

Edgar Filing: CREDO PETROLEUM CORP - Form 10QSB

CREDO PETROLEUM CORP

Form 10QSB

September 15, 2003

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 July 31, 2003

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 ☒ No ☐

Indicate the number of shares outstanding of each of the issuer's classes of common stock, net of treasury stock, as of August 31, 2003: Common stock, \$.10 par value - 3,945,000
Preferred stock, no par value - None issued

CREDO PETROLEUM CORPORATION

Index to Form 10-QSB

For Quarter Ended July 31, 2003

Edgar Filing: CREDO PETROLEUM CORP - Form 10QSB

PART I - FINANCIAL INFORMATION

Consolidated Balance Sheets

As of July 31, 2003 (Unaudited) and October 31, 2002

Consolidated Statements of Earnings and Changes in Retained Earnings (Unaudited)

For the Nine and Three Month Periods Ended July 31, 2003 and 2002

Consolidated Statements of Cash Flows (Unaudited)

For the Nine Month Periods Ended July 31, 2003 and 2002

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

PART II - OTHER INFORMATION

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 under Section 906 of the Sarbanes-Oxley Act (18 U.S.C. Section 1350)

32.2 Certification by Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act (18 U.S.C. Section 1350)

(b) Reports on Form 8-K

On June 18, 2003 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 second quarter 2003 financial results and updated drilling results.

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. Certain reclassifications have been made to prior period amounts with no effect on net

Edgar Filing: CREDO PETROLEUM CORP - Form 10QSB

income. These consolidated financial statements should be read in conjunction with the company's Form 10-KSB for the fiscal year ended October 31, 2002.

CREDO PETROLEUM CORPORATION Consolidated Balance Sheets

A S S E T S

	July 31, 2003	October 31, 2002
	----- (Unaudited)	-----
CURRENT ASSETS:		
Cash and cash equivalents	\$ 2,316,000	\$ 1,324,000
Short term investments	4,993,000	5,586,000
Receivables:		
Trade	876,000	577,000
Accrued oil and gas sales	797,000	535,000
Other	387,000	390,000
	-----	-----
	9,369,000	8,412,000
	-----	-----
OIL AND GAS PROPERTIES, net, using full cost method:		
Unevaluated	2,595,000	1,690,000
Evaluated	10,777,000	7,987,000
	-----	-----
	13,372,000	9,677,000
	-----	-----
EXCLUSIVE LICENSE AGREEMENT, net of accumulated amortization of \$204,000 in 2003 and \$152,000 in 2002	495,000	548,000
OTHER, net	151,000	174,000
	-----	-----
	\$ 23,387,000	\$ 18,811,000
	=====	=====

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 costs and expenses	\$ 3,106,000	\$ 1,733,000
Income taxes payable	133,000	49,000
	-----	-----
	3,239,000	1,782,000
	-----	-----
DEFERRED INCOME TAXES	3,017,000	2,314,000
EXCLUSIVE LICENSE OBLIGATION, less current portion of \$48,000	408,000	408,000

Edgar Filing: CREDO PETROLEUM CORP - Form 10QSB

ASSET RETIREMENT OBLIGATION	211,000	-
-----------------------------	---------	---

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, 4,334,000 shares issued in 2003 and 3,678,000 issued in 2002	433,000	367,000
Capital in excess of par value including \$6,211,000 related to 20% stock dividend in 2003	12,664,000	6,453,000
Retained earnings, net of \$6,277,000 related to 20% stock dividend in 2003	3,916,000	8,209,000
Other comprehensive income	233,000	37,000
Treasury stock, at cost, 389,000 shares in 2003 and 398,000 shares in 2002	(734,000)	(759,000)
	-----	-----
	16,512,000	14,307,000
	-----	-----
	\$ 23,387,000	\$ 18,811,000
	=====	=====

See accompanying notes.

