

CROFF ENTERPRISES INC
Form 10-Q
May 15, 2007

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

MARK ONE

- ☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2007

OR

- ☐ TRANSITION REPORT pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934
FOR THE TRANSITION PERIOD FROM N/A TO N/A

Commission File Number: 000-16731

CROFF ENTERPRISES, INC.

(Exact Name of Registrant As Specified In Its Charter)

Utah

State of Incorporation

3773 Cherry Creek Drive North, Suite 1025

Denver, Colorado

Address of principal executive offices

80209

Zip Code

(303) 383-1555

Registrant's telephone number,
including area code

87-0233535

I.R.S. Employer Identification
Number

Securities registered pursuant to Section 12(b) of the Act: 0

Securities registered pursuant to Section 12(g) of the Act: 551,244-Common

\$0.10 Par Value

Title of each class

None

Name of each exchange on which registered

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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

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

As of March 31, 2007, the aggregate market value of the common voting stock held by non-affiliates of the Registrant, computed by reference to the average of the bid and ask price on such date was: \$635,000.

As of March 31, 2007, the Registrant had outstanding 551,244 shares of common stock (excludes 69,399 common shares held as treasury stock).

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INDEX TO INFORMATION INCLUDED IN THE QUARTERLY REPORT (FORM 10-Q) TO THE SECURITIES AND EXCHANGE COMMISSION FOR THE THREE MONTHS ENDED MARCH 31, 2007 (UNAUDITED).

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Forward-Looking Statements & Engineering Reports

Certain information included in this report, other materials filed or to be filed by the Company with the Securities and Exchange Commission ("SEC"), as well as information included in oral statements or other written statements made or to be made by the Company contain or incorporate by reference certain forward looking statements (other than statements of historical or present fact) 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 or present facts, that address activities, events, outcomes or developments that the Company plans, expects, believes, assumes, budgets, predicts, forecasts, estimates, projects, intends or anticipates (and other similar expressions) will or may occur in the future are forward looking statements. These forward-looking statements are based on management's current belief, based on currently available information, as to the outcome and timing of future events. When considering forward-looking statements, you should keep in mind the cautionary statements in this Form 10-Q and the Company's Annual Report on Form 10-K for the year ended December 31, 2006. Such forward-looking statements appear in a number of places and include statements with respect to, among other things, such matters as: future capital, development and exploration expenditures (including the amount and nature thereof), drilling, deepening or refracing of wells, oil and natural gas reserve estimates (including estimates of future net revenues associated with such reserves and the present value of such future net revenues), estimates of future production of oil and natural gas, business strategies, expansion and growth of the Company's operations, cash flow and anticipated liquidity, prospects and development and property acquisitions, obtaining financial or industry partners for prospect or program development, or marketing of oil and natural gas. We caution you that these forward-looking statements are subject to risks and uncertainties. These risks include but are not limited to: general economic conditions, the Company's

ability to finance acquisitions and drilling, the market price of oil and natural gas, the risks associated with exploration, the Company's ability to find, acquire, market, develop and produce new properties, operating hazards attendant to the oil and natural gas business, uncertainties in the estimation of proved reserves and in the projection of future rates of production and timing of development expenditures, the strength and financial resources of the Company's competitors, the Company's ability to find and retain skilled personnel, climatic conditions, labor relations, availability and cost of material and equipment, environmental risks, the results of financing efforts, regulatory developments and the other risks described in the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

Reserve engineering is a subjective process of estimating underground accumulations of oil and natural gas that cannot be measured in an exact way. The accuracy of any reserve estimate depends on the quality of available data and the interpretation of that data by reserve engineers. In addition, the results of drilling, testing and production activities may justify revisions of estimates that were made previously. If significant, these revisions could change the schedule of any further production and/or development drilling. Accordingly, reserve estimates are generally different from the quantities of oil and natural gas that are ultimately recovered.

Should one or more of the risks or uncertainties described above or elsewhere in this Form 10-Q or presented in the Company's Annual Report on Form 10-K for the year ended December 31, 2006 occur, or should underlying assumptions prove incorrect, actual results and plans could differ materially from those expressed in any forward-looking statements. We specifically disclaim all responsibility to publicly update any information contained in a forward-looking statement or any forward-looking statement in its entirety and therefore disclaim any resulting liability for potentially related damages.

All forward-looking statements attributable to us are expressly qualified in their entirety by this cautionary statement.

