas price realizations, including the effect of hedging transactions, rose 16% to \$4.69 per Mcf compared to \$4.04 last year. Net wellhead prices for oil rose 12% to \$31.58 per barrel compared to \$28.27 last year. Natural gas production rose 36% to 861,000 Mcf compared to 630,700 Mcf last year and oil production rose 23% to 21,200 bbls compared to 17,300 bbls last year. The effect of these higher volumes and prices was to increase oil and gas sales by \$1,672,000. Operating income increased 16% due to an increase in drilling and production overhead income from new operated wells. Investment income and other decreased to \$125,000 compared to \$190,000, for the same six month period last year due to a shift to more conservative investments and general market declines.

Total costs and expenses increased 25% to \$2,413,000 in the first six months of fiscal 2004 compared to \$1,926,000 last year. Oil and gas production expenses rose 35%, or \$240,000, due primarily to increased production taxes resulting from increased production volumes and prices. Depreciation, depletion and amortization increased 31% primarily due to increased production and an increase in the amortizable full cost pool base. General and administrative expenses increased 10% due to increases in salaries and wages, consulting fees relating to increased regulatory requirements as well as inflationary pressures. Interest expense primarily relates to the accrual of interest on the exclusive license agreement obligation. Income taxes were provided at 28% in both 2004 and 2003.

Three Months Ended April 30, 2004 Compared to Three Months Ended April 30, 2003

For the three months ended April 30, 2004, net income rose 57% to \$786,000 compared to \$502,000 last year. Higher net income resulted primarily from a 28% increase in production volumes and a 13% increase in product prices.

Total revenues rose 35% to \$2,273,000 compared to \$1,684,000 last year. Oil and gas sales rose 45% to \$2,101,000 compared to \$1,445,000 the same quarter last year. Total natural gas price realizations, including the effect of hedging transactions, rose 14% to \$4.30 per Mcf compared to \$3.77 last year. Net wellhead prices for oil rose 7% to \$32.77 per barrel compared to \$30.55 last year. Natural gas production rose 27% to 403,000 Mcf compared to 317,700 Mcf last year and oil production rose 38% to 11,200 bbls compared to 8,100 bbls last year. The effect of these higher volumes and prices was to increase oil and gas sales by \$656,000. Operating income increased 24% due to an increase in drilling and production overhead income from new operated wells. Investment income and other decreased to \$17,000 compared to \$114,000 last year due to the overall market declines experienced during the second quarter of 2004.

Total costs and expenses increased 20% to \$1,181,000 in the second quarter of fiscal 2004 compared to \$987,000 the same quarter last year. Oil and gas production expenses rose 29%, or \$107,000, due primarily to increased production taxes resulting from increased production volumes and prices as well as increased oilfield costs. Depreciation, depletion and amortization increased 27% primarily due to increased production and an increase in the amortizable full cost pool base. General and administrative expenses increased 2% due to inflationary

Edgar Filing: CREDO PETROLEUM CORP - Form 10QSB

pressures.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Accounting for Oil and Gas Property Costs. As more fully discussed in Note 1 to the consolidated financial statements included with the company's Form 10-KSB for the fiscal year ended October 31, 2003, the company (i) follows the full cost method of accounting for the costs of its oil and gas properties, (ii) amortizes such costs using the units of production method, and (iii) applies a quarterly full cost ceiling test. Adverse changes in conditions (primarily gas price declines) could result in permanent write-downs in the carrying value of oil and gas properties as well as non-cash charges to operations, but would not affect cash flows.

Estimates of Proved Oil and Gas Reserves. An independent petroleum engineer annually estimates approximately 60% of the company's proved reserves. The company estimates the remainder. Reserve engineering is a subjective process that is dependent upon the quality of available data and the interpretation thereof. In addition, subsequent physical and economic factors such as the results of drilling, testing, production and product prices may justify revision of such estimates. Therefore, actual quantities, production timing, and the value of reserves may differ substantially from estimates. A reduction in proved reserves would result in an increase in depreciation, depletion and amortization ("DD&A") expense. A large reduction in proved reserve quantities or values could result in a permanent write-down in the carrying value of oil and gas properties as discussed in Accounting for Oil and Gas Property Costs above.