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

	Nine Months Ended July 31 2003	Nine Months Ended July 31 2002	Quarter Ended July 31 2003	Quarter Ended July 31 2002
	-----	-----	-----	-----
REVENUES:				
Oil and gas sales	\$5,014,000	\$3,519,000	\$1,980,000	\$1,342,000
Operating	386,000	365,000	135,000	123,000
Investment income and other	318,000	91,000	128,000	17,000
	-----	-----	-----	-----
	5,718,000	3,975,000	2,243,000	1,482,000
	-----	-----	-----	-----
COSTS AND EXPENSES:				
Oil and gas production	1,159,000	987,000	467,000	329,000
Depreciation, depletion and amortization	930,000	911,000	325,000	353,000
General and administrative	939,000	742,000	333,000	257,000
Interest	34,000	38,000	11,000	13,000
	-----	-----	-----	-----
	3,062,000	2,678,000	1,136,000	952,000

Edgar Filing: CREDO PETROLEUM CORP - Form 10QSB

	-----	-----	-----	-----
INCOME BEFORE				
INCOME TAXES AND				
ACCOUNTING CHANGE	2,656,000	1,297,000	1,107,000	530,000
INCOME TAXES	(744,000)	(389,000)	(310,000)	(159,000)
	-----	-----	-----	-----
INCOME BEFORE ACCOUNTING				
CHANGE	1,912,000	908,000	797,000	371,000
CUMULATIVE EFFECT ON				
PRIOR YEARS OF				
SFAS 143-ACCOUNTING				
FOR ASSET RETIREMENT				
OBLIGATIONS (NET OF				
TAXES OF \$28,000)	72,000	-	-	-
	-----	-----	-----	-----
NET INCOME	1,984,000	908,000	797,000	371,000
RETAINED EARNINGS,				
BEGINNING OF PERIOD	8,209,000	6,927,000	3,916,000	7,464,000
20% STOCK DIVIDEND	(6,277,000)	-	-	-
	-----	-----	-----	-----
RETAINED EARNINGS,				
END OF PERIOD	\$3,916,000	\$7,835,000	\$3,916,000	\$7,835,000
	=====	=====	=====	=====
BASIC INCOME PER SHARE				
BEFORE ACCOUNTING				
CHANGE	\$.48	\$.23	\$.20	\$.09
CUMULATIVE EFFECT OF				
A CHANGE IN ACCOUNTING				
PRINCIPLE	.02	-	-	-
	-----	-----	-----	-----
BASIC NET INCOME				
PER SHARE	\$.50	\$.23	\$.20	\$.09
	=====	=====	=====	=====
DILUTED INCOME PER SHARE				
BEFORE ACCOUNTING CHANGE	\$.48	\$.23	\$.20	\$.09
CUMULATIVE EFFECT OF A				
CHANGE IN ACCOUNTING				
PRINCIPLE	.02	-	-	-
	-----	-----	-----	-----
DILUTED NET INCOME				
PER SHARE	\$.50	\$.23	\$.20	\$.09
	=====	=====	=====	=====

See accompanying notes.

Edgar Filing: CREDO PETROLEUM CORP - Form 10QSB

CREDO PETROLEUM CORPORATION Consolidated Statements of Cash Flows - Unaudited

	Nine Months Ended July 31,	
	2003	2002
OPERATING ACTIVITIES:		
Net income	\$ 1,984,000	\$ 908,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	930,000	911,000
Deferred income taxes	675,000	222,000
Cumulative effect of change in accounting principle	(72,000)	-
Changes in operating assets and liabilities:		
Proceeds from short term investments	2,353,000	3,965,000
Purchase of short term investments	(1,760,000)	(4,286,000)
Trade receivables	(299,000)	113,000
Accrued oil and gas sales	(262,000)	(174,000)
Other	199,000	124,000
Accounts payable and accrued costs and expenses	435,000	484,000
Income tax payable	84,000	(36,000)
NET CASH PROVIDED BY OPERATING ACTIVITIES	4,267,000	2,005,000
INVESTING ACTIVITIES:		
Additions to oil and gas properties, net	(3,296,000)	(1,490,000)
Changes in other long-term assets	(4,000)	(55,000)
NET CASH USED IN INVESTING ACTIVITIES	(3,300,000)	(1,545,000)
FINANCING ACTIVITIES:		
Proceeds from exercise of stock options (9,600 options in 2003 and 75,000 options in 2002)	26,000	230,000
Purchase of treasury stock (100 shares in 2003 and 4,400 in 2002)	(1,000)	(30,000)
NET CASH PROVIDED BY FINANCING ACTIVITIES	25,000	200,000
INCREASE IN CASH AND CASH EQUIVALENTS	992,000	660,000
CASH AND CASH EQUIVALENTS:		
Beginning of Period	1,324,000	819,000
End of Period	\$ 2,316,000	\$ 1,479,000
Supplemental Cash Flow Information:		
Cash paid (refunds received) for income taxes	\$ (16,000)	\$ 88,000

