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CREDO PETROLEUM CORP
Form 8-K
June 15, 2004

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): June 14, 2004

CREDO Petroleum Corporation

(Exact name of registrant as specified in its charter)

Colorado 0-8877 84-0772991

(State or other jurisdiction of incorporation) Commission File Number IRS Employer Identification No.

1801 Broadway, Suite 900 Denver, Colorado 80202

(Address of principal executive offices) (Zip Code)

Registrant's telephone number,
including area code: (303) 297-2200

Item 12. "CREDO Reports Record Six-Month Earnings, Higher Natural Gas Prices and Increased Production Propel Earnings"

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.

CREDO PETROLEUM CORPORATION
(Registrant)

Date: June 14, 2004

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

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

NEWS RELEASE

FOR IMMEDIATE RELEASE

Contact: James P. Garrett
Vice President & CFO

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www.credopetroleum.com

CREDO REPORTS RECORD SIX-MONTH EARNINGS Higher Natural Gas Prices and Increased Production Propel Earnings

DENVER, COLORADO, June 14, 2004 - CREDO Petroleum Corporation (NASDAQ: CRED) today reported record financial results for the six months ended April 30, 2004. Net income surged 64% to a record \$1,951,000 on revenue of \$5,123,000 compared to \$1,187,000 on revenue of \$3,475,000 last year. On a per diluted share basis, net income was \$.32 compared to \$.20 last year. Cash flow from operating activities (before changes in operating assets and liabilities) jumped 51% to \$3,363,000.

James T. Huffman, President, said, "For the first half of 2004, we established significant new records in many operational and financial categories, highlighted by a 22% annualized return on equity without using leverage. Strong operating fundamentals continue to buttress our results with increased production and reserves, low finding costs, and outstanding net income per unit of production."

For the second quarter ended April 30, 2004, net income increased 57% to a record \$786,000, or \$.13 per diluted share, compared to \$502,000, or \$.08 per diluted share last year.

Huffman further stated, "Despite these record results, delays in getting our new wells on line suppressed second quarter production volumes and earnings. Those wells (discussed in a separate press release made today) came on line after second quarter-end. Increased industry activity has caused a backlog in many field services resulting in both delays and rising costs."

PRODUCTION VOLUMES SET ANOTHER NEW RECORD

Six-month production surged 35% to 988 MMcfge (million cubic feet of gas-equivalent) compared to 734 MMcfge last year. Natural gas production rose 36% to 861 MMcfg and oil production rose 23% to 21,000 barrels. Natural gas accounts for 87% of the company's total production.

Second quarter production rose 28% to 470 MMcfge compared to 366 MMcfge last year. Natural gas production rose 27% to 403 MMcfg and oil production rose 38% to 11,000 barrels.

PRODUCT PRICES SHOW CONTINUED STRENGTH

Net wellhead natural gas prices for the first half rose one percent to \$4.76 per Mcf compared to \$4.73 last year. Hedging transactions reduced wellhead prices \$.07 per Mcf in the six-month period compared to last year's hedging loss of \$.69 per Mcf. As a result, total natural gas price realizations rose 16% to \$4.69 per Mcf compared to \$4.04 last year. Wellhead oil prices rose 12% to \$31.58 per barrel compared to \$28.27 last year.

For the second quarter, net wellhead natural gas prices fell 15% to \$4.64 per Mcf compared to \$5.49 last year. Hedging transactions reduced wellhead prices \$.34 per Mcf this year and \$1.72 per Mcf last year. As a result, total natural gas price

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realizations rose 14% to \$4.30 per Mcf compared to \$3.77 last year. Wellhead oil prices rose 7% to \$32.77 per barrel compared to \$30.55 last year.

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 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.

CAPITAL SPENDING PRODUCES GOOD RESULTS

Capital spending for the six months totaled \$1,945,000 as successful operations continued on the company's two core projects--natural gas drilling along the Anadarko Shelf of Oklahoma and application of the company's patented Calliope gas recovery technology. A separate press release has been made today updating those results.