Estimates of Asset Retirement Obligations. In accordance with SFAS No 143, the company makes estimates of future costs and the timing thereof in connection with recording its future obligations to plug and abandon wells. Estimated abandonment dates will be revised in the future based on changes to related economic lives, which vary with product prices and production costs. Estimated plugging costs may also be adjusted to reflect changing industry experience. Increases in operating costs and decreases in product prices would increase the estimated amount of the obligation and increase DD&A expense. Cash flows would not be affected until costs to plug and abandon were actually incurred.

CONTROLS AND PROCEDURES

Within 90 days prior to the filing date of this report, the company carried out an evaluation, under the supervision and with the participation of the company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of its "disclosure controls and procedures" pursuant to Securities Exchange Act Rule 13a-14(c). Disclosure controls and procedures are controls and procedures that are designed to ensure that information required to be disclosed by the company in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Based upon that evaluation, the company's Chief Executive Officer and Chief Financial Officer concluded that the company's disclosure controls and procedures are effective for these

Edgar Filing: CREDO PETROLEUM CORP - Form 10QSB

purposes as of the date of the evaluation.

There have been 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.

FORWARD-LOOKING STATEMENTS

Certain information included in this quarterly report and other materials filed by the company with the Commission contain forward-looking statements relating to the company's operations and the oil and gas industry. Such forward-looking statements are based on management's current projections and estimates and are identified by words such as "expects," "intends," "plans," "projects," "anticipates," "believes," "estimates" and similar words. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Therefore, actual results may differ materially from what is expressed or forecasted in such forward-looking statements. Among many factors that could cause actual results to differ materially are: (i) natural gas and crude oil price fluctuations, (ii) the company's ability to acquire oil and gas properties that meet its objectives and to identify prospects for drilling, and (iii) potential delays or failure to achieve expected production from existing and future exploration and development projects. In addition, such forward-looking statements may be affected by general domestic and international economic and political conditions.

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.

Date: June 14, 2004

By: /s/ James T. Huffman

James T. Huffman
President and Chief Executive Officer
(Principal Executive Officer)

By: /s/ James P. Garrett, Jr.

James P. Garrett, Jr.
Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 31.1

CERTIFICATION PURSUANT TO RULE 15D-14
OF THE SECURITIES EXCHANGE ACT OF 1934,
AS AMENDED AS ADOPTED PURSUANT TO

Edgar Filing: CREDO PETROLEUM CORP - Form 10QSB

SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, James T. Huffman, Chief Executive Officer of CREDO Petroleum Corporation, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of CREDO Petroleum Corporation;
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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) for the Registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's Board of Directors:
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves

Edgar Filing: CREDO PETROLEUM CORP - Form 10QSB

management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: June 14, 2004

/s/ James T. Huffman

James T. Huffman
Chief Executive Officer

Exhibit 31.2

CERTIFICATION PURSUANT TO RULE 15D-14
OF THE SECURITIES EXCHANGE ACT OF 1934,
AS AMENDED AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, James P. Garrett, Jr., Vice President and Chief Financial Officer of CREDO Petroleum Corporation, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of CREDO Petroleum Corporation;
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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) for the Registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the

Edgar Filing: CREDO PETROLEUM CORP - Form 10QSB

Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's Board of Directors:
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: June 14, 2004

/s/ James P. Garrett, Jr.

James P. Garrett, Jr.
Vice President and Chief Financial Officer

Exhibit 32.1

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 CREDO Petroleum Corporation (the "Company") on Form 10-QSB for the period ending April 30, 2004 as filed with the Securities and Exchange on the date hereof (the "Report"), we, James T. Huffman and James P. Garrett, Jr., President and Chief Executive Officer, and Vice President and Chief Financial Officer, respectively, of the Company, certify, pursuant to 18 U.S.C., SS 1350, as adopted pursuant to SS 906 of the Sarbanes-Oxley Act of 2002, that to our knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

June 14, 2004

/s/ James T. Huffman

James T. Huffman
President and Chief Executive Officer

Edgar Filing: CREDO PETROLEUM CORP - Form 10QSB

/s/ James P. Garrett, Jr.

James P. Garrett, Jr.

Vice President and Chief Financial Officer