=====

See accompanying notes.

CREDO PETROLEUM CORPORATION
Management's Discussion and Analysis of Financial
Condition and Results of Operations
July 31, 2003

LIQUIDITY AND CAPITAL RESOURCES

The company's working capital and cash flow represent a significant capital resource and source of liquidity. At July 31, 2003, working capital was \$6,130,000, compared to \$6,630,000 at October 31, 2002. Cash flow from operating activities before working capital changes totaled \$3,517,000 for the nine months, compared to \$2,041,000 from the same period last year.

Existing working capital and anticipated cash flow are expected to be sufficient to fund fiscal 2003 operations. However, if the company were to make one or more major acquisition during the coming year, bank borrowing, issuance of additional stock, or other forms of debt financing would be considered. Because earnings are anticipated to be reinvested in operations, cash dividends are not expected to be paid in the foreseeable future.

Pending deployment into oil and gas assets, cash is primarily invested with money managers who specialize in short-term timing of mutual funds. The average return on the company's portfolio was 7% for the first nine months of fiscal 2003 compared to 2% in the same period last year. Relatively low investment returns in 2002 and 2003 compared to prior years are primarily due to market conditions that have limited investment opportunities for the market timers which manage the bulk of the company's investments. Management considers the potential for adverse impact from major unexpected events, such as September 11, 2001, to be the major significant risk to its investment strategies.

The company's primary investment strategy involves market timing using U.S. mutual funds. The New York Attorney General recently disclosed that he has opened an investigation into whether some mutual funds companies are allowing market timing in violation of representations in their offering materials. As a result, management expects mutual funds companies to make market timing increasingly difficult or to eliminate it altogether and is considering options to redeploy a portion of the company's investments. The New York Attorney General is also investigating possible "after hours" trading by certain mutual fund companies and their customers. Although it is possible that the investigation could expand to include some of the company's money managers, management has no reason to believe that they have violated any after hours trading laws.

Commitments for future capital expenditures were not material at July 31, 2003. The timing of most capital expenditures for exploration and development is relatively discretionary. Therefore, the company can plan expenditures to

Edgar Filing: CREDO PETROLEUM CORP - Form 10QSB

coincide with available funds in order to minimize business risks.

PRODUCT PRICES, PRODUCTION AND OPERATIONS

Numerous uncertainties exist in the oil and gas exploration and production industry which are beyond the company's ability to predict with reasonable accuracy.

Gas price decontrol, the advent of an active spot market for natural gas, changes in supply and demand for natural gas, and weather patterns cause prices received by the company to be subject to significant fluctuations. Gas prices generally accelerate in peak demand periods such as the winter months and subside during lower demand periods.

Significant world events and OPEC's production and pricing policies influence OPEC and worldwide supply and demand and prices for crude oil and petroleum products.

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. The company periodically hedges the price of its natural gas production when the potential for significant downward price movement is anticipated. Hedging transactions take the form of forward, or "short", selling in the NYMEX futures market, and are closed by purchasing offsetting "long" positions. Such hedges, which are accounted for as cash flow hedges, do not exceed anticipated production volumes, are expected to have reasonable correlation between price movements in the futures market and the cash markets where the company's production is located, and are authorized by the company's Board of Directors. Hedges are expected to be closed and gains or losses recognized for financial reporting purposes as related production occurs. However, hedges may be closed earlier if the anticipated downward price movement occurs or if the company believes that the potential for such movement has abated. Such hedges may also be reinstated if the potential for such movement re-occurs or if management concludes that it has misjudged information used to make its decisions. All other futures transactions are accounted for as speculative transactions and gains and losses are immediately recognized.