PART I. UNAUDITED FINANCIAL INFORMATION

ITEM 1. UNAUDITED FINANCIAL STATEMENTS

The financial statements included herein have been prepared in conformity with generally accepted accounting principles. The statements are unaudited but reflect all adjustments, which, in the opinion of management, are necessary to fairly present the Company's financial position and results of operations. All such adjustments are of a normal recurring nature.

CROFF ENTERPRISES, INC.
BALANCE SHEETS
(Unaudited)

December 31,
2006

March 31,
2007

ASSETS

Current assets:

Cash and cash equivalents	\$ 985,729	\$ 1,020,420
Accounts receivable	124,900	137,440
	1,110,629	1,157,860

Oil and natural gas properties, at cost, successful efforts method:

Unproved Properties	1,074,188	1,097,033
Accumulated depletion and depreciation	266,174	266,174
	(583,830)	(596,330)
	756,532	766,877

Total assets	\$ 1,867,161	\$ 1,924,737
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LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Accounts payable	\$ 58,756	\$ 58,346
Current portion of ARO liability	23,000	23,000
Accrued liabilities	33,375	35,375
	115,131	116,721

Long-term portion of ARO liability	64,695	66,309
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Stockholders' equity:

Class A Preferred stock, no par value 5,000,000 shares authorized, none issued	-	-
Class B Preferred stock, no par value; 1,000,000 shares authorized, 540,659 shares issued and outstanding	1,380,387	1,431,278
Common stock, \$.10 par value; 20,000,000 shares authorized, 620,643 shares issued and outstanding	62,064	62,064
Capital in excess of par value	155,715	155,715
Treasury stock, at cost, 69,399 shares issued and outstanding in 2005 and 2006	(107,794)	(107,794)
Retained earnings	196,963	200,444
	1,687,335	1,741,707

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Total liabilities and stockholders' equity	\$	1,867,161	\$	1,924,737
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See accompanying notes to unaudited condensed financial statements.

CROFF ENTERPRISES, INC.
STATEMENTS OF OPERATIONS

For the three months ended March 31, 2006 and 2007
(Unaudited)

	2006	2007
Revenues		
Oil and natural gas sales	\$ 226,074	\$ 210,329
Interest Income	6,658	11,149
	232,732	221,478
Expenses		
Lease operating expense including		
production taxes	65,689	75,086
General and administrative	62,952	43,372
Overhead expense, related party	16,318	12,125
Accretion expense	1,467	1,613
Depletion and depreciation	12,500	12,500
	158,926	145,106
Pretax income	73,806	76,372
Provision for income taxes	16,000	22,000
Net income	\$ 57,806	\$ 54,372
Net income applicable to preferred B shares	\$ 55,408	\$ 50,891
Net income applicable to common shares	\$ 2,398	\$ 3,481
Basic and diluted net income per common share	\$ *	\$ *
* Less than \$.01 per share		
Weighted average common shares outstanding	551,244	551,244
See accompanying notes to unaudited condensed financial statements.		

CROFF ENTERPRISES, INC.

STATEMENTS OF STOCKHOLDERS' EQUITY

For the year ended December 31, 2006 and the three months ended March 31, 2007
(Unaudited)

	Preferred B stock		Common stock		Capital in excess of par value	Treasury stock	Acumulated earnings
	Shares	Amount	Shares	Amount			
Balance at December 31, 2006	540,659	\$ 1,380,387	620,643	\$ 62,064	\$ 155,715	\$ (107,794)	\$ 196,963
Net income for the three months ended March 31, 2007	-	-	-	-	-	-	54,372
Preferred stock reallocation	-	50,891	-	-	-		(50,891)
Balance at March 31, 2007	540,659	\$ 1,431,278	620,643	\$ 62,064	\$ 155,715	\$ (107,794)	\$ 200,444

See accompanying notes to unaudited condensed financial statements.

CROFF ENTERPRISES, INC.

STATEMENTS OF CASH FLOWS

For the three months ended March 31, 2006 and 2007

(Unaudited)

	2006	2007
Cash flows from operating activities:		
Net income	\$ 57,806	\$ 54,372
Adjustments to reconcile net income to net cash provided by operating activities:		
Depletion, depreciation, and accretion	13,967	14,114
Changes in operating assets and liabilities:		
Accounts receivable	25,900	(12,540)
Accounts payable	8,310	(410)
Accrued liabilities		