STRONG FINANCIAL CONDITION PROVIDES SOLID FOUNDATION FOR GROWTH

At April 30, 2004, working capital was \$7,118,000. Total assets were \$26,602,000 including cash and short-term investments of \$7,384,000. Stockholders' equity was \$19,138,000. The company's only long-term debt is a \$355,000 exclusive license obligation that is payable over seven years.

* * * * *

CREDO Petroleum Corporation is a publicly traded independent energy company headquartered in Denver, Colorado. The company is engaged in the exploration for and the acquisition, development and marketing of natural gas and crude oil in the Mid-Continent and Rocky Mountain regions. The company's stock is traded on the NASDAQ System under the symbol "CRED" and is quoted daily in the "NASDAQ Small-Cap Issues" section of The Wall Street Journal.

For 2004, cash flow from operating activities (before changes in operating assets and liabilities) consists of net income of \$1,951,000, DD&A of \$791,000, and deferred income taxes of \$621,000. For 2003, such cash flow consists of net income of \$1,187,000, DD&A of \$605,000, deferred income taxes of \$506,000, and net of other credits of \$72,000.

This press release includes certain statements that may be deemed to be "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements included in this press release, other than statements of historical facts, address matters that the company reasonably expects, believes or anticipates will or may occur in the future. Such statements are subject to various assumptions, risks and uncertainties, many of which are beyond the control of the company. Investors are cautioned that any such statements are not guarantees of future performance and that actual results

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or developments may differ materially from those described in the forward-looking statements.

| CREDO PETROLEUM CORPORATION FINANCIAL HIGHLIGHTS | | | | |
|---|--|--|---------------------------------------|---------------------------------------|
| Condensed Operating Information (Unaudited) | Six Months Ended April 30, 2004 | Six Months Ended April 30, 2003 | Quarter Ended April 30, 2004 | Quarter Ended April 30, 2003 |
| Revenue: | | | | |
| 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 |
| | 5,123,000 | 3,475,000 | 2,273,000 | 1,684,000 |
| 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 |
| | 2,413,000 | 1,926,000 | 1,181,000 | 987,000 |
| 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 of Change in Accounting Principle | - | 72,000 | - | - |
| Net Income | \$ 1,951,000 | \$ 1,187,000 | \$ 786,000 | \$ 502,000 |
| Basic Income Per Share | | | | |
| Before Accounting Change | \$.32 | \$.19 | \$.13 | \$.08 |
| Cumulative Effect of Change in Accounting Principle | - | .01 | - | - |
| Basic Net Income Per Share | \$.32 | \$.20 | \$.13 | \$.08 |
| Diluted Income Per Share | | | | |
| Before Accounting Change | \$.32 | \$.19 | \$.13 | \$.08 |
| Cumulative Effect of Change in Accounting Principle | - | .01 | - | - |
| Diluted Net Income Per Share | \$.32 | \$.20 | \$.13 | \$.08 |
| Condensed Balance Sheet Information | | | | |
| | April 30, 2004 | | October 31, 2003 | |

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| | | |
|---|---------------|---------------|
| Cash and Short-Term Investments | \$ 7,384,000 | \$ 6,663,000 |
| Other Current Assets | 2,594,000 | 1,900,000 |
| Oil and Gas Properties, Net | 15,177,000 | 14,061,000 |
| Exclusive License Agreement, Net | 443,000 | 478,000 |
| Other Assets | 1,004,000 | 470,000 |
| | \$ 26,602,000 | \$ 23,572,000 |
| Current Liabilities | \$ 2,860,000 | \$ 1,986,000 |
| Deferred Income Taxes | 3,979,000 | 3,358,000 |
| Exclusive License Agreement Obligation | 355,000 | 355,000 |
| Asset Retirement Obligation | 270,000 | 238,000 |
| Stockholders' Equity | 19,138,000 | 17,635,000 |
| | \$ 26,602,000 | \$ 23,572,000 |