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.

At July 31, 2003, open natural gas hedge positions totaled 150 MMcf covering the months of September through November 2003 at an average NYMEX price of \$6.42 per Mcf. The August hedge was closed and a \$84,000 deferred gain was realized. The company had hedging gains of \$49,000 for the quarter ended July 31, 2003 and hedging losses of \$388,000 for the nine months ended July 31, 2003. The company has recorded in other comprehensive income net deferred gains of approximately \$323,000 (\$233,000 net of tax)

Edgar Filing: CREDO PETROLEUM CORP - Form 10QSB

related to natural gas hedging transactions of which \$84,000 were realized and \$239,000 were unrealized.

Subsequent to third quarter-end, an additional 120 MMcf was hedged for the same three month period at an average NYMEX price of \$5.34 per Mcf. Hedged quantities for the months of September through November 2003 represent approximately 77% of the company's estimated gas production for those months. Hedges for the month of September 2003 have subsequently been closed resulting in a gain of approximately \$85,000.

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

	Nine Months Ended July 31,		Three Months Ended July 31,	
	2003	2002	2003	2002
Net Income	\$1,984,000	\$ 908,000	\$ 797,000	\$ 371,000
Other comprehensive income, net of tax:				
Change in fair value of futures contracts used for natural gas hedging	196,000	267,000	233,000	386,000
Comprehensive income	\$2,180,000	\$1,175,000	\$1,030,000	\$ 757,000

Oil and gas sales volume and price comparisons for the indicated periods are set forth below.

	Nine Months Ended July 31, 2003		Nine Months Ended July 31, 2002		Percent Volume Change	Percent Price Change
Product	Volume	Price	Volume	Price		
Gas (Mcf)	987,300	\$ 4.35(1)	1,002,500	\$ 2.94(3)	- 2%	+48%
Oil (bbls)	25,900	\$27.65	27,700	\$20.54	- 7%	+35%

	Three Months Ended July 31, 2003		Three Months Ended July 31, 2002		Percent Volume Change	Percent Price Change
Product	Volume	Price	Volume	Price		
Gas (Mcf)	349,300	\$ 5.02(2)	382,200	\$ 2.92(4)	- 9%	+72%
Oil (bbls)	8,600	\$26.41	9,800	\$23.27	-12%	+13%

(1) Includes \$0.40 Mcf hedging loss.

(2) Includes \$0.14 Mcf hedging gain.

Edgar Filing: CREDO PETROLEUM CORP - Form 10QSB

(3) Includes \$0.35 Mcf hedging gain.

(4) Includes \$0.05 Mcf hedging gain.

The company's growth strategy focuses on two core projects--drilling along the Anadarko Shelf of Oklahoma and application of its patented Calliope gas recovery technology.

Anadarko Shelf Drilling Program. The company's drilling program centers on its 14,000 gross acre Sand Creek Prospect and its 6,000 gross acre Two Springs Prospect, both located in Harper and Ellis Counties, Oklahoma. Drilling targets Morrow and Chester zones from 7,400 to 7,900 feet. In total, 24 wells have been drilled on the two prospects in the last two years, of which 19 were either completed as producers or are awaiting completion.

The company recently drilled four new wells on the two prospects. One well is producing, two are currently being completed for production, and one is a dry hole.

The first of these wells, the 7,280-foot Gillenwaters #1-34, extended Morrow production one mile north of the Wills #1-3. It was completed naturally (without acid or fracture treatments) from one Morrow sand totaling 10 feet, and is a very good well for the area. Pipeline sales commenced in early September and the well is currently producing on a 15/64-inch choke at the daily rate of 1.10 million cubic feet of gas (MMcfg). The company is the operator and owns a 34% working interest.

On the Sand Creek Prospect, the Derby #1-22 well was drilled about one mile west of the Easterwood #11-23 (discussed below). The 7,450-foot well encountered one Morrow sand totaling seven feet. The well tested good amounts of gas from a "natural" completion and is currently awaiting pipeline connection before being fracture stimulated. The company owns a 36% working interest and is the operator.

The Glendena #2-5 well was drilled as a 2,700-foot south extension to the Glendena #1-5 which, in October 2001, opened the recent drilling play in the area. The 7,700-foot well encountered three Morrow sands totaling 28 feet that calculate productive on logs. The lower eight-foot sand tested good amounts of gas during "natural" completion testing. The well is connected to the pipeline and the lower sand is scheduled to be fracture stimulated. The upper two sands correlate to the prolific producing sands in the Glendena #1 and Redfearn wells and will be opened for production after the lower sand is stimulated. The company is the operator and owns a 39.5% working interest.

The Norman Trust #1-10 was the last of the four wells recently drilled on the two prospects. The 7,850-foot well was a dry hole.

Elsewhere on the Sand Creek Prospect, the company has participated in drilling five previously announced wells that are operated by third parties and were classified as "tight holes". Two of the wells are now producing and appear to be very good wells for the area. The other three well are currently being completed for production.

On the northeast side of the Sand Creek Prospect, the

Edgar Filing: CREDO PETROLEUM CORP - Form 10QSB

Easterwood #11-23 well discovered Morrow production approximately two miles to the north. It was completed from one Morrow sand totaling 12 feet and was fracture stimulated. Pipeline sales commenced in early August and the well is currently producing on a 16/64-inch choke at the daily rate of 2.1 MMcfg. The company owns a 24% working interest.

Five miles south of the Easterwood #11-23, the Deanna #1-15 discovered new Morrow production on the southeast corner of the prospect. The 7,850-foot well was completed naturally (without acid or fracture treatments) from one Morrow sand totaling eight feet. Pipeline sales commenced in early August and the well is currently producing on a 16/64-inch choke at the daily rate of 2.0 MMcfg and 35 barrels of condensate. The company owns a 37% working interest.

On the northwest side of the prospect, three new wells have been drilled. The Daphne Jane #1-20 encountered two Chester zones totaling 22 feet which calculate productive on logs. A drill stem test yielded gas at rates exceeding 5.0 MMcfg per day. The operator is currently perforating and testing the lower Chester zone and will test the primary zone shortly. The company owns a 12% working interest.

The other two wells in which the company owns small interests, Blackstone #1-8 (7%) and Patch #1-17 (12%) are currently being completed for production but are expected to be marginal to below average wells.

Significant development drilling is continuing on the company's 1,280 gross acre Traxler Prospect. The fourth well in the company's recent drilling program was the Ronnie #1-6. The 7,700-foot well encountered two Chester zones totaling 27 feet that calculate productive on logs. It also encountered a Morrow sand that appears to be productive. The lower Chester zone produces oil in the area and the middle Chester and Morrow produce gas. The Ronnie is expected to be a very good gas and oil well and is awaiting pipeline connection prior to being completed for production. The company is the operator and owns a 60% working interest.

Successful drilling is continuing in the South Fork Field located in Woods County, Oklahoma. To date, the company has joined for its 7% in drilling 13 development wells in the field. Several additional wells are projected.

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.

The four Calliope systems installed earlier this year are currently producing 1.2 MMcfg (million cubic feet of gas) per day. The company estimates that they have developed approximately 4.0 Bcfg (billion cubic feet of gas) of proved, developed producing reserves. The company owns an average 73% working interest and 60% net revenue interest in the wells.

Edgar Filing: CREDO PETROLEUM CORP - Form 10QSB

The company is preparing to install Calliope systems on three additional wells during the next few months. All of the wells are located in Oklahoma at depths ranging from 8,200 to 8,700 feet. These wells are intended to demonstrate how shallower wells can benefit from Calliope. The company owns approximately 75% of each well.

The company has moved beyond prototype testing and is fortifying Calliope's track record on a wide range of applications. With that in mind, this year the company has installed Calliope on one marginal and three completely dead wells ranging in depth from 11,100 to 18,400 feet. The results have been excellent with a 100% success rate, average daily production of 300 Mcfg (thousand cubic of gas) per well, and average developed reserves of 1.0 Bcfg per well.

Management's objective is to identify and execute the business plan that is most likely to maximize Calliope's value. Accordingly, in addition to fortifying Calliope's track record and finalizing a multimedia presentation about Calliope, the company has recently commenced an independent marketing study which is expected to be complete in four to six weeks.

STOCK DIVIDEND

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. 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 dividend.

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. This statement is effective for fiscal years beginning after June 15, 2002. 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 three and nine month periods ended July 31, 2003, the company recognized \$3,000 and \$7,000, respectively, of accretion expense on the liability and a decrease of \$13,000 and \$30,000, respectively, in depletion expense as a result of adopting SFAS No. 143.

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." This statement provides alternative methods of transition for a

Edgar Filing: CREDO PETROLEUM CORP - Form 10QSB

voluntary change in the method of accounting for stock-based employee compensation to the fair value method. The statement also amends the disclosure requirements of SFAS No. 123, "Accounting for Stock-Based Compensation." Under SFAS No. 148, annual and interim financial statements are required to have prominent disclosures about the method of accounting for stock-based compensation and the effect of the method used on reported results. This statement is effective for fiscal years ending after December 15, 2002. This statement did not have any impact on the consolidated financial statements as the company adopted the disclosure only provisions of SFAS No. 123. 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 FASB No. 123, the company's net income and per share amounts would have been reported as follows:

	Nine Months Ended July 31,		Three Months Ended July 31,	
	2003	2002	2003	2002
	-----	-----	-----	-----
Net Income as reported	\$1,984,000	\$ 908,000	\$ 797,000	\$ 371,000
Pro forma stock compensation expense, net of tax	(263,000)	(54,000)	(239,000)	(18,000)
	-----	-----	-----	-----
Pro forma net income	\$1,721,000	\$ 854,000	\$ 558,000	\$ 353,000
	=====	=====	=====	=====
Basic net income per share:				
As reported	\$ 0.50	\$ 0.23	\$ 0.20	\$ 0.09
	=====	=====	=====	=====
Pro forma	\$ 0.43	\$ 0.22	\$ 0.14	\$ 0.08
	=====	=====	=====	=====
Diluted net income per share:				
As reported	\$ 0.50	\$ 0.23	\$ 0.20	\$ 0.09
	=====	=====	=====	=====
Pro forma	\$ 0.43	\$ 0.22	\$ 0.14	\$ 0.09
	=====	=====	=====	=====

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

Edgar Filing: CREDO PETROLEUM CORP - Form 10QSB

SFAS 109 is extremely complicated for any oil 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

Nine Months Ended July 31, 2003 Compared to Nine Months Ended July 31, 2002

For the nine months ended July 31, 2003, net income rose 118% to a record \$1,984,000 compared to \$908,000 last year. Higher net income resulted primarily from an increase in product prices.

Total revenues rose 44% to \$5,718,000 compared to \$3,975,000 last year. Oil and gas sales rose 42% to \$5,014,000 compared to \$3,519,000 last year. Refer to the table on page 10 for details of oil and gas prices and volumes for the applicable periods. Net wellhead natural gas prices rose 83% to \$4.75 per Mcf compared to \$2.59 last year. Hedging transactions reduced nine month 2003 price realizations by \$.40 per Mcf, or 8%, compared to an increase of \$.35 per Mcf, or 14%, last year. As a result, total natural gas price realizations were \$4.35 per Mcf compared to \$2.94 last year. Net wellhead prices for oil rose 35% to \$27.65 per barrel compared to \$20.54 last year. The net effect of these price changes and hedging transactions was to increase oil and gas sales \$1,611,000. Volume declines reduced oil and gas sales by \$116,000. Operating income increased 6% due to an increase in drilling and production overhead income from new operated wells partially offset by the sale of several marginal operated wells. Investment income and other rose to \$318,000 compared to \$91,000 last year due to improved performance from market timers who manage the bulk of the company's investments.

Total costs and expenses increased 14% to \$3,062,000 in the first nine months of fiscal 2003 compared to \$2,678,000 last year. Oil and gas production expenses rose 17%, or \$172,000, due primarily to the additional operating costs associated with production from new wells and Calliope installations. Depreciation, depletion and amortization increased 2% primarily due to an increase in the amortizable full cost pool base. General and administrative expenses increased 27% due to increases in salaries and wages for accrued bonuses and consulting fees related to the accounting software conversion 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 the current period and 30% last year.

Quarter Ended July 31, 2003 Compared to Quarter Ended July 31, 2002

For the quarter ended July 31, 2003, net income rose 115% to a record \$797,000 compared to \$371,000 for the same quarter last year. Higher net income resulted primarily from an increase in product prices.

Edgar Filing: CREDO PETROLEUM CORP - Form 10QSB

Total revenues rose 51% to \$2,243,000 compared to \$1,482,000 for the same quarter last year. Refer to the table on page 10 for details of oil and gas prices and volumes for the applicable periods. Net wellhead natural gas prices rose 70% to \$4.88 per Mcf compared to \$2.86 last year. Hedging transactions increased third quarter price realizations \$.14 per Mcf, or 3%, compared to an increase of \$.05, or 2%, last year. As a result, total natural gas price realizations were \$5.02 per Mcf compared to \$2.92 last year. Net wellhead prices for oil rose 13% to \$26.41 per barrel compared to \$23.27 last year. The net effect of these price changes and hedging transactions was to increase oil and gas sales \$834,000. The effect of volume changes was a reduction in oil and gas sales of \$196,000. Operating income increased 10% due to increases in drilling and production overhead income. Investment income and other rose to \$128,000 compared to \$17,000 last year due to improved performance from market timers who manage the bulk of the company's investments.

Total costs and expenses increased 19% to \$1,136,000 in the third quarter of 2003 compared to \$952,000 last year. Oil and gas production expenses rose 42%, or \$138,000, due primarily to the additional operating costs associated with production from new wells and Calliope installations. Depreciation, depletion and amortization fell 8% due primarily to a decrease in production volumes between the periods. General and administrative expenses increased \$77,000, or 30%, primarily due to increases in salaries and wages for accrued bonuses and consulting fees related to the conversion of accounting software as well as inflationary pressures. Interest expense relates to the accrual of interest on the exclusive license agreement obligation. Income taxes were provided at 28% in the current quarter and 30% last year.

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 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

Edgar Filing: CREDO PETROLEUM CORP - Form 10QSB

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: September 15, 2003 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 UNDER SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

CERTIFICATIONS

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

Edgar Filing: CREDO PETROLEUM CORP - Form 10QSB

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 officer 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 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 officer 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 functions):

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 officer and I have indicated in this quarterly report whether 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: September 15, 2003

/s/ James T. Huffman

James T. Huffman
Chief Executive Officer

Exhibit 31.2

Edgar Filing: CREDO PETROLEUM CORP - Form 10QSB

CERTIFICATION UNDER SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

CERTIFICATIONS

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 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 officer 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 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 officer 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 functions):

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 officer and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could

Edgar Filing: CREDO PETROLEUM CORP - Form 10QSB

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: September 15, 2003

/s/ James P. Garrett, Jr.

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

Exhibit 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. 1350)

The undersigned, James T. Huffman, President and Chief Executive Officer of CREDO Petroleum Corporation (the "Company"), has executed this certification in connection with the filing with the Securities and Exchange Commission of the Company's Quarterly Report on Form 10-QSB for the quarter ended July 31, 2003 (the "Report").

The undersigned hereby certifies that:

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.

IN WITNESS WHEREOF, the undersigned has executed this certification as of the 15th day of September, 2003.

/s/ James T. Huffman

James T. Huffman
President and
Chief Executive Officer

Exhibit 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. 1350)

The undersigned, James P. Garrett, Jr., Vice President and Chief Financial Officer of CREDO Petroleum Corporation (the "Company"), has executed this certification in connection with the filing with the Securities and Exchange Commission of the Company's Quarterly Report on Form 10-QSB for the quarter ended July 31, 2003 (the "Report").

Edgar Filing: CREDO PETROLEUM CORP - Form 10QSB

The undersigned hereby certifies that:

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.

IN WITNESS WHEREOF, the undersigned has executed this certification as of the 15th day of September, 2003.

/s/ James P. Garrett, Jr.

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